



1 December 2021

(21-9027)

Page: 1/16

Trade Policy Review Body

Original: English

TRADE POLICY REVIEW

REPORT BY

GEORGIA

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Georgia is attached.

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1 INTRODUCTION

1.1. Trade liberalization continues to be one of the key objectives on Georgia's economic policy agenda. In the reporting period Georgia undertook a number of reform initiatives targeted at streamlining, liberalization and simplification of trade regulations and their implementation.

1.2. As a result of reforms carried out by the Government of Georgia (GoG), today Georgia pursues one of the most liberal foreign trade policies in the world that implies facilitated foreign trade regime and customs procedures, low import tariffs and minimal non-tariff regulations.

1.3. The basic objectives of Georgia's trade policy are defined as follows:

- Integration into the world economy, including the implementation of WTO membership obligations and obligations under other international agreements;
- Trade policy liberalization, including simplification of export and import procedures and tariff and non-tariff regulation;
- Diversification of trade relations by establishing preferential regimes with main trade and regional partner countries;
- Enhancement of transparency in the policy-making process.

1.4. The reforms implemented during the last years have contributed to the creation of competitive market conditions and a business enabling environment. Additionally, these reforms have diversified international trade and Georgia's economic ties, thus generating growth and development.

1.5. By undertaking numerous economic reform initiatives and ensuring a strong legal system to protect investor rights, Georgia has positioned itself as an attractive destination for foreign direct investment. The government's priorities are now focused on further improving investment climate and strengthening investor confidence to attract more foreign investment and boost economic growth.

1.6. Strategic document – Government Program 2021-24 – Toward Building a European State – adopted in December 2020, among other vital issues, concentrates on economic development, in particular with the challenges posed in the aftermath of COVID-19 pandemic.

1.7. The country's economic policy continues to focus on free market principles, with the private sector as the main driving force behind the economy. At the same time, the economic policy is channeled toward maintaining macroeconomic stability, especially in the post-pandemic period, also toward further developing the business and investment environment, to support the recovery and subsequent expansion of pandemic-affected businesses.

1.8. The Government's economic policy focuses on Georgia's repositioning in the post-pandemic world, and on tapping into new opportunities for the country's subsequent development, especially in terms of encouraging domestic investment growth and attracting foreign investments.

1.9. To ensure a high level of long-term economic growth, the Government proceeds the works on the structural transformation of the economy, and on the maximal incorporation of economic factors, and state-owned resources, into economic activities as well as active efforts continue toward the qualitative improvement of the work of relevant state institutions, which will support the effective implementation of the country's economic policy.

1.10. Georgian Government's economic policy focuses on the country's rapid economic growth, poverty reduction, and the country's stronger positioning as the region's logistics and investment hub.

2 RECENT ECONOMIC DEVELOPMENTS AND REFORMS

2.1 Macroeconomic Overview

2.1. Georgia's economic performance for the period 2016-19 was averaging 4.4%, but due to global pandemic, average GDP growth for 2016-20 amounted to 2.3%. In 2020 real GDP decreased by 6.2%.

2.2. After the economic contraction in 2020, significant recovery was observed since February and the economy shows broad-based recovery driven by improvement in domestic and external demand. Georgia's economic recovery has gained surprising momentum, in January-September economic growth amounted to 11.3% and economic activity significantly exceeded (by 5.7%) pre-pandemic level as well. The preliminary results of economic activity in 2021 are more positive than previously forecasted by IFI's, far exceeding expectations. Government of Georgia expects 9.5% economic growth in 2021.

2.3. According to IMF projections, Georgia will ensure fastest economic recovery in medium term among regional and European countries, amounting to 5.8%, supported by infrastructure spending and sustained structural reforms to increase productivity and enhance private sector-led growth.

2.4. Georgia's ratings are supported by strong structural indicators, such as governance and business environment. According to Fitch and S&P, Georgia has a track record of cooperation and strong support from IFI's, which ensure policy credibility, continued reform momentum and reduce financing risks. A credible policy framework has helped underpin Georgia's resilience not just to the current COVID-19 shock, but also past external shocks in the region.

2.5. The largest sectors by share of GDP are industry (15.8%), trade (14.5%), real estate (11.7%), construction (8.9%), agriculture (8.4%), public administration (7.4%) and transport and communication (5.9%).

2.6. During 2016-20 period, the fastest growing sectors were healthcare (6.1%), information and communication (5.4%), water supply (5.2%), financial and insurance activities (4.7%), mining and quarrying (4.2%). It should be mentioned that during period of 2016-19 one of the fastest growing sectors were accommodation and food service activities (13.7%) and arts, entertainment and recreation (9.6%). The COVID-19 outbreak has hit these sectors hardest.

2.7. In 2020, real growth of industry (in GDP) amounted to 9.1% compared to 2016 and amounted to GEL 4.8 billion (in constant 2015 prices), up from GEL 4.4 billion in 2016. In this period turnover of industry increased by 50.8% and amounted to GEL 15.9 billion. Mining and quarrying almost doubled, grew by 99.3% - from GEL 611.1 million in 2016 up to GEL 1.2 billion in 2020. Significant growth - by 50.9% was indicated in manufacturing and reached GEL 10.9 billion in 2020, up from GEL 7.2 billion in 2016.

2.8. Despite global crisis, production output of industry sector increased by 5.0% and amounted to GEL 13.9 billion. In comparison to 2016, production output of industry sector increased by 49.9%. During 2016-20 period output of industry, trade and construction showed highest growth. Output of trade sector increased by 44.8% up to GEL 8.2 billion, while output of construction sector increased by 22.9% up to GEL 9.1 billion.

2.9. The total volume of foreign direct investments in 2016-20 amounted to USD 6,859.6 million. In 2016-20 the largest share of FDI, 45.5% (USD 3,122.8 million) came from EU countries (plus the United Kingdom), 23.7% (USD 1,623.0 million) from CIS countries and 30.1% (USD 2,062.8 million) from other countries. Georgia's FDI to GDP is among the highest in the region and in 2019 amounted to 7.6% of GDP.

