

GEORGIA AND EUROPE

A short guide



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A trilogy of short guides: Understanding the EU's Association Agreements and Deep and Comprehensive Free Trade Areas (DCFTAs) with Georgia, Moldova and Ukraine

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This booklet offers an abbreviated version of a larger study aimed at understanding the EU's Association Agreement and Deep and Comprehensive Free Trade Area (DCFTA) with Georgia. The larger study, entitled *Deepening EU-Georgian Relations: What, why and how?*, was prepared by two teams of researchers and consultants (listed on the inside back cover of this booklet), from the Centre for European Policy Studies (CEPS) in Brussels and Reformatics in Tbilisi.

Founded in Brussels in 1983, CEPS is a leading think tank on European affairs, with a strong in-house research capacity and an extensive network of partner institutes throughout the world. Reformatics is an international consulting firm founded by former high-level officials in Georgia who were instrumental in their country's impressive achievements in economic reforms over the last decade.

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The views expressed in this booklet are entirely those of the authors and should not be attributed to CEPS, to Reformatics or to any other institution with which they are associated, or to the European Union.

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CONTENTS

Summary	1
Part I. Political Principles, Rule of Law and Foreign Policy	3
1. Political principles	4
2. Rule of law and movement of people	5
3. Foreign and security policy	6
Part II. Deep and Comprehensive Free Trade Area	7
4. Market access for goods	8
5. Trade remedies	9
6. Customs services	10
7. Technical standards for industrial goods	11
8. Food safety regulations	12
9. Services	13
10. Public procurement	14
11. Intellectual property rights	15
12. Competition policy	16
13. Statistics	17
Part III. Economic Cooperation	18
14. Macroeconomics and financial assistance	19
15. Financial markets	20
16. Transport	21
17. Energy	22

18. Environment	23
19. The digital sector	24
20. Consumer protection	25
21. Company law	26
22. Agriculture	27
23. Employment and social policy	28
24. Education, training and culture	29
25. Science, technology and space	30
26. EU agencies and programmes	31
27. Cross-border cooperation	32
28. Civil society	33
Part IV. Legal and Institutional Provisions	34
29. Dispute settlement	35
30. Institutional provisions	36

SUMMARY



The Association Agreement (AA) between the European Union (EU) and Georgia is a comprehensive treaty covering Georgia's political and economic relationship with the EU. The trade-related content establishes a Deep and Comprehensive Free Trade Area (DCFTA), which is an important part of the overall Agreement.

The Agreement was signed on 27 June 2014, and has subsequently been ratified by Georgia, the European Parliament and all 28 EU member states. While most of the economic content of the Agreement has been provisionally in force since 1 September 2014, its definitive and complete entry into force took place on 1 July 2016.

The political and economic objectives of the Agreement are fundamental for the future of Georgia as an independent and secure European state. These objectives are defined as follows.

The political purpose is to deepen the realisation of Georgia's 'European choice' and its relations with the EU. This means making a reality of fundamental European values, namely democracy, the rule of law and respect for human rights, and the norms of the European security order. Membership of the EU is not pre-figured in the Agreement, but neither is it excluded in the longer run.

The economic purpose is to help modernise Georgia's economy, by boosting trade with the EU and other major trading partners worldwide, and by reforming economic regulations in line with European best practice. These steps should lead ultimately to a substantially higher level of economic integration between Georgia and the EU.

Since September 2014, the EU has opened its market for tariff-free imports from Georgia almost completely. Yet already since 2006, Georgia has been engaged in a radical unilateral opening of its market towards the whole world. This means that the opening of the EU market offers only new opportunities and no risks for Georgia, since its economy has already adjusted to the discipline of international competitiveness.

As part of its radical reform achievements since the Rose revolution of 2003, Georgia has made major progress in combating corruption and has become an international leader in this respect.

Georgia has emerged as a transport and logistics hub in the Black Sea–Caucasus–Caspian Sea region, and has the ambition to fully integrate its infrastructure into the international and regional transport systems. It is well positioned to benefit from the joining up of China’s new Silk Road initiative with the transport networks of the EU, especially with the expected conclusion this year of a free trade agreement with China. These developments should naturally develop positive synergies with the DCFTA.

Financial support from the EU is available to help with technical assistance and investment where there are heavy adjustment costs, with grants from the EU, and loans or investment from the European financial institutions.

The Agreement does not offer Georgia a magic wand with which to cure its political and economic challenges. But its provisions do engage with a substantial part of the country’s political and economic reform agenda. Ultimately, it is a roadmap for Georgia to join the ranks of the small but very open European economies that already have achieved, or can achieve very high standards of economic and social development.

**PART I. POLITICAL PRINCIPLES,
RULE OF LAW AND FOREIGN POLICY**

1. POLITICAL PRINCIPLES



The entire Association Agreement is premised on a common commitment to the modern, democratic political values of the EU, recognising in the preamble that “the common values on which the European Union is built – namely democracy, respect for human rights and fundamental freedoms, and the rule of law – lie also at the heart of political association and economic integration as envisaged in this Agreement”.

The constitution of Georgia is that of a young democracy, with only two decades of experience since the 1995 constitution established the foundations of a modern democratic system. Against the background of post-Soviet turbulence, a civil war, ethno-political and territorial-integrity related tensions and the transformation from a totalitarian to a democratic system, the process could hardly be a smooth one, and the constitution has been amended numerous times. Overall, notwithstanding past and present persistent challenges, Georgia continues to progress in consolidating democratic governance.

The constitution establishes a legal basis for an independent judiciary that is free from political influence. Nevertheless, the judiciary has been the object of criticism for years. While the previous government succeeded in substantially reducing corruption, and in establishing institutional effectiveness and better infrastructure, the lack of political independence of the judicial system, including the Prosecutor’s Office, remain to be addressed.

