

The Regional Economic Working Group
Under the leadership of The American University Center for Global Peace

GEORGIA

Country Presentation

Prepared according to the guidelines for
Armenian – Azerbaijani – Georgian – Turkish
business climate research groups

Prepared by Georgian Economic Policy and Law Center

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Country Overview

Geography

Georgia (AREA: 69,700 sq km / 26,911 sq miles) is located in a wrinkled Alpine zone, in Subtropical zones of the northern periphery. Its border circumference is 1970.8 km (315 km of which (16%) is coastline). The country is bordered by the Russian Federation to the North, Azerbaijan to the East, Armenia and Turkey to the South, and the Black Sea to the West.

Population

The population of Georgia is 5,345,000 people (as of October 2002). Ethnic Breakdown: Georgians – 70%, Armenians - 8 %, Russians – 6%, Azeri -6%, Ossetians -3%, Abkhazians -2%, others -5%.

The State

The Constitution: Was adopted on August 24, 1995 and the legal system is based on system of civil law.

Legislative Power: The legislative power in Georgia resides with the 235 member Parliament of Georgia (“Sakartvelos Parlamenti”). Parliament is elected to four-year terms. 150 of the members are elected by a proportional representation party-list system with a seven percent threshold. 85 of thee members are elected from single-member constituencies by a two-round, plurality-majority system.

Executive Power: The Head of Sate is the President. The current President of Georgia is Mikheil Saakashvili elected on January 4, 2004. The Executive of Georgia is composed of the Prime Minister and his Cabinet.

Judicial Power:

- **Supreme Court:** justices are nominated by the president and elected by a majority of all members in parliament for a term of not less than ten years.
- **Constitutional Court:** three justices are appointed by the parliament, three by the president, and three by the Supreme Court for ten-year terms.

General Economic Overview

Economic Recovery

The difficult socio-economic situation of 1992-1993, focused the country's attention on an anti-crisis program to achieve macroeconomic stabilization and signaled the beginning of important systemic transformations. In the beginning of 1994, the Government of Georgia launched this program, which was supported by international financial organizations. The main directions of the reform program were transformations of the monetary and fiscal spheres of the country, and fostering the privatization process, reforms in the education, health care and social systems, and the full-scale liberalization of prices.

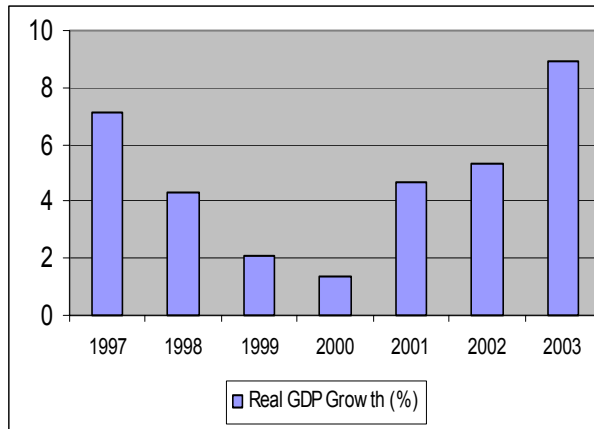


FIGURE 1: REAL GDP GROWTH (%)

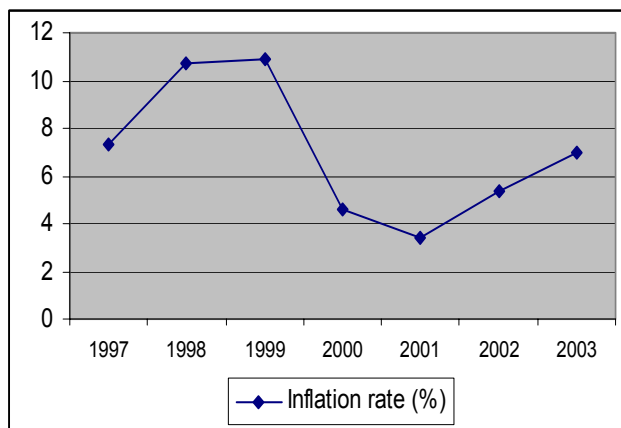


FIGURE 2: INFLATION RATE (%)