2.10. During 2016-20 period sectors that attracted the highest shares of investment were transport and communication (22.5%), financial sector (20.2%), energy sector (11.7%), construction (8.9%) and manufacturing sector (8.0%).

2.11. From 2016 current account deficit had downward trend till 2019. During this period deficit decreased by 7 percentage points from 12.5% to 5.5% of GDP. Due to the global crisis and

pandemic in 2020, current account deficit to GDP amounted to 12.4% and equaled USD 1,962.2 million. The deficit is mainly conditioned by a negative balance in trade in goods. While trade balance in services is still positive, the amount decreased significantly because of travel restrictions during 2020. Tourism was one of the fastest-growing sectors in the current account and before 2020 it contributed around 70% to service export. In the 2nd quarter of 2021 CA deficit improved by 3.8% points (compared to the same period of previous year) and amounted to 8% of GDP.

2.12. In line with improving economic activity in 2021 external merchandise trade far exceeded the pre-pandemic indicators. Service export remains subdued due to the limited recovery in international tourism, however recovery trends in tourism industry strengthened since May.

2.13. The financial sector of Georgia is stable. Currently, 15 commercial banks are operating in Georgia including 14 foreign-controlled banks and one branch of a non-resident bank. In 2016-20, the volume of deposits increased by 97.6% and amounted to GEL 33.6 billion, the volume of loans increased by 102.1% and amounted to GEL 38.2 billion. Assets of commercial banks in the same period increased by 88.6% and amounted to GEL 56.9 billion.

2.14. Bonds of two the largest Georgian commercial banks, Bank of Georgia and TBC Bank are placed on London Stock Exchange. JSC Bank of Georgia's shares had been listed on the London Stock Exchange in the form of GDRs since November 2006 and JSC TBC Bank - since June 2014.

2.15. Government of Georgia prioritized the structural reforms to focus on long-term development goals. The priorities of structural reforms are oriented at structural transformation of the economy, inclusive access to the economic opportunities, decrease of external vulnerability, increase of savings and productivity enhancement.

2.2 Agriculture

2.16. The agricultural sector constituted 8.4% (as of 2020, preliminary data, at basic prices) of the total GDP of Georgia with 40.6% of the entire population residing in rural area (as of 1 January 2021). According to 2020, the employment rate in rural area is 38.7%. The government, fully acknowledging the central importance of this vital part of the economy, has diverted substantial sums to the sector. In 2015-20, funding for the agricultural sector from the state budget increased by 38.4%. The enticements have also resulted in the increase of agricultural exports by 6.0% in 2020 compared to the previous year.

2.17. GoG has launched various programmes aimed at further improving the economic condition of rural areas and their workers. These included green grant programme, state programme of co-financing agricultural mechanization, improving rural development in Georgia, industrial apple sale promotional programme, agro-diesel support programme, plant the future, Georgian tea plantation rehabilitation programme, Preferential Agro-Credit, agro insurance, state programme of dairy modernization and market access (DIMMA) and programmes supporting development of agricultural cooperatives.

2.18. Significant improvements were noted in ensuring epizootic and phytosanitary reliability, food safety and enhanced irrigation and drainage systems. Vigorous international promotion projects for Georgian agricultural products, has been launched as well.

2.19. Pursuant to the Deep and Comprehensive Free Trade Area (DCFTA), and with the intent of approximation with EU legislation, Georgia adopted number of new regulations in the field of food safety, veterinary and plant protection, such as flavourings and certain food ingredients with flavouring properties for use in and on foods, Requirements Concerning Materials and Items That Come into Contact with Food Products, rules on registration, authorization and control of the veterinary medicinal products, marketing procedures of different kind of vegetables and seed and ect.

2.20. According to the Annex XIB of the Association Agreement Georgia shall approximate its legislation to 272 legal acts of the EU. Timeframes for the approximation are 2015-27. Legal approximation process is ongoing and every year new legal acts are adopted or corresponding

changes are made in existing legislation. So far, Georgia has approximated more than 160 EU legal acts in food safety, veterinary and phytosanitary fields.

2.21. The overall strategic goals of Georgian agriculture and rural development for next seven years, according to the "Strategy for Agriculture and Rural Development in Georgia 2021-27", is to diversify/develop economic opportunities in rural areas based on the sustainable development principles, improve social condition and quality of life. Strategy goals are as follows: competitive agricultural and non-agricultural sectors; sustainable usage of natural resources, retaining the eco-system, adaptation to climate change; effective systems of food/feed safety, veterinary and plant protection.

2.3 Energy

2.22. The energy sector still remains one of the leading sectors in the economy of Georgia. Affordable and reliable energy supply stays a key goal of the country. Reforms carried out in the sector were directed towards the main goals of: increasing efficiency of the existing and development of new capacities and diversification of export and import sources. For this purpose, significant changes were made to the legal basis during the reporting years.

2.23. The range of the legislative acts were adopted in order to regulate the energy field, attract investors, promote the renewable energy and energy efficiency, as well as for approximation of the Georgian legislation with the EU.

2.24. Since becoming a full-fledged member to the Energy Community Acquis, the Government of Georgia stayed committed to implement the new standards in accordance to the EU Energy 3rd Package. The Package itself entails the competitive/open market. In this regard several laws and bylaws have been developed, which support the development of Georgian electricity market. One of them being the Law on Energy and Water Supply (hereafter "Energy Law") adopted in 2019 that provides the legal basis for power related secondary legislation, the main pieces of which are the Electricity Market Model Concept and the Electricity Market Rules.

2.25. In line with the Energy Law, Certification Rules for Transmission System Operators was approved in 27 March 2020 by Resolution of No. 9 of Georgian National Energy and Water Supply Regulatory Commission (hereinafter – GNERC), which establishes Transmission System Operator Certification Procedures. Unbundling plan of Transmission System Operator has been approved by the Government of Georgia by the Resolution No. 682 on in 13 November 2020. According to the said document, Georgian State Electrosystem JSC (hereinafter-GSE) has been certified as a Transmission System Operator by GNERC. In addition, electricity DSOs and TSO have been unbundled and retail market has been opened for suppliers and consumers since 1 July 2021.