Georgia’s human rights record has improved since the Rose Revolution. A greater degree of improvement is seen at the legislative level, with practical implementation to be further improved. Adoption of an Anti-Discrimination Law marks significant progress in the protection of minority rights in Georgia.

2. RULE OF LAW AND MOVEMENT OF PEOPLE



This chapter deals with several related issues, notably the fight against organised crime, corruption and terrorism, and policies for border management and the movement of persons, including the crucial issue of visa-free travel between Georgia and the EU.

Georgia's fight against corruption has made dramatic progress since the Rose Revolution of 2003. The government has *inter alia* strengthened the anti-corruption institutional framework, created an online state procurement system and an online financial declarations system for public officials (based on the principle of 'everybody sees and knows everything'), and developed e-treasury and e-budget programmes. Most government services are delivered electronically, based on a principle of 'silence is consent', which leaves little room for corrupt practices by service-issuing entities. The 2015 Transparency International Index ranked Georgia 48th out of a total of 168 countries, higher than several EU member states (Bulgaria, Greece, Italy and Romania).

Georgia's objective to obtain visa-free access for its citizens to travel to the EU is of the highest political and practical importance. According to the European Commission, the conditions for this have been met, and a final decision is awaited. Visa-free travel is seen as a tangible instrument to mobilise support for the process of closer political association with the EU, and to counteract Russian propaganda. It will help business representatives to learn from best practices, and exploit market opportunities. It will also boost cooperation in science and culture, and provide better opportunities for students. Visa liberalisation will make Georgia a more attractive destination for European travel agencies and airlines.

3. FOREIGN AND SECURITY POLICY



The Association Agreement aims to facilitate the gradual alignment of Georgia’s foreign, security and defence policies with those of the EU at bilateral, regional and multilateral levels. Cooperation between Georgia and the EU in the foreign and security domains has been building up for over a decade. Since 2011, Georgia has aligned itself with many EU positions adopted in international diplomacy.

Foreign and security policy is a crucial component of EU–Georgia cooperation, given both Georgia’s strategic objective of EU integration and the need to counter security threats posed by Russia. Georgia stresses the need for a more robust, strategic EU engagement in its neighbourhood. It regards Russia’s recent aggression in Ukraine as part of a strategy that draws parallels with the Russian–Georgian War of 2008. At the same time, the strategy of the Georgian Dream government has been to normalise relations with Russia. Despite this declared objective, relations have not become any better as Russia has gradually and forcefully moved the Tskhinvali Region/South Ossetian occupation line into the Georgian-controlled territory.

The most significant security action by the EU in Georgia so far is its Monitoring Mission (the EUMM) along the occupation lines of the separatist South Ossetian and Abkhazian regions, which began in October 2008 after the war with Russia and has continued since then. The goal of the EUMM is crucially to prevent a renewal of hostilities.

Georgia participates in several EU military missions, notably in the Central African Republic and Mali, and in a civilian mission in Ukraine. In this regard, it is one of the most active, non-member state partners of the EU.

PART II. DEEP AND COMPREHENSIVE FREE TRADE AREA

4. MARKET ACCESS FOR GOODS



Tariff liberalisation is the basic starting point for creating a free trade area. Georgia is an exceptional case in that it unilaterally and radically liberalised its external trade policies starting from 2006. Since the start of the provisional application of the DCFTA on 1 September 2014, the EU has caught up and completed the free trade area with its own full tariff liberalisation for imports from Georgia.

Both parties have thus abolished import duties for almost all products. The DCFTA only sees minor exceptions to the full liberalisation of trade in goods, all in the area of EU imports of agricultural products.

There have been no noteworthy changes in the export structure by commodity since the entry into force of the DCFTA. At the same time, the overall structure of foreign market shares of Georgian exports has changed substantially, with the EU market substituting for that of the CIS countries. The share of EU *exports* among Georgia's total exports rose from 20.9% in 2013 to 29% in 2015, while the CIS share fell from 55.5% to 38%, due among others to the recession in Ukraine and Russia.

The positive effects of the DCFTA are likely to grow significantly over the medium and long term, with progressive adoption of EU legislation and implementation practice on food safety and technical standards (see further below). Georgia also has a free trade agreement with Turkey, which is part of the EU customs union, so there are synergies to be developed here with the DCFTA through the Convention on Pan-Euro-Mediterranean (PEM) preferential rules of origin.

Georgia is negotiating a free trade agreement with China, and could become a location of choice for Chinese direct investment aimed at exports to the EU market.

5. TRADE REMEDIES



This DCFTA includes rules on ‘trade defence’ measures that the EU and Georgia can take against imports from the other party that cause or threaten to cause injury to the domestic industry, notably anti-dumping, anti-subsidy and safeguard measures. These DCFTA provisions essentially incorporate the relevant rules of the World Trade Organisation.

One of the key instruments takes the form of anti-dumping measures. If a company exports a product at a price lower than the price it normally charges in its own home market, it is considered to be ‘dumping’ the product. This allows the government of the importing country to act where there is a ‘material’ injury to the competing domestic industry. The importing country may then impose an anti-dumping duty to correct damage to its industry in question.

These trade remedies have never actually been used so far in EU-Georgian trade relations. Moreover Georgia does not even have domestic legislation on anti-dumping or on countervailing and safeguard measures, as its liberal trade and economic policy has considered lower prices to be beneficial for consumers and has not sought to ‘punish’ trade partners for cheaper imports. The current government has prepared draft legislation on anti-dumping and safeguard measures, but their adoption has been postponed with an unclear timeline.

6. CUSTOMS SERVICES



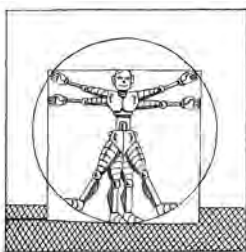
For the DCFTA to work well, there has to be high-quality customs services at the frontiers with efficient and speedy facilitation of trade, avoiding delays and corruption.

