



## EFTA-Georgia Trade Promotion Seminar (Tbilisi, June 7, 2018)

### Summary

The EFTA-Georgia Trade Promotion Seminar, which took place in Tbilisi on June 7, 2018, was attended by 150 national and international experts in the fields of trade and customs as well as representatives of the Georgian administration and of the private sector. This document, prepared by the Swiss Embassy in Tbilisi, the EFTA Secretariat and the Georgian-Swiss Business Association, provides a non-binding summary of the presentations and discussions. It is mainly meant as a first reading for persons interested in trade between the EFTA countries and Georgia who could not attend the event.

For any additional questions, please contact directly the EFTA Secretariat (sre@efta.int) or the Georgian-Swiss Business Association (info@gsba.org.ge).

### Opening statements

Genadi Arveladze, Deputy Minister of Economy and Sustainable Development of Georgia, Alvaro Borghi, Deputy Head of the Embassy of Switzerland in Georgia, speaking on behalf of the EFTA States, and Nona Mamulashvili, President of the Georgian-Swiss Business Association, pointed out the importance of the newly signed Free Trade Agreement (FTA) when it comes, among others, to the export of Georgian products to a big market consisting of 14 million people and the opportunity for Georgia to strengthen its economic position on the international level. They emphasised the fact that the negotiations were finalised in a very short time, which can be seen as a testimony for the great relationship between Georgia and the EFTA states: Iceland, Liechtenstein, Norway and Switzerland.

### Trade relations between the EFTA states and Georgia: Current trade flows and general overview of the EFTA-Georgia FTA

*Svanhvit Reith, Senior Officer, Trade Relations Division, EFTA Secretariat*

The European Free Trade Association (EFTA) holds a total of 27 agreements with 38 countries and territories all over the world. The EU remains the most important trade partner of all EFTA Member States, with 54.4% of all EFTA exports and 58.9% of all imports to the EFTA states in 2017. The trade between the EFTA countries and their FTA partners is steadily growing: in 2017 EFTA exports to their partners made up to 14.6% and imports up to 13.2%. Despite its relatively small size, in 2016, the EFTA merchandise trade ranked number 9 worldwide, whereas the commercial services trade ranked number 6 only preceded by EU, USA, China, Japan and Singapore.

The main aims and purposes of FTAs are to

- Maintain and strengthen a competitive position worldwide.
- Enhance and set market access levels based on specificities and reciprocal commitments.
- Create predictable conditions for trade in goods and services, as well as a stable investment framework.
- Foster an environment of transparency, openness and legal predictability.
- Reflect the relevance of sustainable development (since 2010).

The main drivers behind the EFTA's trade policy are:

- Increased efficiency, potential for higher growth, secure market access.
- Co-operation, transition, development.
- Growth potential through access to emerging markets.

Concerning the EFTA-Georgia FTA, it entered into force on 1<sup>st</sup> September 2017 for Iceland, Norway and Georgia and on 1<sup>st</sup> May 2018 for Switzerland and Liechtenstein. The EFTA merchandise imports from Georgia are steadily growing from USD 36 million in 2008 to USD 133 million in 2017 mainly due to increased EFTA imports from the Georgian gold mining industry and exports of pharmaceuticals and seafood. Trade is strongest in the textile sector (steadily growing since the beginning of the FTA negotiations in 2014); in the sector of edible fruits and nuts trade remained stable, whereas trade in wood and articles of wood sector is growing too. EFTA's main exports to Georgia in 2017 were pharmaceuticals, fish and watches while EFTA's imports were dominated by gold, apparel and hazelnuts.

This broad-based and ambitious FTA covers trade in goods (including non-tariff barriers, rules of origin and trade facilitation), trade in services, establishment, intellectual property, government procurement, competition, trade and sustainable development.

### **Rules of origin and customs issues: a key to using EFTA-Georgia FTA**

*Jóhann Freyr Aðalsteinsson, Senior Advisor, Directorate of Customs and Excise, Norway*

The rules of origin stipulate the requirements a product must fulfil in order to obtain preferential treatment upon importation to a Party to the FTA. A good must 1) be considered as originating in a Party, 2) be accompanied by a valid proof of origin and 3) fulfil the requirements of direct transportation.

The rules of origin determine the criteria on how a product must be manufactured in order to obtain the status of an "originating product" – being qualified for preferential tariff treatment. The rules of origin also regulate the quantities of non-originating materials that may be used in the production and how such materials must be worked or processed in order to obtain preferential status for the final product.