2.26. Georgia implemented the Law on Encouraging the production and use of energy from renewable sources (hereafter "The Law on RES") on 20 December 2019. The Law on RES defines the national target for renewable energy at 35% of total final consumption by 2030. It also grants the discretion to choose the support schemes to achieve the above-mentioned national target.

2.27. In accordance of the law on RES, on July 2020, the Government of Georgia has adopted the Resolution No. 403 on approval of generation and use the energy from Renewable Energy Sources Support Scheme. The Renewable Energy Support Scheme defines measures to facilitate the construction and operation of a Solar, wind and hydroelectric power plant with above 5 MW installed capacity built by the private investor in Georgia.

2.28. On 2 December 2020, "Security of Electricity Supply Rules" (hereafter "SoS rules") were adopted. The SoS rules establishes the requirements to mitigate the risks of electricity supply as well as to prevent and prepare for managing crisis in electricity sector; on risk management planning; to manage electricity crisis in a spirit of transparency and in full regard for the requirements of a competitive electricity market.

2.29. Georgia has started to implement a reform that will transform the power market. On 16 April 2020, the Government of Georgia adopted the Electricity Market Model Concept. As for the Electricity Market Rules, it was adopted by GNERC on 11 August 2020 for all segments of the wholesale market. Market Concept sets the guiding principles for organizing and functioning of the

segments of the electricity wholesale market – Day ahead market; Intraday market; Bilateral agreements' market; Balancing and ancillary services' market.

2.30. The Law on Energy efficiency adopted on 21 May 2020 establishes a national energy efficiency target, and a procedure for adopting an energy efficiency action plan. The purpose of the Law is to increase energy savings, energy supply security and energy independence and to maximally eliminate barriers to improving energy efficiency in the energy market. In addition, on 21 May 2020 was adopted the Law on Energy Efficiency in Buildings, which promotes the rational use of energy resources and establishes the rules to improve the energy efficiency of buildings, taking into account the external climate and local conditions of buildings, the demand for indoor climate conditions and cost-effectiveness. The minimum energy performance requirements of buildings, building units and building elements is adopted by the Resolution of Government of Georgia No. 354 on 13 July 2021. At the same year, national methodology for calculating the energy performance of buildings has also been adopted by the Government of Georgia.

2.4 Tourism

2.31. Tourism is one of the fastest developing sectors of the Georgian economy and one of the main contributors to the increased wellbeing of the countries' population, having a high potential for further advancement. Between 2016 and 2019 Georgia achieved tremendous results in tourism growth, with international traveler trips increasing by more than 139%, from 6.7 million to exceeding the 9 million mark. In the same period, international travel receipts increased by 54.9%, which is more than a one billion dollar contribution to the national economy.

2.32. The increase of travelers in the period of 2016-19, was largely determined by the entrance of new airlines - the introduction of direct flights to new destinations, drastic improvement of infrastructure, liberal visa policy, marketing campaigns, and development initiatives implemented by the Government of Georgia.

2.33. Amid the global outbreak of the COVID-19 pandemic, Georgias' tourism sector occurred to be one of the hardest-hit industries, likewise, all the other international travel destinations, and correspondingly, the country experienced an 81.3% decrease in the traveler numbers in 2020. To translate the aforementioned in economic terms, we experienced a 2.7 billion loss in international travel receipts.

2.34. In the COVID reality to ensure that Georgias' fastest growing industry continues its contribution to the economy, the Government of Georgia elaborated various actions aimed at recovery, with tourism representing a priority pillar in post-crisis and economic recovery plans. We initiated the support of the tourism businesses with various benefits and programmes since the first day of the crisis, including economic stimulus packages and various programmes to confront the negative impact of the pandemic outbreak. The Government has outlined a long-term tourism development vision, where one of the keys is to focus on the development of new policies, diversification of tourism products, and offerings making emphasis on sustainability. All the above-mentioned factors, as well as a timely introduction of safety regulations for the tourism sector and the active emphasis on the vaccination process, lead to reopening the country to international visitors with the most favorable conditions. In addition, since the full reopening of the scheduled air traffic, Georgia has demonstrated unprecedented recovery rates with 86% of flight frequency and 68% of passenger traffic volume recovery in August 2021 (in comparison to August 2019) at the same time the country hosted more than one million international visitors.

2.35. Furthermore, within the past few years, one of the major successes for the tourism sector in Georgia has been the entry of renowned hotel chains in the regions of Georgia such as: In Batumi, Wyndham Batumi, Best Western Premier Batumi, and Sky Tower Hotel Batumi joined the list of existing hotel brands. Best Western expanded its hotel chain in Georgia by introducing new hotels in Bakuriani, Batumi, and Kutaisi. Furthermore, Best Western Sairme Resorts started to operate in Sairme, while premium international brand Hotel Paragraph Resort & Spa Shekvetili, Autograph Collection was opened in Shekvetili. In Kakheti, Radisson Blu Tsinandali, Park Hotel Tsinandali, and Holiday Inn Telavi joined the list of hotel brands. Furthermore, Best Western Gudauri started to operate.

2.36. Herewith, the liberal visa regime has had a considerable effect on increasing both the number and the diversity of visitors traveling to Georgia. Currently, the country upholds a visa-free regime with 98 nations and Resident Permit Holders of 50 states. Furthermore, an e-visa portal (evisa.gov.ge), which grants citizens of foreign countries the ability to apply for a Georgian visa online, serves as a good base for increasing visitor flows to the country. It is also important to note that Georgia and Turkey have an agreement regarding passport-free travel between the countries.