At a general level, the EU and Georgia commit to ensure that their customs legislation and procedures will be stable, transparent and non-discriminatory and will prevent fraud. They also aim at reducing and further simplifying the data and documentation required by customs agencies.

In practice Georgia has implemented impressive reforms of its customs services starting from 2004, turning one of the most corrupt and complicated customs regimes into a competitive customs system, whereby traders are treated like clients by customs officials and the procedures are electronic and automated. Georgia already complies with the key principles of customs legislation and procedures defined in the DCFTA. Georgia's customs policy is in line with the country's objective to become a regional hub for trade, transit and transport, given its geographical location.

A high level of transparency and well-developed e-services has made Georgian customs corruption-free and one of the most efficient institutions in the country. According to the latest World Bank Enterprise Survey (2013), Georgia achieves the best score in almost all areas covered by the indicator on preventing corruption. The percentage of firms expecting to give gifts to obtain an import licence is 0, compared with 14.6% in Eastern Europe and Central Asia.

7. TECHNICAL STANDARDS FOR INDUSTRIAL GOODS



Since customs tariffs between the EU and Georgia have been almost completely abolished, non-tariff barriers such as technical standards still need to be brought into line with EU practice. In order to tackle these barriers, Georgia will adopt the relevant EU legislation, standards and procedures. This will be a long and complex process, but one that is fundamental to modernising and making Georgia's industry internationally competitive.

The European standards system has two tiers: first, EU harmonisation laws, which cover the general methodology and institutional framework, and around 30 directives covering broad sectoral product groups such as machinery; and second, around 5,000 product-specific 'harmonised standards' that provide the technical means to comply with the essential health and safety requirements.

The Georgian government has a comprehensive strategy and programme for legislative action in this area, and is making significant advances in implementation according to the agreed timeline.

The authorities responsible for standards, metrology and accreditation have made good progress in modernising their infrastructure, internal legislation and procedures in line with EU practice.

Georgian producers are entirely free to manufacture for export to third country markets according to those countries' own technical standards. On the import side since almost a decade Georgia unilaterally accepts products of a group of countries with developed quality infrastructure (OECD and EU).

Still, it is advisable to proceed with the adoption of EU technical regulations in a gradual and careful manner, in order not to restrict access to cheaper imports from the CIS, China and other countries.

8. FOOD SAFETY REGULATIONS



Food safety standards, officially called sanitary and phyto-sanitary (SPS) measures, are required in order to facilitate trade in agricultural and food commodities and plants, as well as to assure domestic public health standards.

In the period before the DCFTA, Georgia's regulatory and institutional framework on SPS measures was characterised by limited regulation and an absence of most forms of state SPS control. Such an approach was adopted in the context of economic liberalisation and the fight against corruption.

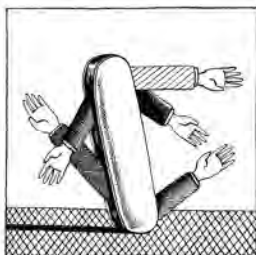
During the DCFTA preparation process Georgia started legislative approximation on EU practice and re-introduced SPS inspections since 2010. Under the DCFTA, in 2016, the government authorities have further specified a legislative approximation programme that covers almost the entirety of EU regulations in this area (almost 300 in number), which should be gradually adopted within a decade.

In view of the substantial cost of these measures, the EU law allows for exemptions if i) goods are sold on the local market, ii) traditional methods of production are used and iii) food is produced in geographically constrained areas, which could be the case for high-mountain areas in Georgia. Yet recent legislative changes on SPS official controls are not so far taking these exceptions into account.

In addition, procedures exist that allow export-oriented agri-food enterprises to obtain certification that their individual supply chains are in conformity with EU standards for specific products before the whole farm sector has become compliant with the new rules.

A careful and prudent approach is recommended when implementing EU legislation, given that the agricultural sector employs almost half of Georgia's labour force, many of whom are subsistence farmers.

9. SERVICES



Development of a dynamic and competitive service sector is of huge importance for the modernisation of the Georgian economy. In this regard, the DCFTA provides for a comprehensive and extremely detailed liberalisation of establishment and trade in services, subject still to reservations – which are raised more by the EU than by Georgia.

The services in question are extremely diverse, including financial, telecommunications and postal services, business services, distribution and retailing, tourism, health services, transport, recreation and sports. This in turn means that the regulations governing international trade in services is also a highly complex matter.

The provisions of the Agreement are organised under three headings: i) establishment, meaning the right to set up business in the other party's territory; ii) cross-border supply of services, for example outsourced IT software, and iii) the temporary presence of individuals in the other party's territory of such as consultants for business purposes.

In general terms the parties undertake to treat service providers of the other party no less favourably than their own, which is a rule applied at the level of the World Trade Organisation. Nevertheless, there are many reservations by the EU and its member states limiting the application of this rule, which are detailed in annexes to the DCFTA. Georgia's schedule of specific commitments in the WTO is very liberal, leaving little room for further liberalisation. As a result, there is an asymmetry with more liberalisation and fewer reservations on the Georgian side.

10. PUBLIC PROCUREMENT



Public procurement is of great economic importance to both the EU and Georgia. It accounts for around 18% of GDP in the EU and offers an enormous potential market for Georgian companies in the long-run.

The DCFTA provides for the gradual and reciprocal liberalisation of the parties' public procurement markets under the strict condition that Georgia implements the EU's key public procurement rules. The DCFTA defines basic standards regulating the award of contracts, which are derived directly from EU public procurement law and include the principles of non-discrimination, equal treatment, transparency and proportionality.

