

**GENERAL AGREEMENT  
ON TARIFFS AND TRADE**

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REPUBLIC OF GEORGIA - REQUEST FOR OBSERVER STATUS

The following communication has been received from the Minister of Foreign Affairs of the Republic of Georgia. The request for observer status submitted by the Republic of Georgia will be considered at the Council meeting scheduled to take place on 10-11 November 1994.

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On behalf of the Government of the Republic of Georgia, I would like to convey the request that the Republic of Georgia be given observer status in the Council of Representatives of GATT. The Government of the Republic of Georgia wishes to familiarize itself with the activities of GATT in order to take a decision on the accession to GATT of the Republic of Georgia. The Republic of Georgia intends to pursue further the reform process of the economy, the foreign trade and the customs duties. In accordance with the procedures adopted by the GATT Council, I am enclosing herewith a short note with a description of the foreign trade policy of the Republic of Georgia. The main objective of our economic strategy is the creation of an open market economy.

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Foreign Economic Policy of the Republic of Georgia

Georgia was among the first Republics of the Former Soviet Union (FSU) to declare independence, which occurred on 9 April 1991. It has a population of 5.4 million in a geographical area of 70,000 square kilometres, bounded by the Black Sea, Russia, Azerbaijan, Armenia and Turkey.

Although official estimates of per capita income ranked Georgia among the poorest republics of the FSU, at the time of independence Georgia gave a picture of a relatively well-off republic with a fairly good growth potential. Its resources of strength were its educated labour force, its long tradition of entrepreneurship, the existence of a significant underground economy and its agricultural base which already had a significant amount of private sector activity. Industry accounted for 37 per cent of the net material product (NMP) on average during 1989-1991, and agriculture, which accounted for 33 per cent of NMP, was relatively more important in Georgia than in other FSU. In 1990, 96 per cent of the country's exports were to the other FSU republics, and imports from that region constituted 72 per cent of its imports.

The political disintegration of the Soviet Union was followed by the breach of economic links between FSU republics. The existing payments system between the republics was not working any longer, that in its turn worsened the external economic position of Georgia. The process of price liberalization was mainly reflected by price increases on the imported commodities and had no effect on the price of export commodities. This resulted in a deterioration of the already negative balance of payments. The foreign economic activities of Georgia were sharply reduced. The estimated deficit of foreign trade represented 10 per cent of GDP. This was the highest level of the last 5 years. During this period the deficit had not exceeded 1.5 per cent.

The volume of exports in 1992 declined approximately by 30 per cent from 1988-1989. There is an observable tendency of worsening the conditions for economic cooperation between Georgia and

its main trade partner - the Russian Federation. The imports from this country comprised 76 per cent of Georgia's exports to Russia in 1991, 43 per cent in 1992 and fell to an estimated 19 per cent in 1993. The reduction of imported raw materials and spare parts greatly influenced the level of the export supply in Georgia.

According to the estimated data for the economic and social development in 1994 the export supply will substantially increase. The estimated value of exports in 1993 prices was 71,7 billion rubles. The priorities in export potential will still remain with metallurgy, engineering industry, chemical industry and petroleum chemistry, agriculture and food industry, the estimated increase in which is considered to be respectively 2.5-3.4; 2.5-3.5; 2.8-3.5; 120-160 per cent.

Upon gaining independence, Georgia embarked on the way to transformation to the market economy. Apart from macroeconomic measures it is trying to solve the problems connected with transition from a planned economy through the implementation of necessary reforms.

In 1992-1993 the deregulation of the prices on most commodities was accomplished. The government intends to eliminate subsidies by increasing minimal salaries, pensions, benefits and allowances to socially most vulnerable groups.