SOURCE: GEORGIA STATE DEPARTMENT OF STATISTICS OF GEORGIA

Due to implementation of these activities, a positive trend towards macroeconomic stability became evident, which allowed the Government of Georgia to introduce a new national currency, the Lari (GEL). Hyperinflation was also defeated: in 1993 the annual inflation rate was above 13000%, in 1997 the same figure was only 7.3%. The macroeconomic stability was also accompanied with the growth of economic activity of the country. The average annual GDP growth in 1995-1997 constituted approximately 10%. The amount of revenues mobilized had also been increased.

External Policies

As for foreign trade, despite a positive trend in export growth during previous years (USD 198.8 million in 1996 and USD 348 million in 2002), import volume for the same period (USD 686.8 million in 1996 and USD 684.1 million in 2001) drastically exceeds the export volume resulting in a negative trade balance for Georgia.

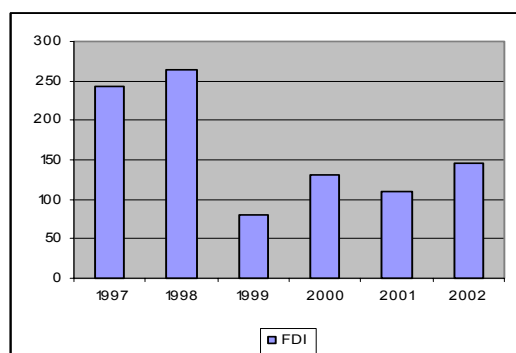
The financial crisis that developed in Russia in the second half of 1998 adversely affected the economy of Georgia. Worsening of Balance of Payments of Georgia caused a devaluation of the GEL. The National Bank of Georgia (NBG) ceased interventions in the exchange market and thus establishing a free-floating exchange regime. As a result of the crisis, the macroeconomic situation in Georgia has deteriorated drastically. The GDP growth rate decreased and constituted 4.3% in 1998 compared to 10.7% in 1997. The annual inflation rate in 1998, reached 10.7% compared to 7.3% in 1997.

The total volume of foreign debts of Georgia equaled USD 1,592.64 million by 2002, which constituted 47.42% of the GDP, of which USD 771.445 million was payable to International Financial Organizations and USD 757.122 million to bi-lateral creditors. The largest creditors are the International Monetary Fund and World Bank. Furthermore, almost 64% of the payables to the bi-lateral creditors come on Turkmenistan and Russia.

In 2001, Georgia faced the need to repay a significant portion of its foreign debts, which would have undermined the credit sustainability of the country. Agreements reached with bi-lateral creditors in the Paris Club significantly lightened credit sustainability of the country. However, servicing of foreign debts in the near future remains an acute problem and the country will have to continue cooperation with the Paris Club to restructure credits on concession terms.

Foreign Direct Investment (FDI) into Georgia has been small and declining (as a percent of GDP) in recent years. This explains to some extent the low level of development of the export sector. According to official sources, FDI to Georgia amounted to US\$977 million during 1997-2002. The highest levels of FDI were recorded during 1997-98, at US\$243 million, and 265 million, respectively, largely reflecting investments for the construction of the Baku-Supsa oil pipeline and the Supsa terminal. The pipeline opened in April of 1999, the first pipeline to carry oil from the Caspian basin through Georgia to the west. Subsequently, most of the recorded FDI flows were linked to the privatization of energy distribution and thermal plants to AES, which has brought around US\$250 million to Georgia since 1999. Excluding these two large projects, FDI flows averaged only US\$5 million a year. Other investors currently in Georgia arrived around 1996–97, during a period of opportunity for niche businesses, including those that emerged in the context of Georgia's privatization program.

TABLE 3: GEORGIA - FOREIGN DIRECT INVESTMENT (US\$ MILLIONS)



SOURCE: GEORGIA STATE DEPARTMENT OF STATISTICS, BALANCE OF PAYMENTS DIVISION.