Georgia's legislation on public procurement has undergone considerable changes to bring it into compliance with EU and international standards. The legislative and institutional requirements in procurement under the DCFTA provide the detailed roadmap for reform. Georgia has already made substantial progress, but there are some gaps in the requirements of the DCFTA that remain to be addressed.

A significant change to the public procurement system was the introduction of the e-procurement system in 2010, with the establishment of the Unified Electronic System of State Procurement. The traditional paper-based tendering system was entirely replaced with a new electronic system, which has ensured greater transparency and simplicity of the procurement process, significantly reduced administrative costs and increased accessibility. International organisations have given a high appraisal of Georgia's e-procurement system. For example, the EBRD (European Bank for Reconstruction and Development) ranked Georgia at the top of 26 countries in the region with regard to the implementation of e-procurement and the United Nations awarded the Georgian E-Procurement system the second place among 471 candidates from 71 countries in the UN Public Service Award in 2012.

11. INTELLECTUAL PROPERTY RIGHTS



In our knowledge-based economies the protection of intellectual property rights (IPR) is important, not only for promoting innovation and creativity, but also for improving competitiveness. The DCFTA requires Georgia to modernise its IPR system. These reforms will contribute to a stable legal environment in Georgia for the protection of IPR, which is crucial for attracting foreign investment.

The IPR system covers several domains: copyrights, trademarks, designs and patents and 'geographic indications' (i.e. protection of traditional products such as wines).

The intellectual property system in Georgia has been evolving gradually. In 1992, Georgia created its national patent service, which since has evolved into a National Intellectual Property Centre (Sakpatenti). Georgia was the first of the former Soviet Republics to establish such an institution. Sakpatenti is an independent legal entity of public law responsible for protecting intellectual property in the country, as well as defining IPR policy. The first laws in this sphere were adopted and enacted in 1999. These regulated patents, copyrights, trademarks, geographical indications, etc. Since then, this legislation has undergone a series of amendments, which have been in compliance with EU standards and offer an increasingly high level of protection for the holders of rights.

For Georgia, as a producer of agricultural products for export, protection of its geographical indications and appellations of origin in the EU territory is of high importance. At the time of writing, 18 Georgian wines with an appellation of origin, 8 mineral waters and 16 geographical indications have been registered.

12. COMPETITION POLICY



According to international best practice, an effective competition policy that controls market abusing behaviour by companies and trade-distorting subsidies by the government is essential for the sound functioning of a modern economy. It assures a level playing field for economic operators, lower prices for consumers with better quality and wider choice and reduces the scope for corruption.

The DCFTA chapter on competition is very limited, especially compared with the corresponding chapter in the DCFTAs with Ukraine and Moldova. It only includes a few broad provisions that do not explicitly require Georgia to follow the EU's competition rules and system.

The evolution of Georgian competition policy, however, is currently heavily influenced by EU law and practice. In particular, the new 2012 Law on Free Trade and Competition was elaborated in close cooperation with experts from the Swedish Competition Authority, and drafted in line with EU practice. The Competition and State Procurement Agency was created as an independent body accountable to the government. The Agency was given investigative powers. Between 2005 and 2012, Georgian competition legislation was mainly regulating abuse of competition by the government through state aid. Further amendments to the law were made in 2014, covering the following areas: antitrust provisions, which address abuse of dominant position, in line with EU law; state aid provisions, covering general rules on procedures for granting state aid, and institutional provisions on further institutional independence, investigative powers and decision-making powers.

Nevertheless, the country's competition law still has some shortcomings. A dominant position is negatively defined, such that a dominant position *per se* is deemed to restrict competition. According to best practices, only abuse of a dominant position is prohibited by EU and other international practise.

13. STATISTICS



A modern and internationally comparable statistical system is indispensable for informed policy-making and for the work of the business sector and civil society. All the post-Soviet states have had to face the same challenges of radical reform to their statistical systems, notably to move from systems that essentially served the needs of the state to systems that serve the private sector and society as a whole. More technically, there has to be a greater use of sampling methods rather than exhaustive data collection.

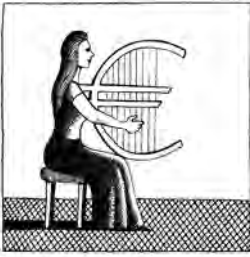
Georgian legislation provides a sound basis for producing independent, objective and reliable statistics in line with the fundamental principles of United Nations and the European Statistics Code of Practice. The national statistics agency, Geostat, was established as an independent institution in 2010; its work had been based on the experience of advanced statistical systems with the support of international organisations.

Annual national action plans are agreed between the EU and Georgia for the implementation of the requirements of the Agreement. Geostat's current action plan focuses on exploitation of the 2014 Census, foreign trade statistics, dissemination methods and revision of legislation to conform with international and European practices.

Substantial progress has been made to improve the capacity and performance of the national statistical system over the last decade, but it is still a long way from meeting the standards of Eurostat. Geostat needs more resources to strengthen its professional staff and to improve the quality and coverage of official statistics.

PART III. ECONOMIC COOPERATION

14. MACROECONOMICS AND FINANCIAL ASSISTANCE



In the years between independence and the 2003 Rose Revolution, Georgia made only slow progress in economic policy reforms. The subsequent change of government led to liberal regulatory reforms, and gave rise to a period of fast economic growth. As a result economic growth surged ahead to impressive double-digit rates averaging 10.5% in 2005-2007.

The reforms also enabled Georgia to achieve impressive improvements in its international rankings related to the ease of doing business and perceptions of corruption, where Georgia emerged among the best performers worldwide.

The economy has suffered several adverse economic shocks in recent years, first the 2008 war with Russia and then the global financial crisis of 2008-09. One of the strengths of Georgia's economy during these developments was its diversified structure and liberal regulation. This helped Georgia cope comparatively well with the Russian trade embargo, unilaterally introduced by Russia in 2006 on all Georgian agricultural products, with diversification into the EU and other markets.