The privatization programme started in Georgia in 1992 with privatization of housing. Since then the majority of houses have been privatized. The privatization process in the agricultural sector is still in progress. Recent data shows that 625,000 hectares of agricultural land are already redistributed. Privatization of industrial units failed to follow the expected pace. The government is aware that in economic situations similar to Georgia's only private companies have enough elasticity and incentives to cure the situation and save Georgia from recession. Privatization in this field started in March 1993 and by April 1994, 1,300 enterprises had been privatized through auctions, 1,000 of them being small enterprises in trading and services. The government has adopted new policy on small-scale privatization that is due to be completed in a year's time. The policy involves issues facilitating more rapid privatization of medium-size enterprises. Another measure for speeding up the large-scale privatization was the Decree of the Head of the State stipulating a mandatory reorganization of the medium and large enterprises into joint stock companies. The government is also planning to turn the credit institutions into joint stock companies.

The collapse of the Soviet Union and the declaration of Georgia's independence caused disruption of the traditional co-operation and trading links between Georgia and FSU republics. This creates a necessity of economic restructuring and assigning of new priorities for economic development.

Georgia is following an economic policy that favours establishing a liberal regime for external economic relations. The government is working on creating the improved legal and organizational framework for foreign investments on the territory of Georgia, that includes provision of relevant facilities for its security, insurance and profit repatriation.

The external economic policy of Georgia, its export possibilities and import demand is greatly determined by deposits of minerals and other resources as well as by other geographical advantages.

Georgia is rather rich with hydro resources, but unfortunately is utilising only 10-12 per cent them. Efficient usage of these resources and development of hydroelectric power stations and hydraulic power engineering itself will enable Georgia to produce enough energy to satisfy its own needs and become energy exporter.

It is quite feasible to expand exploration of oil and gas using new technologies. There are several regions nearby Tbilisi with promising deposits. Georgia is already establishing links with United States, Australian and British companies in that respect. But until now the republic is still a net importer.

It is difficult to underestimate the role of transportation and communications in the development of the country. Due to its favourable geographical location Georgia is crossed by a so called "Transcontinental Transport Corridor", which is connecting South and North and East and West. Moreover, this corridor is not only the shortest way of transportation but also most reliable, as it is functional throughout the year. Although the existent infrastructure needs reconstruction, Georgia views this project as a source for rapid recovery. The Transcontinental Transport Corridor Project is linked with the project on reconstruction of Poti port, which currently is in a working stage. The renewed facilities at Poti port in conjunction with the corridor will substantially increase cargo flows through the republic.

During last years the government has made necessary steps to create a legislative environment essential for external economic activities by means of passing relevant legislation and the conclusion of bilateral and multilateral treaties.

The Parliament has adopted laws, which are based on liberal principles of the market economy and encourage the development of free entrepreneurship and trade. The Parliament is continuously working on improvements to internal legislation, which will be directed to the elimination of monopolisation, protectionism and non-tariff measures, and the adoption of the freedoms exercised in most democracies (free movement of citizens, free capital and commodity flows, etc).

However, it is most vital to implement measures that will increase the economic potential of the country and provide its more efficient employment, this is, first of all, connected with the improvement of government regulation of external economic links. Specifically, the government intends to fill the legislative gap in respect of foreign activities on the territory of the Republic of Georgia. Another field that necessitates improvement is the organizational structure of the foreign economic relations, which includes changes in government programmes on export promotion. The government will work in the following directions: augmenting the level of development of the economy, consideration of problems arising from export promotion and the development of import substituting production, working out of state programmes for implementing foreign investments.

Georgia has concluded economic agreements with a number of countries. All these bilateral and multilateral agreements are based on internationally accepted principles of GATT, that require provision of the most favoured nation treatment to the countries concerned and the conduct of non-discriminatory external economic policy. The external economic and political course of Georgia implies conformity with those principles in relation with all countries. The government of the Republic of Georgia is willing to pursue a similar policy with all countries irrespective of their geographical location or political-administrative structure.

The main principles of Georgia's external economic policy are to permit full transparency of border measures, to regulate the export-import activities in accordance with the strategic interests of the country, in the regulation of foreign trade to transform quantitative restrictions on exports and imports to tariff regulation; to eliminate customs duties on all those export-import commodities, that are necessary for state purposes, to integrate into international economic unions preserving the country's economic and political independence.