2.37. To further aid the development of the tourism industry in the post-COVID period, the tailor-made Tourism Recovery Plan is being elaborated in the framework of the Georgia Tourism Strategy 2025. Furthermore, to insure provision of high-quality ecotourism-related products and services to the international visitors, Georgia's Eco-Tourism Development Strategy 2020-30 has been adopted and entered into force.

2.5 Transport

2.38. Due to its geopolitical location, transport is one of the major pillars of economic development and prosperity of the country. Georgia is located on the crossroad of Europe and Asia, where transportation of strategic cargoes is conducted. Therefore, one of the top priorities for the Government of Georgia is coordinated functioning of transport fields, modernization-construction of transport infrastructure in accordance with international standards and approximation of country's legislation with international law.

2.39. Ministry of Economy and Sustainable Development of Georgia has elaborated the National Transport and Logistics Strategy (2021-30) and its Action Plan (2021-22). It aims at further developing Georgia's transport and logistics sector through increased coordination, enhancing transport connectivity, developing reliable, effective and fast logistics services as well as increasing human capital in transport and logistics. The document shall be adopted by the Government in the nearest future. Its implementation will greatly contribute to increasing competitiveness of the transport and logistics sector in Georgia.

2.40. Moreover, work is on-going on a Maritime Strategy Document which is planned to be adopted in 2021 as well.

2.41. There was steady growth in the use of most forms of transport during 2015-19. However, the impact of the global pandemic and the consequences it had on movements and the economy caused a significant decline in the transport of persons since 2020. Freight transport, or the movement of goods, on the other hand, remained steady or declined only slightly over the same period.

2.42. Georgia has also endorsed the Belt and Road Initiative (BRI) with transport infrastructure projects occurring in its territory during the review period, i.e. parts of the China-Europe BRI corridor route through Tbilisi. The infrastructure elements include the rail extension of Baku-Tbilisi-Kars. Once completed, the BRI infrastructure improvements in Georgia and across other BRI participants is expected to lower Georgia's average shipment time with its trading partners by 3.5%. However, as Georgia has its own ports, it is not as dependent on the BRI project like many of its neighbours.

2.43. Georgia is one of Eastern Partnership countries and stronger connectivity has been declared as one of the top priorities within the Eastern Partnership. Enhanced physical connectivity between Georgia and the EU would help better use of the DCFTA and increase country's transit and logistic potential and it is also of high relevance in the context of Euro-Asia connectivity. Joint Staff Working Document "Recovery, resilience and reform: post 2020 Eastern Partnership Priorities" was elaborated by European Commission and it establishes flagship initiatives for the EU partnership countries, one of the initiatives include the improvement of Black Sea Transport Connectivity. This flagship will involve developing new ferry/feeder services on the Black Sea. Legislation in the transport sector for Georgia is elaborated by various transport codes for most modes of transport.

2.44. Most of this legislation remains longstanding and there have not been significant changes during the review period. In addition to its domestic legislation, Georgia adheres to many of the international conventions in the transport field.

2.45. Georgia has adopted liberalized environment in the aviation sector since 2005, consequently, the bilateral agreements are based on the Open Skies policy. Air transport services with the European Union are largely governed by the 2010 Common Aviation Area Agreement. Georgia has 11 international conventions in place on civil aviation and 36 bilateral agreements. Since 2015, bilateral air services agreements have been signed with the Kingdom of Bahrain (2016), Belarus (2017), India (2017), the Kingdom of Saudi Arabia (2019), and the Republic of Korea (2021).

2.46. Georgia has achieved significant progress in a wide area of road transport related activities in the course of implementation of the DCFTA. In particular, Georgia has implemented the legislation concerning the carriage of dangerous goods, reinstated periodic technical inspection of vehicles, introduced EU requirements concerning the weights and dimension of vehicles and speed limitation devices. Georgia regularly issues bilateral road transport permits (usually single-use authorizations) between the competent authorities of its partner countries on an annual basis allowing international road transport operations (to/from the country and in transit). Georgia is also involved in a number of multilateral systems of licences such as ECMT, BSEC and TRACECA permit systems.

2.47. In total, Georgia has 31 bilateral road transport agreements. Since 2015, bilateral agreements on international road transport have been concluded with Bosnia and Herzegovina, China, Estonia, Kazakhstan, Slovenia, Slovakia, and Turkmenistan. Georgia is also party to three international road conventions.

2.48. Georgia is a maritime nation with a large maritime register with thousands of seafarers and connection to the Mediterranean Sea through its ports on the Black Sea. As of early 2021, work was on-going to develop a Maritime Strategy document, expected in 2021.

2.49. In the maritime transport sector, Georgia is party to 23 international conventions and has 22 intergovernmental bilateral agreements with other countries on maritime transport, shipping, inland navigation, ferry services, etc. Two bilateral agreements were concluded in 2017, with Malta and Ukraine, on maritime shipping and on direct rail-ferry services through the ports, respectively. In May 2018 Georgia signed the Burgas Declaration, which is important for setting up structured cooperation on maritime affairs in the Black Sea and is in the process of ratifying the Maritime Labour Convention (MLC).

2.50. Georgia maintains four sea ports, at Batumi, Poti, Supsa, and Kulevi on the Black Sea. These ports are important for Georgia but movements through them also support trade to many of its landlocked neighbours. The ports of Poti and Batumi have been described as medium-size ports that handle a variety of goods including bulk (dry and liquid), general cargo, and containerized traffic while the ports at Supsa and Kulevi are specialized and are dedicated oil terminal facilities. Both Poti and Batumi ports are directly linked to the Georgian railway network. The Poti port operator has been undertaking improvements to expand its off-dock container storage capacity and started work to expand berth capacity.

2.51. Georgia's rail infrastructure is comprised of 1,992 km rail of which 90% is electrified and is run and operated by Georgian Railway JSC, a 100% state-owned enterprise.

2.52. One of the major undertakings during the period was the modernization of the Tbilisi-Makhinjauri railway line which is being carried out by international firms chosen after a competitive tendering process. The project is expected to increase the capacity of the line, improve safety, and reduce travel times. In cooperation with Azerbaijan and Turkey, the three countries recently completed the construction of the Baku-Tbilisi-Kars (BTK) Railway which provides a direct connection between Baku and southern Turkey via Georgia. Working towards meeting European standards in rail transport has also been another of its priorities during the period.