The EU is supplying significant financial assistance to Georgia, including macroeconomic loans alongside the IMF, budget grants and major investments from the European Investment Bank and the EBRD. The terms of the macroeconomic assistance call for reforms to improve public finance management, to increase efficiency of the social safety net, to strengthen banking regulation and to adopt policies supporting the implementation of the DCFTA.

The European Investment Bank has extended a total of €473 million of loans and investments so far. The EBRD has become an even bigger investor in Georgia, having made financial contributions amounting to €1.8 billion towards 157 projects costing a total of €5.1 billion. The EBRD's leading contributions have been in the fields of energy and financial institutions.

15. FINANCIAL MARKETS



The Agreement envisages a comprehensive alignment by Georgia with the EU system for regulating banks, insurance and securities markets with adoption, at least in the long run, of the entire EU legislative body of laws. The objectives are to make the financial markets safe and efficient for consumers and systemically sound for the economy, to allow the industry to have open access to EU markets and to secure its competitiveness and modernisation.

Financial markets in Georgia are mainly represented by the banking sector, while other areas, such as insurance, the stock exchange, investment and pension funds, are less developed, of which the insurance sector is the most advanced. There is one stock exchange, one central depository, eight brokerage companies and three independent registrars of securities in Georgia.

Adopting international standards in areas with limited or almost no development would be very difficult and burdensome for the sector. For this reason, Georgia has chosen variable time periods for aligning its financial legislation with that of the EU – from two to eight years. The short period mainly applies to anti-money laundering provisions, where Georgia’s position is already fairly compatible with international standards, and the longest period will be taken for the insurance sector, where market development is comparatively limited.

However, the process of alignment with EU regulations, if done properly and taking into account developments of the local market, is an opportunity for Georgia to ensure a sound and prudent financial system.

There is also an issue of reciprocal market openness. The EU market will only be fully opened to Georgia when the alignment process is completed.

16. TRANSPORT



The DCFTA sets out the EU's detailed standards and regulations for road, rail, inland waterways, sea and intermodal transport, which Georgia will progressively adopt. These concern the qualifications of transport operators, the technical safety of vehicles and vessels, and the activities of inspection bodies.

Georgia aims to become a transport and logistics hub in the Black Sea–Caucasus–Caspian Sea region, and has fully integrated its infrastructure into international and regional transport systems. Substantial liberalisation of transport policies as well as sizeable investment in infrastructure projects contribute to this goal. Transport became one of the fastest growing sectors of Georgia's economy averaging more than 7% real annual growth between 2003 and 2015. In the same period, employment in the transport sector increased by 75%.

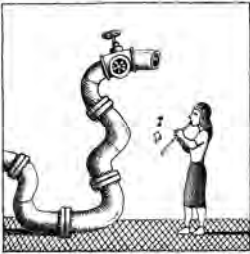
Air transport is regulated in a separate EU-Georgia Civil Aviation Area Agreement, which is pending full ratification. The Georgian air traffic market has already been growing very fast, and should be further boosted when visa-free travel to the EU is finally introduced.

Due to its favourable geographical location, Georgia is the shortest 'Silk Road' link for transportation of goods between Europe and Asia, for which the following major projects are being built or planned:

- Development of the Anaklia New Deep Water Black Sea Port,
- The Baku–Tbilisi–Kars New Railway Connection Project,
- Construction and rehabilitation of the East–West Highway and
- The creation of logistics centres as part of the East–West Highway.

In March 2015, Georgia and China signed a Memorandum on the Silk Road development, and in February 2016, they launched negotiations for a free trade agreement between themselves. These developments should lead to valuable synergies with the EU-Georgia DCFTA.

17. ENERGY



The energy sector in Georgia is of the highest economic and geopolitical importance. Adding to its substantial hydroelectric capacity, in recent years there have been major investments in oil and gas pipeline connections with Azerbaijan, transiting on to Turkey and across the Black Sea. These have also assured Georgia a high degree of energy independence from Russia.

Georgia's energy sector reforms have created a business-friendly regulatory environment and a competitive tariff system. This resulted in a turn around for the sector, with large scale foreign investments reaching a peak in 2011-13 when several hydro power projects started. There has been an increase of Georgia's transit potential and electricity export capabilities, with greater utilisation of the country's vast hydropower resources, of which only 20% is utilized now.

The Association Agreement envisages cooperation over virtually the whole landscape of energy policy issues, including energy policy strategies, energy crisis mechanisms, the modernisation of energy infrastructures, enhancement of energy security, energy efficiency and savings, and support for renewable energies. The Agreement also refers to Georgia's application to accede to the Energy Community. In mid-2016, these negotiations were not yet concluded, but the treaty is expected to be signed in October 2016. This will further deepen the integration of the Georgian energy sector with that of the EU in the long run. However, Energy Community membership will have limited benefits in the near future as none of Georgia's neighbours are yet members of the Community.

Some obligations resulting from the Agreement, in particular those related to energy efficiency, are complex and costly. Therefore a prudent approach is required in implementing some energy efficiency directives that have proved challenging even in some EU member states.

18. ENVIRONMENT



The environmental provisions of the Association Agreement are very ambitious and commit Georgia to cooperation over the whole landscape of environmental policy issues. Until recently, Georgia has been deliberately delaying environmental objectives, in order to prioritise economic growth.

Under the Agreement, however, Georgia has committed itself to a highly ambitious programme of environmental and climate change actions. These include measures for air and water quality, waste management, industrial pollution and hazards, and the protection of nature. Georgia is also fully committed to the negotiation process in the UN Framework Convention on Climate Change, which led to the global agreement at the Paris Conference in December 2015.