In order to have or obtain originating status, a product can either be:

- wholly obtained (e.g. mineral products, live animals born and raised in the country, vegetable products) or
- sufficiently worked or processed in a Party if the conditions set out in the list rules to the origin annex and the other requirements of the agreement are fulfilled. A general tolerance rule of 10% for products, other than textile products, allows the use of non-originating materials which do not fulfil the requirements of the list rules (the production must exceed the "minimal operations" listed in Art. 6 in Appendix I to the PEM-Convention (Insufficient working or processing). These are insufficient working or processing operations, which do not confer originating status). Value added criterion, change of tariff heading and specific criterion (e.g. textiles) can lead to the product obtaining originating status.

Additionally there is a possibility of combination by shared production or industrial cooperation in using the accumulation provisions of the agreement: the "originating materials" from the EFTA-Georgia FTA Parties used, do not need to fulfil a rule laid down in the list of processing rule as long as the production goes beyond a "minimum operation" as defined in Art. 6 of Appendix I to the PEM-Convention.

Accumulation is only possible with originating products from another EFTA-Party imported into Georgia with an evidence of origin.

Only products which are transported directly between the contracting Parties can fulfil the requirements of the FTA. Transport through third countries is allowed if the product remains under customs control and any operations performed do not go beyond unloading, reloading and storage of consignments or operations to preserve the product in good condition (evidence has to be provided).

Importation requirements:

- Customs clearance according to domestic requirements.
- Presentation of a valid proof of origin.
- Preferential tariff treatment according to FTA.
- Possible control and verification of proof of origin done through cooperation between the customs authorities.
- The importer must apply for preferential treatment upon importation.

According to the rules of origin to the FTA, the proof of origin is the exporter's responsibility and can only be issued for an "originating product" according to the rules of origin, under the condition that the exporter can provide documentary evidence for the originating status, through a:

- Certificate EUR 1/EUR-MED according to the procedure in Art. 16 of the PEM-Convention.

- Origin declaration EUR-MED according to the conditions in Art. 21 of the PEM-Convention with a value limit of 6'000 EUR unless someone is an approved exporter. An approved exporter is a status which can be granted by the customs authorities in that Party, upon application, to an exporter who makes frequent shipments of originating products. An approved exporter can make out origin declarations irrespective of the value of the products concerned.

### **Verification procedure (Swiss practice)**

*Roger Hafner, Senior Advisor, Federal Customs Administration, Switzerland*

Subsequent verifications of proofs of origins can be carried out randomly or once reasonable doubts arise. For the verification, the importing Party sends a request of verification, accompanied by the proof of origin, the reasons for the enquiry and any additional documents that might be useful. Therefore the issuer of a proof of origin is obliged to keep all documents proving the originating status of the exported product for a minimum of three years. The verification shall be carried out by the customs authorities of the exporting Party. For this purpose, they shall have the right to call for any evidence and to carry out any inspection of the exporter's accounts or premises or any other check considered appropriate. The total verification process can vary from one up to ten months. In case of a negative result, the relevant exporter can put forward a complaint within 30 days and an appeal within 30 days in case of a second negative result.

Verification process of proofs of origin:

1. Study of the file.
2. Formal letter to the exporter: The aim is to inform the exporter and request the required supporting documents (e.g. copy of the export declaration and of the invoice of export) within an allowed time.
3. Reception and study of evidences (Country of destination? Applicable tariff heading? Applicable origin criteria? Sufficient working or processing? Swiss, EFTA, third or undetermined origin? Costs for labour and benefit? Documents presented sufficient to prove the origin? Is there a need for other documents and/or further information? Extension of control?); Physical checks in order to understand the process of fabrication.
4. Check at the exporter's site: legal requirements, new FTA regulations, changes regarding system "approved exporter", other changes.

All observations made and information obtained during the control are confidential.

If the proof of origin is incorrectly issued, the possible consequences are:

- fine;
- financial compensation of consignee of the goods;
- additional controls of other proofs of origin;
- reinforced verifications in the country of destination for future consignment;
- loss of customers and trade opportunities;
- withdrawal of authorisation of approved exporter;
- setting in danger viability of the company.

### **EFTA-Georgia FTA – Non-tariff measures**

*Jóhann Freyr Aðalsteinsson, Senior Advisor, Directorate of Customs and Excise, Norway*

Non-Tariff Measures (NTM) – which can consist of standards and procedures, customs procedures or licences – have gained more and more importance with less tariff barriers worldwide. The WTO has established two specific agreements dealing with those measures:

- **Sanitary and PhytoSanitary measures (SPS) agreement**: SPS concern the application of food safety and animal or plant health regulations. These standards must be transparent and based on scientific justification, and can only be applied to protect human, animal or plant life or health, without discriminating countries. A trend movement from official controls towards private responsibility (private, certified organisations) has been observed. SPS are referred to in Chapter 4 of the EFTA-Georgia FTA.