Financial Sector

The financial system of Georgia has been significantly developed since its independence; however, compared to international standards, the system is of a very small size. In order to regulate the money supply in the market, the amount of credits, which could have been made available to the Government, as well as ceilings for domestic and international assets of the NBG, were strictly defined. Due to the measures undertaken, the structure of the assets of the NBG improved significantly. In order to control the money supply, control of the budgetary accounts was transferred from the Ministry of Finance (MoF) to the NBG, as was control over the international reserves. These measures allowed the NBG to efficiently regulate the money supply in the circulation.

The privatization of State banks was launched to strengthen the banking system and to secure the interests of creditors. Licensing procedures became more strict, problematic banks were subject to liquidation or mergers, and commercial banks were requested to have minimal

authorized capital. These and other measures ensured the improvement of the liquidity of the banking system, strengthened the financial situation of a number of banks, and stimulated vast improvement of monetary and foreign exchange regulation.

Transformation of the fiscal and budgetary systems was launched. Though the adoption of new laws, the normative acts regulating budgetary and tax issues improved. This has positively influenced the level of mobilization of State budgetary revenues, enhanced control over expenditures and improved accounting procedures. Due to rationalization of budgetary expenditures and implementation of timely control over these expenditures, as well as due to the structural reforms undertaken, conditions for stabilized budget execution were established, and from 1995 it became possible to elaborate and approve an annual State Budget.

An in-depth transformation of the structure of budgetary expenditures was carried out, resulting in a minimization of direct subsidies to various enterprises. However, an increase in social expenditures for the population was carried out and the Government was given an opportunity to initiate a price liberalization process.

Along with reforms in monetary and fiscal spheres structural reforms were also undertaken. Price liberalization was carried out and the prices became free of State regulation. Citizens and enterprises were granted unimpeded rights to undertake trade or intermediary activities. Free trade promoted the establishment of a competitive market, revived trade and created new employment possibilities. In order to raise entrepreneurial activities, procedures for launching businesses were simplified. The monopolistic enterprises inherited from the Soviet Regime were dismantled, and mass-privatization was launched, including the first stage of land reform.

The banking system is one of the main components of the economic system of the country. However, the assets of the banking sector represent only 15.1% of the GDP, which is a very low indicator.

FIGURE 4: GEL/USD AND GEL/EUR EXCHANGE RATE

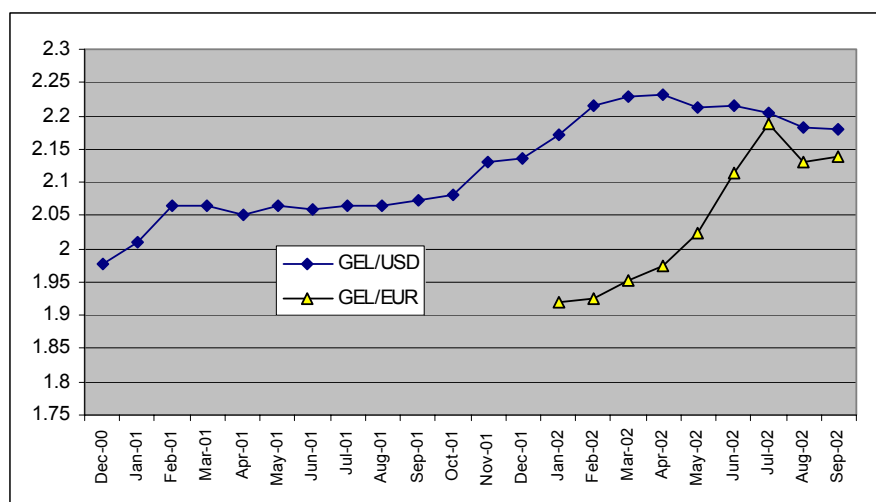
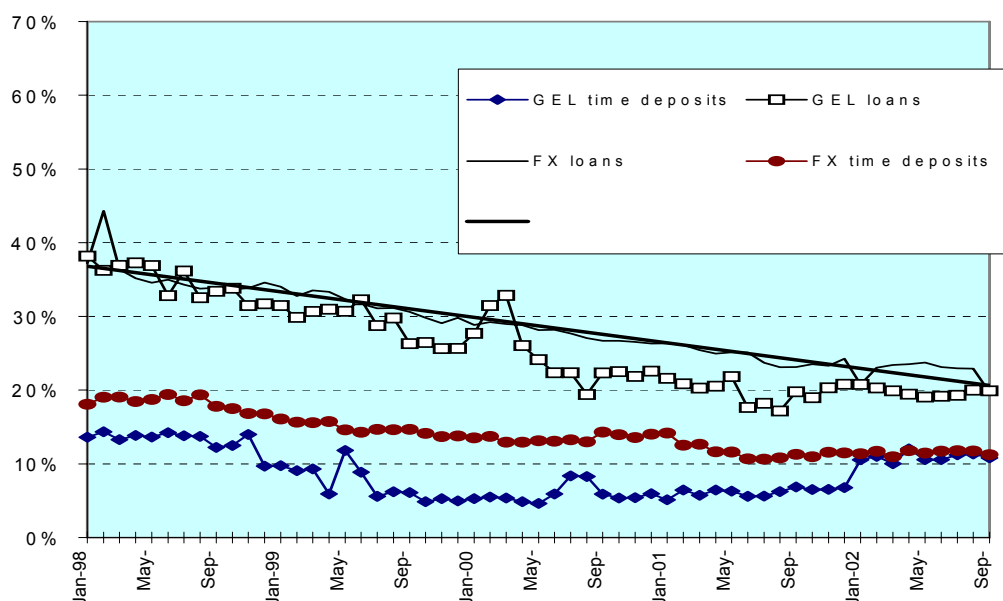