This huge improvement of environmental standards will come at a significant cost for many businesses, but with predictable long-term health as well as economic benefits. It is likely that these benefits will only be reaped in the long run because just the legal approximation of the EU directives alone will take several years, while their technical implementation will take between three to nine years. Some directives are straightforward acts of policy modernisation and will help establish effective environmental quality and resource management systems.

The EIB and EBRD are among the major financial institutions capable of making substantial contributions to the funding of necessary investments, leveraging on other public and private sources.

If the timetables for implementation of specific EU laws prove to be too fast, it is possible for them to be extended, if agreed by the two parties in the Association Council.

The Ministry of Environment and Natural Resources Protection has been identified as the national authority to lead on environmental issues, with a special division responsible for Sustainable Development.

19. THE DIGITAL SECTOR



The ‘digital’ family of provisions in the Association Agreement cover electronic communications and postal services, the information society and audio-visual policy. This broad sector, embracing electronic communications and the entire ICT economy, is a vital, strategic part of the economic reform and modernisation process in Georgia.

The Agreement provides for gradual alignment with basic EU regulatory practices, mostly within three to five years. Georgian legislation is partly compliant with EU directives and work is underway to implement a National Action Plan for the remainder.

The digital domain is witnessing one of the fastest rates of technological change and development. That means that the stock of EU laws and regulations in this field is also subject to comparatively fast change and development. The European Commission has set out its agenda for further developments under three broad headings: i) better online access for consumers and businesses, ii) creating the right regulatory conditions for advanced digital networks and iii) building the digital economy through investment, interoperability and standardisation.

The Georgian government has invested heavily in ICT infrastructure for its own administration, as well as in the provision of electronic services to the public. Several governmental institutions, such as the Ministry of Finance, Ministry of Justice and Ministry of Healthcare, are now providing a wide range of e-services to the public. In addition Public Service Halls are ‘one-stop-shops’ for about 450 services mostly in electronic form.

As a result Georgia has improved its ICT position in international rankings over recent years. For example, the number of Internet users has been accelerating rapidly, with an increase of around 50% in 2015–16. The number of fixed broadband subscriptions has risen from 1% to 12% of the population over the same period.

20. CONSUMER PROTECTION



EU legislation is intended to ensure a high and consistent level of protection for the health and safety of consumers by means of strict common safety rules and standards for products and services circulating within the internal market. Many EU policies directly affect consumers. This is especially the case in such areas as telecommunications, digital, energy, transport and food. This trend of mainstreaming consumer protection is reflected in the Association Agreement, which integrates the interests of consumers into its policies.

As a post-Soviet country, Georgia has had limited experience in the field of consumer protection. Currently, there is no national consumer protection authority, although several regulatory bodies and government agencies do have consumer protection units. The creation of a modern consumer protection system in Georgia, based on European best practices, still requires an investment of effort and resources by the country.

Georgia's commitments in the consumer policy area can be divided into two categories. The first part includes requirements for the creation of a system of consumer rights protection and is related to administrative costs, as relevant government institutions in charge of consumer protection will need to be created. The second part is related to costs for the business sector, as such obligations require changes in existing practices between businesses and consumers.

The Agreement requires approximation on EU consumer protection legislation within 5 years. For example, Georgia has the obligation to adjust its existing rules and practice in areas such as banking, tourism and leather products.

21. COMPANY LAW



To further support Georgia's transition to a fully functioning market economy and to create a stable environment for investment, the Association Agreement includes provisions on i) company law, ii) corporate governance, and iii) accounting and auditing.

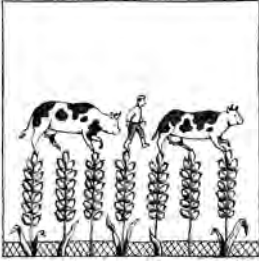
The text of the Agreement contains only a short provision stating that Georgia aims to cooperate with the EU in these areas. The EU and Georgia will set up a regular dialogue in order to share information and expertise on both existing systems and new developments in these three areas.

Georgia undertakes to align its legislation on selected EU law and international standards. For limited liability companies, implementation of EU directives for accounting and auditing will not create significant problems. For other types of companies, however, especially SMEs, some requirements may be problematic, for example those related to minimum capital.

Corporate governance provisions are subject to recommendations only, and so their implementation may be timed to avoid undue costs for the Georgian private sector. These provisions include the remuneration policy of listed companies, including performance criteria and the variable components of remuneration, and the role of supervisory boards.

Overall, implementation of these company law standards will improve Georgia's business climate, as it will create a transparent and clear environment for enterprises, including an appropriate level of protection for company shareholders and creditors.

22. AGRICULTURE



Agriculture is a socially important sector of the Georgian economy. It is still characterised by a large number of small family farms, with an average plot size of about 0.2 hectare, which lack modern technology and skills. Only a few sectors, such as wine and hazelnuts, are internationally competitive so far, making up 12.3% of total exports in 2015.

The text of the Association Agreement is significant for what it omits. Unlike the Ukrainian and Moldovan agreements, Georgia makes no commitment to replicate EU legislation in this field. Georgian agriculture suffered disastrous losses of output and capacity in the first two decades of the post-Soviet period. The seriousness of shortcomings inherited from this period meant that it was inappropriate for Georgia to embark on any premature programme to replicate EU farm policies. However, the policy agenda for agricultural and rural development is very substantial and here the EU can contribute valuable assistance.

The contribution of the Association Agreement is essentially through policy dialogue, supported by technical assistance and investment finance. The Agreement contains many references to EU agricultural legislation, but there is flexibility in the extent to which this should be applied, with no binding timetables.

The EU and European Investment Bank are funding considerable technical assistance and investment projects.