2.53. Fulfilment of the rail-related obligations of the DCFTA entails substantial changes to the railway sector in Georgia, i.e. eight EU Directives or Regulations concerning railway transport are to be implemented. In particular, the railway operations of freight and passenger services and infrastructure are to be separated with their own respective new authorities for licensing and regulatory aspects. Through the recently launched Twinning Project, the European Union will support Georgia in the approximation of Georgian legal and institutional framework to the EU acquis in the field of rail transport.

2.6 Telecommunication, Innovation and Technology Development

2.54. The Government of Georgia has a strong focus on developing the telecommunication sphere by using innovative techniques and technologies. Georgia put a lot of effort into introducing new services and improving existing ones using cutting-edge technology. Thanks to the legislative reforms of previous years, there is an attractive environment for investment in the country, for example, the licensing regime was abolished for the use of numbering resource and for the air broadcasters. In addition, a number of support tools were made available for developing entrepreneurship and increasing competitiveness.

2.55. The adoption of the Law of Georgia on Information Technology Zones resulted the creation of an attractive environment for persons carrying out the economic activities in the field of Information Technology. Acquiring virtual zone person status is needed to start activates in the IT virtual zones. Since software product is created, status holders will be exempted from: i) Profit tax on product deliveries outside of Georgia; ii) VAT on product deliveries outside of Georgia; iii) Export tax for export leaving Georgian customs territory.

2.56. The large-scale reform of transition to digital terrestrial broadcasting was successfully completed in 2015. Consequently, state and private digital terrestrial broadcasting networks, including regional networks equipped with new technologies, are providing a variety of television programmes to the population for free. Under the reform, licensing regime for broadcasters was void and simplified broadcasting market access (authorization procedure) was introduced, which allows the broadcasters and investors to produce the television programme in their desired form, including digital terrestrial open network.

2.57. According to the decision made by the Government of Georgia in 2020, IT companies with international status will enjoy significant tax benefits, which include a reduction of both income and profit tax, as well as the abolition of 5% dividend tax and property tax. According to the government decree, this status can be obtained by companies that have been directly providing IT services for the last two years or their founding company was engaged in these activities.

2.58. Georgia has the ambition to host a regional digital hub, which will help to address challenges of limited international data connectivity and development of domestic IT capabilities. It is one of the strategic priorities under the "National Broadband Development Strategy of Georgia and its implementation action plan for 2020-25" (NBDS), which was adopted by the Government of Georgia (GoG) on 9 January 2020. The key objectives of the NBDS are to enhance the legal and regulatory framework for broadband development in line with the EU norms (EU gigabit society strategy for 2025) and overcome the digital divide across urban and rural areas. Herewith, the Government of Georgia explores the possibility to host the regional digital hub and attract investments in the development of Digital Corridor and data centres, which could serve as a regional hub for South Caucasus and gateway of the EU and Asia. For the implementation of the NBDS the Government of Georgia started the Log-in Georgia Project, which will help to increase the coverage of high-speed broadband internet services in rural settlements "white zones" of Georgia, where the population is greater than or equal to 200 and the operators do not plan to build broadband infrastructure in the next three years.

2.7 Technical Barriers to Trade

2.59. Georgia continues to maintain open markets and has acknowledged that technical regulations have a significant role in promoting free trade. Recent policy initiatives have emphasized facilitating export development and promoting integration with international and European markets. Georgian legislation on TBT follows international best practices and norms and significant steps have been taken to develop the national quality infrastructure to the level of the EU Acquis.

2.60. Developments during the review period have focused on implementing the provisions of DCFTA in Standardization, Metrology, Accreditation and Conformity Assessment, thereby achieving greater integration in the EU market. Significant steps were made forward in the area of quality infrastructure.

2.61. The Georgian National Agency for Standards and Metrology (GEOSTM) of the Ministry of Economy and Sustainable Development is the principal agency tasked with oversight of

standardization and metrology. Its main tasks include maintaining a register of standards and ensuring their availability; development and maintenance of measurement standards (etalons) base and ensuring of traceability, type approval/recognition of type approval of measuring instruments; ensuring the exchange of information on standards and technical regulations registered in Georgia with relevant international organizations; and representing Georgia in international and regional organizations.

2.62. During the review period, the Agency established a new electronic platform (sst.geostm.gov.ge) which was created in 2020 to increase access to Georgian standards and simplify the existing procedures, including the purchase of Georgian standards in electronic format. There have been several other developments during the period such as the establishment of an 8th standardization Technical Committee (TC) for Standardization "Road Traffic Safety" in 2020 by GEOSTM. Main role of TCs is to review drafts of Georgian standards in the area of their responsibility. The technical committees shall not consider a development of Georgian standard in case of following two conditions: a) in a field where there is an international standard; b) in a field where there is no high demand for a standard.

2.63. As of 2020, 18,500 (in total) standards were adopted as Georgian standards. 36.79% of them are international standards; 63.08% European (including harmonized standards); 0.13% national.

2.64. In terms of metrology, Georgia is in the process of undergoing reforms. One element is the work being undertaken to further develop national reference laboratories. As part of a regional project among three South Caucasus countries, Georgia is participating in a project to strengthen metrology and its quality infrastructure.

2.65. In spite of limitations and challenges caused by the COVID-19 pandemic, Georgia's progress in the metrology field, such as significant extension of international recognition of metrological services, were quite comprehensively explored and used by customers not only in Georgia, but on the regional level, particularly before pandemic situation. During 2018-20 GEOSTM provided calibration services on a regular basis to clients from neighbouring countries in different fields such as temperature, mass, humidity, small volume, pressure, length.