Further information:

Switzerland: [www.blv.admin.ch/blv/en/home.html](http://www.blv.admin.ch/blv/en/home.html)  
Federal Food Safety and Veterinary Office of Switzerland

Norway: [www.mattilsynet.no/language/english/](http://www.mattilsynet.no/language/english/)  
Mattilsynet-Norwegian Food Safety Authority

Iceland: [www.mast.is/english/frontpage/about-mast/](http://www.mast.is/english/frontpage/about-mast/)  
MAST-Icelandic Food and Veterinary Authority

- **Technical Barriers to Trade (TBT) agreement:** TBT ensure that technical regulations (process or production method, terminology, packaging, marking or labelling), standards and conformity assessment procedures are non-discriminatory and do not create unnecessary obstacles to trade. Three elements must be fulfilled: 1) apply to an identifiable product or group of products, 2) lay down one or more characteristics of the product, 3) comply with the product characteristics. TBT are referred to in Art. 2.9 of the EFTA-Georgia FTA.

Further information on International Standardisation Organisations:

[www.iso.org](http://www.iso.org) – International Organization for Standardization, Geneva

[www.iec.ch](http://www.iec.ch) – International Electrotechnical Commission, Geneva

[www.itu.int](http://www.itu.int) – UN specialized agency for information and communication technologies

### **EFTA-Georgia FTA – Trade in agricultural products**

*Pietro Poretti, Expert on export promotion*

The climatic and geographic conditions in the EFTA countries are challenging when it comes to agriculture. Prevalent small scale agriculture, high production costs and only a modest contribution to the overall national GDP and employment are the result. Therefore the EFTA states are major net-importers of agricultural goods.).

EFTA FTAs distinguish between “basic” and “processed” agricultural products (BAPs and PAPs). The concessions for PAPs aim to equalize the differences between the domestic and the world market prices for the raw materials incorporated in processed agricultural goods. At the same time the concessions ensure a level playing field between domestic food processing industries and foreign competitors *at home* and in export markets.

Detailed information on PAPs: [www.efta.int/free-trade/free-trade-agreements/georgia](http://www.efta.int/free-trade/free-trade-agreements/georgia)

Through a quota system (issued for products such as meat, sausages, fruits etc.), a certain quantity of products can benefit from lower tariffs or duty free access for “in-quota” products, whereas importers who import without quotas pay regular tariffs, but can import at any time in unlimited quantities. The Swiss Federal Customs Administration makes the customs tariff (Tares) and up-to-date information on available and applicable quotas available on the Internet free of charge ([www.tares.ch](http://www.tares.ch)).

The indirect taxes on imports on top of duties can vary between the EFTA states, e.g. VAT:

- Switzerland and Liechtenstein 2.5% (food) - 7.7% (ordinary)
- Norway 15% (food) - 25% (ordinary)
- Iceland 11% (food) - 25.5% (ordinary)

All countries impose taxes on alcoholic beverages.

The importance of organic agricultural products and the overall consumption of fruits and vegetables is growing due to more health-conscious consumers. In the Swiss market the label “organic” sets out the minimum standards in organic farming and in processing, storage, import and export of organic product.

More Information:

Switzerland: Federal Office for Agriculture (FOAG)  
[www.blw.admin.ch/blw/en/home.html](http://www.blw.admin.ch/blw/en/home.html)

Norway: Ministry of Agriculture and Food  
[www.regjeringen.no/en/dep/lmd/contact-information/id635](http://www.regjeringen.no/en/dep/lmd/contact-information/id635)

Iceland: Ministry of Industries and Innovation  
[www.government.is/ministries/ministry-of-industries-and-innovation](http://www.government.is/ministries/ministry-of-industries-and-innovation)

## **How to export to EFTA countries – Switzerland and Liechtenstein**

*Pietro Poretti, Expert on export promotion*

Switzerland and Liechtenstein build a customs and currency unit. Both are WTO members, share a broad network of trade agreements outside the EU and have close relations with the EU (Liechtenstein - EEA / bilateral agreements Switzerland - EU). Switzerland and Liechtenstein have many regulatory, economic, geographic and demographic similarities with the EU.

Trade with Georgia reached a total of 45 million Euro in 2017 (without raw materials), which currently makes Switzerland and Liechtenstein a very important market for Georgia among the EFTA states. Last year Georgia exported around 4.5 million Euro, of which 1.7 were textiles (knitted and woven apparel and clothing accessories) followed by fruit and nuts.

Consumer trends in Switzerland and Liechtenstein:

- High life expectancy translates into ageing consumers who demand for products that offer comfort for leisure time.
- A rising number of small, micro households (one person) demands for smaller units rather than for “family packages”.
- More women entering and remaining in the labour market lead to more money spent independently, and an increased demand for fashion and home design.
- More attention to eco-friendly products, environmental and social issues when making a purchasing decision leads to buying green; organic products, vegetables and fruits with *bio* label allow to enter market with a higher price.
- Growing e-commerce: 95% of all internet users (which make up to 90% of the Swiss population) shop online. In the fashion sector 57% of purchasers shop online.