23. EMPLOYMENT AND SOCIAL POLICY

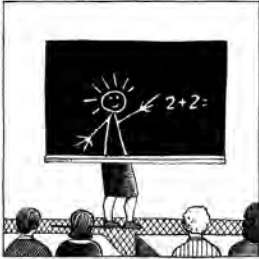


The Association Agreement seeks to promote cooperation over a large part of EU labour law and related conditions of work. Fundamental reform of the Georgian Labour Code began in 2006, which led to the adoption of or approximation with the major ILO conventions. The reform aimed at the reduction of informal employment through introducing more straightforward rules for the labour market to replace the Soviet-style regulation of the 1970s, and place employers and employees on the equal footing in contrast to previous rule and practice, which give priority to trade unions over employers' organisations.

In 2013, Georgia amended the labour code in order to comply with relevant EC directives on labour law, anti-discrimination and gender equality. As a result of legislative reform, the main anti-discrimination and gender-equality principles (including measures for pregnant women) stipulated by the directives are already reflected in labour legislation, as well as among others provisions on notification before firing, collective redundancies, overtime working remuneration and fixed working hours. One of the main outstanding challenge arises with the directives on fixed-term and part-time contracts, which are considered restrictive.

The EU's directives on health and safety standards at the workplace set high standards, but are costly to implement. It is therefore understandable that the Agreement set long time periods for implementation by Georgia, in most cases in the range of seven to ten years. This can avoid imposing excessive regulatory burdens on the business community in the near future, and inducing a possible shift to informal labour relations as a result.

24. EDUCATION, TRAINING AND CULTURE



The Association Agreement sets out basic aims for the education system, notably its reform, modernisation and convergence in the field of higher education in the framework of the Bologna Process, and the enhancement of the quality and relevance of higher education.

Already in 2004, Georgia embarked upon Bologna-related reforms, formally joining the Bologna process in 2005, leading to adoption of the three-tier higher education system (with bachelor, masters and doctorate qualifications). Further extensive reform efforts were initiated to bring the Georgian education system closer to European and more broadly Western standards.

The EU's largest direct contribution to Georgian higher education is through the Erasmus+ programme for educational exchanges, training, youth and sport. Up until 2014, 847 Georgian students, researchers and academic staff benefited from Erasmus through scholarships, teaching, training activities and study visits, and the number of beneficiaries is expected to increase in the years ahead.

Cultural cooperation between Georgia and the EU is based on exchanges and the mobility of arts and artists. Georgia participates fully in the EU's Creative Europe programme for the cultural and creative sectors, signing an agreement to this effect with the European Commission in February 2015. The programme has a budget of €4.95 million and has two components. The first one is EU support for capacity-building and the inclusion of culture in the political agenda. The second is a joint EU and Council of Europe project supporting 6-12 historical towns for the development of urban strategies with the revival of heritage.

25. SCIENCE, TECHNOLOGY AND SPACE



The Association Agreement sets out wide-ranging objectives for cooperation in the area of science and technology, aiming to strengthen research capacities, human potential and the sharing of scientific knowledge.

In April 2016, Georgia joined the EU's Horizon 2020 programme, which is the centrepiece of the EU's scientific and research activity, endowed with very substantial funds (€80 billion) for the period 2014–20. Horizon 2020 offers access to world-class scientific networks and research teams and data, with increased mobility that are essential to the process of Georgia's modernisation and European integration. Horizon 2020 encourages the EU and Georgia to implement joint research projects, conduct training courses and increase the mobility of scientists and researchers. Through cooperation with the EU, Georgia has an opportunity to strengthen its research institutions.

With associate membership of Horizon 2020, Georgia will be able to participate in the programme on the same basis as EU member states, including participation in the governing structures of the fund. Membership comes with a price tag, proportional to its GDP compared with that of the EU, but with substantial rebates.

Georgian institutes took part in the EU's previous programme (FP7) with 59 FP7 projects, receiving total funding of €5.49 million.

Georgian researchers have produced high-quality research in nanotechnology, biotechnology and pharmaceuticals, health, agriculture and engineering. These are the domains that could serve as a strong base for closer cooperation with the EU.

26. EU AGENCIES AND PROGRAMMES



The EU operates as many as 46 'agencies', which are semi-autonomous and specialised bodies funded and controlled by the EU, with the objective of supporting the functioning of EU policies. There are also around 45 'programmes', most of which are funded and administered by the European Commission. Of these, around half are open to participation by Georgia.

Such participation offers a useful means of in-depth integration of professional experts and administrative organisations with EU counterparts and aids reform processes.

The agencies that are of most relevance to Georgia taking into account the obligations of the Agreement include the following:

- European Aviation Safety Agency (EASA)
- European Maritime Safety Agency (EMSA)
- European Agency for Safety and Health at Work (EU-OSHA)
- European Defence Agency (EDA)
- European Union's Judicial Cooperation Unit (EUROJUST)
- European Police College (EUROPOL)
- European Monitoring Centre for Drugs and Drug Addiction (EMCDDA).
- European Agency for the Management of Operational Cooperation at the External Borders (FRONTEX)
- European Environment Agency (EEA)
- European Agency for Safety and Health at Work (EU-OSHA)

Membership of an agency requires negotiation of a specific international agreement and a decision on the financial contribution of the partner. To ease the financial burdens on Georgia, temporary rebates can be negotiated.

Membership of the agencies and inclusion in programmes give full access to the infrastructure and governing bodies.

27. CROSS-BORDER COOPERATION

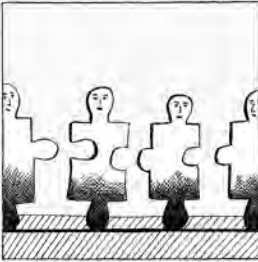


While Georgia does not have a land border with the EU, it shares a border with two fellow Eastern Partnership countries, namely Armenia (219 km) and Azerbaijan (428 km). The EU assists both Georgia–Armenia and Georgia–Azerbaijan cross-border cooperation through a scheme that establishes and strengthens contacts between the neighbours with the aim of addressing common challenges. Stakeholders in the programme include local and regional authorities, hospitals, educational and communal services as well as non-state actors and SMEs.