2.66. Georgia is a member of the main international and regional standards organizations – ISO (International Organization for Standardization), CEN (European Committee for Standardization), CENELEC (European Committee for Electrotechnical Standardization), IEC (International Electro-technical Committee), OIML (International Organization of Legal Metrology), BIPM (International Bureau of Weights and Measures), COOMET (Euro-Asian Cooperation of National Metrological Institutions), IRSA (Inter-regional Standardization Association), and Euro-Asia Interstate Council for Standardization, Metrology and Certification.

2.67. Accreditation and conformity assessment in Georgia is under the responsibility of the Unified National Accreditation Body, i.e. the Georgian Accreditation Center (GAC) as it is more commonly known, whose main work involves accrediting conformity assessment bodies.

2.68. In 2017, GAC received first recognition from European Accreditation Forum (EA) by signing the Bilateral Recognition Agreement between EA and GAC. Recognition from EA in 2017 covered five accreditation schemes: schemes for calibration and testing laboratories, scheme for inspection bodies, scheme for product and personal certification bodies. Later on in 2019, international recognition was extended to the scheme for medical laboratories.

2.69. The GAC became an Associate Member of the International Laboratory Accreditation Cooperation (ILAC) on 15 January 2021 and the signatory of a membership memorandum of the International Accreditation Forum (IAF) on 27 April 2021. The work to become full member in both organizations is ongoing.

2.70. Important reforms have been carried out regarding the establishment of the market surveillance system on non-food products. At first, market surveillance in Georgia was conducted by the LEPL Technical and Construction Supervision Agency. In 2018, relevant amendments have been introduced in the Law of Georgia Product Safety and Free Movement Code, prescribing principal market surveillance procedures.

2.71. In the beginning of 2020, due to the importance of the field, the sole responsible authority for market surveillance – the Market Surveillance Agency (MSA) was established under the Ministry of Economy and Sustainable Development of Georgia. The mission of the MSA is to prevent and ensure that hazardous products are not placed on Georgia's Market in order to protect the health and safety of citizens, as well as the environment and the property. The MSA conducts market surveillance on certain non-food products for which relevant technical regulations have been adopted. The list of products include: Lifts; Cableways; Hot Water Boilers; Pressure Equipment; Simple Pressure Vessels; Construction Products (cement, cables, plastic pipes, reinforcing steel, gypsum plasterboard); Child-resistant lighters; Products appearing to be other than they are, Toys, Machinery, Equipment and protective systems for use in potentially explosive atmospheres, Personal protective equipment, Appliances burning gaseous fuels. It is expected that other products will be added to the mandate of the MSA as per AA approximation agenda.

2.8 Tax and Customs

2.72. During the review period, Georgia continued its efforts to digitize customs procedures and made various adjustments to its legal framework to further simplify procedures and ensure the approximation of its customs (and tax) legislation with that of the European Union as provided in the Deep and Comprehensive Free Trade Area (DCFTA). Georgia adopted *inter alia* a new Customs Code.

2.73. Customs procedures are governed mainly by the Tax Code, the new Customs Code, and the new Ministerial Order No. 257 on "the Approval of instructions on the movement and registration of goods on the customs territory". The Customs Code and Ministerial Order No. 257 entered into force in September and August 2019, respectively. These legal instruments are complemented by other customs-related laws, including the new Law on Border Measures Related to Intellectual Property Rights (IPR), which entered into force in February 2018. This new law seeks to protect and enforce IPR at the border by preventing the importation or exportation of counterfeited goods.

2.74. The new Customs Code seeks to promote the modernization of customs infrastructure, the simplification of procedures, and the digitalization of customs services. The new Customs Code was elaborated based on the obligations undertaken by Georgia within the scope of the Georgia-EU association agreement and builds upon the provision of the Union Customs Code.

2.75. 2019 saw the introduction of the Authorized Economic Operator programme, which was designed in compliance with the EU AEO guidelines while also taking into account the relevant provisions of the WTO TFA and the WCO SAFE framework of standards. The programme seeks to create a new level of customs to business as well as business to business cooperation through increased cooperation of operators with Customs authorities. The benefits of participation in the programme are further enhanced by the possibility of a mutual recognition scheme with partner customs administrations enabling operators to gain access to various simplifications in states bound by such an arrangement and as of 2021 Georgia is in negotiations with the PRC and the Republic of Turkey to conclude these agreements. Additionally, early talks and/or consultations have begun with Hong Kong, China and members states to the GUAM organization.

2.76. Devoted towards developing simple and reliable customs formalities and supporting trade facilitation, Georgia is putting efforts to advance in modernizing digital customs via Single Window and data exchange both within state agencies and partner economies. The principle is based on using single taxpayer's electronic account for all customs related documents starting from filling the customs declaration to requesting and receiving relevant licence/permit/certificate issued by other agency and requesting decision on advance ruling. In total about 130 services are available at the Revenue Service e-portal www.rs.ge. On the state level Unified System of Licences, Permits and Certificates is the platform for exchanging information/documentation on customs related mandatory documents between business operator and relevant state agency. At present, the system comprises 38 licences/permits/certificates of eight agencies and the documents issued by these agencies are available in the real- time regime for the Revenue Service and economic agent.

2.77. Following Digital Customs concept and data exchange with partner customs administrations (in place with Turkey, Azerbaijan, Ukraine and Armenia in process), Georgia aims at digitalization of mandatory documents (Invoice and CMR) and with already existing permits/certificates/licences create possibilities for exchanging all paper documents digitally.

2.78. In 2021 Georgia Revenue Service (RS) enhanced its capabilities via introducing new analytical programmes in the field of customs risk management based on automatic data analysis and Machine Learning. Georgian Customs moves towards an analytical platform that supports the ingestion and analysis of a large amount of data. Based on lessons learned from US Government agencies, including Homeland Security Investigations (HSI), it introduced Business Intelligence for Trade Enforcement (BITE) that provides a space for analysts and data scientists to discover insights into trade data in support of their law and border enforcement missions.