Consequently, during the transitional period of its development, Georgia does not exclude the possibility of pursuing preventive policies in respect of fields of vital importance. However, those measures will be temporary and comparatively soft in nature.

The existing scheme of quotas and licensing on foreign trade operations is also transitional. Its presence is due to over-stimulated exports and will lose importance with proper price liberalization and exchange rate mechanism and will operate within the framework established by intergovernmental economic treaties concluded by Georgia.

The Cabinet of Ministers decreed a general scheme of quotas and licensing of commodities and services on the territory of the Republic of Georgia, that is covering all spheres of economic activities. The charter, specified by the decree, defined the list of the export-import commodities and services subject to quotas and licensing and sets uniform rules for the determination and distribution of quotas and issuing licences. The quotas are defined by the Ministry of Economy and validated by the Cabinet of Ministers. The quotas are classified as: 1) quotas for state needs; 2) quotas for enterprises (distributed among the ministries and organizations, the percentage being defined from the volume of the export production); 3) regional quotas (for autonomous republics); and 4) quotas subject to sale through auctions. The latter is accompanied by the relevant commodity quality certificate issued by the Committee for External Economic Relations of the Republic of Georgia.

The export and import licences (general and single) are issued by the Committee for External Economic Relations. The general licence is issued according to the resolution of the Cabinet of Ministers to the major producer of the export commodity. The licences are issued to the agents engaged in economic activities irrespective of their property of the export commodity. The licences are issued to the agents engaged in economic activities irrespective of their property forms. The procedure of acquiring licences is extremely simplified and the decision on their issue is taken no later than 15 days from the date of the request. The annex to the decree (attached) specifies the list of commodities and services the export (subject to quotas) and re-export of which should go under licensing; the list of commodities the export of which is prohibited, and the list of commodities the import of which is subject to licensing.

The customs policy in Georgia is regulated by relevant legislation. Pursuant to the resolution N° 580 of 18 May, 1992 the export and import in the republic is subject to the following customs duties: 8 per cent of the contract cost on exports; 2 per cent of the contract cost on imports; 20 per cent of the contract cost on barter. The customs fees are regulated by a separate resolution. They are differentiated according to the commodities and services but do not exceed 0.2 per cent of the contract cost.

In case of acquiring observer status in GATT, the Government of the Republic of Georgia will try to apply for consultations to the competent bodies of the organization concerning implementation of such measures with the purpose not to hamper Georgia's accession to GATT.

## ANNEX

### **The list of the commodities and services the export (subject to quotas) and re-export of which should go under licensing**

Precious, semi-precious stones and metals, their products  
Natural minerals  
Oil (including gas condensate)  
Oil processing products  
Oil, gas and hydrocarbon  
Fertilizers and detergents  
Cellulose paper and mackle paper  
Heavy metals and their products  
Ferrous metals and their products  
Ferrous alloys  
Cement  
All kinds of medicine  
Medical raw materials of animal and vegetable origin  
Alcoholic beverages  
Tea  
Mineral waters  
Tobacco raw materials  
Apiculture products (honey, bee venom, etc.)  
Essential oil products  
Arsenic products  
Silk cocoon  
Wild animal and plants, depopulated animals' horns, bones, hoofs and similar products  
Collection items of mineralogy and biology  
Information about mineral resources  
Tourist services  
Cabal material

**The list of the commodities the export of which is prohibited**

Antiques  
Works of art that are of museum value  
Milk and milk products  
Cattle and poultry  
Meat and meat products\*  
Cereals\*  
Flour\*  
Sugar\*  
All kinds of bricks  
Timber (logs, timber materials, pressed plates, flooring)\*  
Calcinated soda  
Armament and ammunition  
Wool  
Ferrous and non-ferrous metal scrap  
Leather and leather materials\*

**The list of commodities the import of which is subject to licensing**

Medical equipment  
Medical remedies and raw materials  
Chemicals for plant protection  
Industrial waste  
Narcotics  
Armament and ammunition

The licences for exporting the above commodities are issued based on the decision of the relevant ministries.

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\* Excluding re-export, in case of which the commodities are subject to licensing