In particular, the EU-funded scheme seeks to support the social and economic development of Georgia’s border regions with Armenia and Azerbaijan in three priority areas. First, it works to improve the living conditions of cross-border local communities through joint projects. Second, it addresses common challenges arising over such issues as the environment, employment and public health. Third, through education, sports and cultural exchanges, the programme supports ‘people-to-people’ contacts.

Addressing common challenges in youth employment through cross-border tourism development is one of the major projects that receives the support of the European Commission, with a budget of €183,248. The cooperation between the communities in the Tavush (Armenia) and Kvemo Kartli (Georgia) regions aims to improve living conditions in cross-border areas by developing tourism, facilitating youth contacts across the border and highlighting issues related to environmental problems. In particular, the project targets young workers in the beneficiary regions.

28. CIVIL SOCIETY



Civil society in Georgia has long been at the forefront of change in the country. Following the Rose Revolution in 2003, many NGO leaders moved to work in the government in high-level positions. Generally, compared with its peer countries, the government in Georgia has demonstrated relatively greater openness to cooperation with civil society.

The EU has long supported Georgian civil society, which has played the role of a pressure group vis-à-vis the government, and among others a driver of change. For the period 2014–17, 5% of the EU’s budget support to Georgia is allocated to support civil society organisations.

One of major avenues for the EU to engage with Georgian civil society has been the multilateral Civil Society Forum of the Eastern Partnership, which was established in 2009, prior to the signature of the Association Agreement. The Forum brings together members of civil society from all six countries included in the Eastern Partnership. The Georgian National Platform was founded in November 2010, consisting of 95 civil society organisations.

In November 2015, the Georgian government and the Georgian National Platform signed a Memorandum of Cooperation, pledging to strengthen cooperation between the government and civil society on the implementation of the Association Agreement. The National Platform now comprises over 120 members and has five working groups, which further divide into a number of sub-groups.

In recent years, Moscow has increased its presence in Georgia through funding civil society organisations, which develop anti-EU and anti-NATO discourse in the capital and regions. This recent trend has raised concerns among pro-Western political forces and organisations within Georgia, and among Georgia’s Western partners and allies.

PART IV. LEGAL AND INSTITUTIONAL PROVISIONS

29. DISPUTE SETTLEMENT



The Association Agreement has well-developed legal mechanisms to handle disputes that may arise over implementation of the Agreement. Since there will be so much political and economic business conducted between the two parties it is inevitable that issues will arise over interpretation of specific provisions of the Agreement and its implementation.

There are two basic dispute settlement mechanisms: a ‘general’ one applicable to all parts of the Agreement except the DCFTA and a second one applicable to the DCFTA itself.

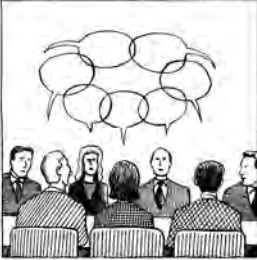
The ‘general’ mechanism relies on the two parties finding a mutually agreed solution in the Association Council, failing which the aggrieved party may take ‘appropriate measures’.

For DCFTA-related disputes, there is a more elaborate system that provides two alternative tracks: either binding arbitration, or softer mediation for consensual solutions.

There is also a provision regarding the special case of violation of the ‘essential elements’ of the Agreement (i.e. basic political principles), which can lead to suspension of the entire Agreement.

In practice, these procedures are rarely used, as the EU for its part generally tries to find diplomatic solutions to problems that may arise.

30. INSTITUTIONAL PROVISIONS



The Association Agreement establishes a comprehensive institutional framework to oversee its monitoring and implementation process.

The key institution is the Association Council, composed of members of the EU Council and Commission on the one hand and members of the government of Georgia at ministerial level, on the other. The Association Council has broad powers to amend many details to the Agreement (in its annexes), but it cannot change the main body of the Agreement since, being a treaty, this would require the complex procedures of ratification.

The Association Council is assisted by an Association Committee at senior official level, with other specialized committees such as for trade matters, and sub-committees. These joint institutions are also responsible for the continuous updating of the Agreement, in particular in the light of the relevant legislative developments in the EU itself.

The Agreement established a Parliamentary Association Committee, consisting of Members of the European Parliament, and the Georgian Parliament, *as well as* a Civil Society Platform (see chapter 28).

The Handbook on which this booklet is based is entitled *Deepening EU-Georgian Relations: What, why and how?*, edited by Michael Emerson and Tamara Kovziridze. It is available for free downloading at www.3dcftas.eu/ in both English and Georgian, and can be purchased in paperback, hardback or electronic form from the publisher, Rowman and Littlefield International at <http://www.rowmaninternational.com/books/the-eu-georgia-association-agreement-and-dcfta>

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The new relationship between Georgia and the European Union is the focus of this accessible, non-technical short guide. This relationship is based on a complex treaty: an Association Agreement with extensive political, economic and legal content, signed in 2014 and entered fully into force on 1 July 2016. The Agreement includes a Deep and Comprehensive Free Trade Area (DCFTA).

This booklet is a summary of the Handbook entitled *Deepening EU-Georgian Relations: What, why and how?*, which explains the contents of the treaty in much greater depth. The Handbook, like the present booklet, is freely available at www.3dcftas.eu in both English and Georgian. Both publications follow the same chapter structure, which allows readers who wish to dig deeper into the subject to readily find their way in the longer Handbook.

This short guide is produced as part of a project supported by the Swedish International Development Agency (Sida) and is one of a trilogy, with comparable companion texts also published on Moldova and Ukraine.