## **How to export to EFTA countries – Norway**

*Håvard Figenschou Raaen, Deputy Director, Section for International Trade Promotion, Ministry of Trade, Industry and Customs, Norway*

Norway has a big market for imports with a GDP of 392 bill. USD (rank 49 worldwide) and a GDP per capita of 76'6400 USD in 2016. Most imports of Norway are machinery and vehicles, mainly from the EU.

Georgia holds rank 115 among Norway's import states, with 2 Mio. USD exports in 2017. 75% of all exports from Georgia to Norway are clothing, followed by aluminium and textile articles in general. The biggest opportunities for Georgian businesses in the Norwegian market are in the fields of groceries, fruit and vegetables and organic food, where consumption is increasing the fastest, and make a market value 300 Mio. USD (1.8 % market share and ambition to reach 15% market share by 2020).

When it comes to wine and spirit, Norway has a steady consumption but the state holds a monopoly to retail wine spirits and strong beer. *Vinmonopolet* has the exclusive right to retail wine, spirits and strong beer in Norway with aim to protect public health. To supply to *Vinmonopolet* a registration as a wholesaler is necessary with the Directorate of Customs and Excise as liable for excise duty. After approval, an application for a wholesale agreement with the monopoly is possible. Information and registration: [www.vinmonopolet.no](http://www.vinmonopolet.no).

Importers to Norway generally require quality, health & safety, traceability, reliability and responsibility.

Further Information:

[www.toll.no](http://www.toll.no) (Norwegian Customs Tariff)

[www.virke.no](http://www.virke.no) (Virke – The Enterprise Federation of Norway)

[www.chamber.no](http://www.chamber.no) (Oslo Chamber of Commerce)

[www.intracen.org](http://www.intracen.org) (International Trade Centre - ITC)

## **How to export to EFTA countries – Iceland**

*Porleifur Jónsson, Senior Manager, Trade Delegations, Promote Iceland*

Iceland joined the EFTA in 1970 and was one of the founding members of the European Economic Area – a market consisting of 506 million people. Iceland's GDP is among the top 10-15 in the world with a GDP per capita of USD 51'785 in 2016.

The consumption of the population of Iceland is very similar to the population of its EFTA partner countries, with an increasing importance of responsible sources and sustainable goods.

The main imports consist of industrial supplies and capital goods. Products being imported to Iceland from countries with which Iceland (through EFTA) has a Free Trade Agreement are eligible for preferential tariff treatment, upon submission of proof of origin.

In general, Iceland does not levy export duties. Import from Georgia is still limited and consists mainly of wine and fruit despite the state monopoly on retail sale of alcoholic beverages in Iceland. The drinking preferences in Iceland have steadily changed in recent years towards a higher consumption of wine and beer. Inexpensive boxed wines are particularly popular, but economic prosperity brings an increased interest in fine wines. Another source of increased demand is the boom in tourism that has been growing double digits over the past six years.

"Doing business in Iceland" publication: [www.invest.is/files/skjol/doingbusiness.pdf](http://www.invest.is/files/skjol/doingbusiness.pdf)

The general rule imposes duties on imported goods. These are however waived when preferential treatment applies based on a Free Trade Agreement. In addition, excise duties are imposed on various goods, new and second-hand, which are imported from abroad or manufactured, processed or packed in Iceland. A 25.5% value-added tax is levied on any sale of goods, power or services with various exceptions. Further information: [www.tollur.is/english/](http://www.tollur.is/english/).

There are restrictions which apply in Iceland on the import of live animals, firearms, dangerous substances, pharmaceuticals, etc. Further information: [www.mast.is/english](http://www.mast.is/english)

### **Discussion and closing remarks**

After the presentations by the experts, representatives of *Blauenstein Georgia*, *Anka Fair Trade* and *Healthy Water* discussed the importance of the FTA and of the market diversification for Georgian goods. Reaching the very high standards in quality, applicable in the EFTA States, also means having the necessary requirements to export elsewhere. The panel agreed that limited export of Georgian products is a result of the generally slow processes and a lack of qualified personnel. The training of staff, also in neighbouring countries, and fostering quality instead of quantity are seen as key instruments for future growth in Georgian trade.

In their closing remarks, Håvard Figenschou Raaen and Nona Mamulashvili pointed out the mutual interests and benefits resulting from the FTA for both the EFTA states and Georgia and the opportunities for Georgian businesses, in particular when it comes to the high demand for quality products in the EFTA states.