2.79. During the review period, Georgia became party to various customs and trade related agreements and conventions with the aim of facilitating trade. It ratified the WTO Trade Facilitation Agreement (TFA) in 2016. At the time of ratification, about 92% of the TFA obligations had been already implemented. In May 2019, Georgia established the National Trade Facilitation Committee to oversee the agreement's implementation and advise the government on trade facilitation matters.

2.80. In November 2018, Georgia also acceded to the Revised Kyoto Agreement administered by the World Customs Organization on the simplification and harmonization of customs procedures. Georgia is also planning to accede to the EU Convention on a common transit procedure, and Convention on the simplification of formalities in trade in goods.

2.81. In parallel, Georgia continued to promote tax policy and administration reforms to boost economic growth. From 2017 new distribution based corporate income tax system was introduced when profits are subject to CIT only when distributed. Furthermore, Georgia conducted comprehensive VAT reform and fully aligned its VAT legislation with one of EU as provided in the Association agreement. the comprehensive VAT reform will further strengthen and intensify business relations between Georgian and EU businesses, increase certainty of tax system. Establishment of EU rules on place of supply of services, will eliminate any possible double taxation with VAT with regards to services provided between EU and Georgian taxpayers. In the area of VAT Georgia also enacted fully automated VAT refund system, which significantly increase access to finance for businesses, especially for those involved in cross-border trade and making substantial investments.

2.82. Georgia has been continuing to modernize its tax administration in line with best international practice. Introduction of single treasury account, reliable and accurate taxpayer register, improvement of compliance risk management system, further enhancement and diversification of services (focusing on electronic services while introducing call centres, mobile RS cars, RS chat, new website of RS), are only part of reforms that were duly recognized by TADAT assessment conducted in 2020, which showed significant improvements comparing to the same assessment in 2016.

2.83. In the same period Georgia continued to be actively involved in various international tax fora. From 2016 Georgia became members of BEPS Inclusive framework. In 2016, OECD global forum on Transparency and exchange of Information for tax purposes adopted Georgia phase two Report assigned rating of "largely compliant" which means that Georgia's legal framework as well as practice governing tax transparency and tax information exchange is in line with international practice. From 2018 Georgian tax administration also became member of OECD forum on tax administration (FTA).

2.9 Competition and Anti-dumping Regulation

2.84. Georgia has made substantial amendments to Competition legislation during the review period in order to harmonize Georgian Competition legislation with the EU standards.

2.85. Georgian National Competition Agency [Hereinafter – the GNCA] is the independent Legal Entity of Public Law, which implements competition policy in the country from 2014 and anti-dumping policy from 2021.

2.86. In September 2020, the Law of Georgia "On Competition" and related sub-legal acts were substantially amended. Main reason to amend the law was to approximate national competition legislation to the standards used in the EU to the fullest extent. Legislative changes include new functions and enforcement tools of the GNCA, better system of concentration control procedure, improved model of enforcement competition in regulated sectors of economy, changed institutional

arrangement of the Agency and etc. The said amendments will also assist in better protection of the rights of the parties in competition-related legal proceedings and ensuring the procedural justice.

2.87. In July 2020, the new law "On the Introduction of Anti-dumping Measures in Trade" was enacted and entered fully into force on 1 June 2021. The Law builds upon the WTO Agreement on Implementation of Article VI of the GATT 1994. The Law designates the GNCA as the investigating authority, thus, within its structure a department for Anti-Dumping Measures was created that is responsible for investigating anti-dumping cases.

2.10 Public Procurement

2.88. Since 2009, Georgia's public procurement system has undergone major positive legislative and institutional changes.

2.89. In June of 2014, the EU and Georgia signed an Association Agreement, which includes, a dedicated Chapter 8 on public procurement and an associated Annex XVI. Essentially, the Agreement provides for effective, reciprocal and gradual opening of the public procurement markets of the EU and of Georgia, which is linked to gradual progress in the approximation of the Georgian public procurement legislation with the EU public procurement acquis, accompanied by institutional reform and the creation of an efficient public procurement system based on the principles governing EU public procurement.

2.90. Reforms initiated by the obligations of AA/DCFTA, covered primary and secondary legislation, followed by introduction of new e-services to the e-Procurement system. These reforms initiated following changes to the public procurement legislation:

- introduced principles of equal treatment and proportionality, which were not explicitly mentioned in the Law;
- introduced the use of general description of performance, technical and/or functional criteria for defining the characteristics of the works, supplies or services required.
- Introduced reasonable timeframes on the call for tender and for familiarization to the terms of tender, which entered into force on 19 July 2017.

2.91. In order to fully implement obligations, foreseen under the AA (Roadmap), SPA launched several new procurement procedures: a) two stage procurement procedure; b) procurement procedure with prequalification.

2.92. In July 2020, the Parliament of Georgia adopted the amendments to the Law of Georgia on public procurement legal framework. According to the amendments, new impartial and independent administrative review body/tribunal has launched its operations with new institutional arrangements from the 1 January 2021. With these changes, Georgia has successfully completed first phase of approximation under the AA/DCFTA. EU Commission has positively evaluated completed reforms and relevant draft decision of EU-Georgia Association Council were prepared for adoption, which would grant market access on EU central government level.

2.11 Intellectual Property Rights

2.93. Georgia has made number of amendments to its IP legislation during the review period in order to harmonize Georgian legislation in the intellectual property field with the EU standards.

2.94. In 2010, fundamental amendments were introduced to the Patent Law, Trademark law and to the Law on Copyrights and Neighbouring Rights. Also in 2010 Parliament passed the new Design Law.

2.95. In line with Georgia's commitments under the DCFTA Agreement, to prevent and suppress infringements of IPRs and to ensure the implementation of appropriate sanctions, Sakpatenti drafted a package of amendments to the IP legislation which was adopted by the Parliament of Georgia on 23 December 2017 and entered into force on 11 January 2018.

2.96. Moreover, the Law of Georgia on Intellectual Property Measures Related to the Border of 13 December 2017 was adopted pursuant to the provisions in Annex XIII, stipulating the approximation of Georgia's IPR legislation with EU Regulation No. 608/2013 of 12 June 2013 concerning customs enforcement of intellectual property rights. Prior to the enactment of this law enforcement at the border were only applicable to trademarks, copyright and related rights, appellations of origin and geographical indications and designs. Now the new provisions are applicable to patents, integrated circuit topology and breeders' exclusive rights. The scope of intellectual property protection was also expanded and now allows enforcement on imports, warehousing, storage in free zones, re-exports, and exports in the territory of Georgia, whereas previously only customs warehousing, customs terminal storage, other storage for export was covered. The new law also allows for the possibility of proactive application of intellectual property measures on the border through an ex-officio process. Georgian legislation on IPR is moving towards the EU acquis and a number of other EU norms are expected to be approximated in the future.

2.97. In 2019, the Agreement between the Government of Georgia and the European Patent Organization (EPO) on Validation of European Patents (Validation Agreement) was signed. Under the terms of the agreement, applicants will be able to validate their European patent applications and patents granted by the EPO in Georgia. Likewise, European applications and patents validated for Georgia will have the same legal effects and will be subject to Georgian law exclusively. The validation will enter into force after the ratification by the parliament of the corresponding amendments to the patent law of Georgia.

3 MAIN TRADE AGREEMENTS

3.1. One of the priorities of the GoG is the diversification of export markets as well as products. Numerous regional free trade agreements were completed by Georgia since the last review.

3.1 Turkey

3.2. Turkey has been Georgia's largest trading partner since 2006. Negotiations on concluding a free trade agreement started in January 2007. On 21 November 2007, a free trade agreement between Georgia and the Republic of Turkey was signed. It came into force on 1 November 2008. According to this agreement customs tariffs on industrial products have been fully eliminated. Both countries maintain certain types of tariffs on agricultural products. Also, on the Turkish side, some agricultural products are subject to tariff quotas. In 2016, under the FTA Joint Committee meetings, the Parties opened negotiations with the intent to further liberalize Trade in goods and cover Trade in Services.

3.2 European Free Trade Association (EFTA)

3.3. Georgia signed the Agreement on Free Trade with the European Free Trade Association (EFTA) on 27 June 2016, which incorporates four EFTA States: Iceland, Liechtenstein, Norway and Switzerland. The Agreement consists of 13 Chapters and 16 Annexes, covering the following main subjects: Trade in Goods; Sanitary and Phyto-Sanitary Measures; Trade in Services; Establishment; Protection of Intellectual Property; Government Procurement; Competition; Trade and Sustainable Development; Institutional Provisions; Dispute Settlement.

3.4. The Agreement aims to eliminate customs duties on imports and exports of all types of industrial goods, including fish and other marine products originating to or from any of the Parties. It provides tariff concessions on both, basic and processed agricultural products covered by the bilateral Annexes to the Agreement. Agreement fully entered in force since May 2018.

3.3 People's Republic of China

3.5. On 13 May 2017, Georgia signed a Free Trade Agreement with the People's Republic of China. This makes Georgia the first country in the region, which has the FTA with both China and the EU. The Agreement covers Trade in Goods, as well as Trade in Services. Along other spheres, other chapters regulate Customs Procedures and Trade Facilitation; SPS; TBT; Trade remedies; Environment and Trade; Competition and IPR. It is noteworthy, that negotiations between China and Georgia were concluded in 7 months. Since 1 January 2018, the agreement is in force.

3.4 The Hong Kong Special Administrative Region of the People's Republic of China (Hong Kong, China)

3.6. Negotiations on a Free Trade Agreement between Georgia and Hong Kong, China were finalized in April 2017. It was preceded by the FTA negotiations between Georgia and China, where the Hong Kong, China's delegation participated as an observer. Georgia- Hong Kong, China FTA negotiations took only two rounds of negotiations to agree on final texts. The free trade agreement between Georgia and Hong Kong, China was signed on 27 June 2018. The agreement entered into force on 13 February 2019.

3.5 United Kingdom

3.7. Georgia and UK entered into consultations to negotiate a Strategic Partnership Agreement, in order to replace the EU-Georgia Association Agreement in bilateral UK-Georgia relations after Brexit on 28 January 2019. The Agreement envisages Free Trade Regime between two Parties. Georgia and UK signed an agreement on strategic partnership and cooperation between Georgia and the United Kingdom of Great Britain and Northern Ireland on 21 October 2019. The agreement entered into force on 1 January 2021.

3.6 India-Israel-South Korea

3.8. Georgia has concluded the Joint Feasibility Studies on the Free Trade Agreements with India, Israel and South Korea. Launch of the bilateral negotiations with India was initially planned to take place in 2019, however postponed due to the COVID-19.

4 CONCLUSIONS

4.1. Georgia's economic policy, during the reporting period, continued to focus on free market principles, with the private sector as the main driving force behind the economy. In parallel, the economic policy was channeled toward maintaining macroeconomic stability as well as toward further developing the business and investment environment. Greater attention was given to rapid infrastructural development as a factor stimulating economic growth.

4.2. Diversification of export markets and products has been among the top priorities for Georgia. To this end, Georgia has entered into free trade arrangements with various countries and blocs enjoying free access to more than two billion worth consumer market thus significantly encouraging local entrepreneurship, including the SMEs, to enhance and diversify business operations.

4.3. To tap into country's potential as a regional hub, Georgia has essentially developed its infrastructural, transport, logistics, communications, energy, technological, educational, and financial hub-systems. To that end, increased endeavour was attached toward both the rapid development of the country's key infrastructure and the further advancement of transport corridors.

4.4. Overall, trade and economic reforms and improved business environment have been well reflected in various international ratings. According to the World Bank 2020 report "Doing Business", Georgia ranked seven among 190 countries, whereas as per to Heritage Foundation report of 2021 on "Economic Freedom Index", Georgia ranks 12 in the world. In 2021 Fraser Institute ranking "World Economic Freedom", Georgia takes 5th place among the leader countries.