FIGURE 5: LOANS AND DEPOSIT INTEREST RATES, 1998-2002



SOURCE: GET CALCULATIONS BASED ON DATA PROVIDED BY THE NATIONAL BANK OF GEORGIA

Social Indicators

The overall situation on the labor market has failed to improve and this impacts the poverty situation through high unemployment, widespread underemployment and salaries falling below the minimum subsistence level. The employment trends give grounds for gloomy prospects on the labor market. Many households increasingly experience a painful decline in living standards – a reflection of serious long-term labor market problems. Most of the working age population is either unemployed or underemployed, or outside the labor force. The labor market is dominated by agricultural self-employment yielding poor subsistence. A large portion of the employed area engaged in unofficial and unregistered low-paying activities. Just around 20 per cent of the working age population has waged or salaried jobs, almost half of which are jobs at budgetary organizations paying extremely low salaries. The majority of the unemployed do not bother to register, having no incentives to do so.

TABLE1: ECONOMIC STATUS, 1998 - 2002

	1998	1999	2000	2001	2002
Total population over 15 years old	3, 008	3, 018	3, 199	3, 083	2, 971
Total economically active population (labor force) (1)	1,990	1, 917	2, 095	2, 048	1, 945
Total economically active population (labor force) (2)	2,042	1, 975	2, 215	2, 165	2, 015
Employed	1,741	1, 633	1, 878	1, 838	1, 713
Hired	741	710	691	630	607
Self-employed	990	905	1, 080	1, 127	1, 102
Unemployed (1)	249	284	217	210	232
Unemployed (2)	301	342	337	327	303
Total population outside the labor force (1)	1,039	1,158	1,104	1,034	1,026
Total population outside the labor force (2)	980	1,044	985	918	956
Unemployment rate (per cent) (1)	12.5	14.8	10.4	10.3	11.9

Unemployment rate (per cent) (2)	14.7	17.3	15.2	15.1	15.0
Labor force participation rate (1)	66.2	63.5	65.5	66.4	65.5
Labor force participation rate (2)	67.9	65.4	69.2	70.2	67.8
Self-employment share in total labor force	49.7	47.2	51.6	55.0	56.6
Self-employment share in total employment	56.9	55.4	57.5	61.3	64.3

Source: The State Department for Statistics of Georgia, Labor Force Survey, Household Survey

Note: (1) ILO Standard (or "strict" methodology)

(2) ILO "Loose" Methodology

Economic Reforms and Institutional Developments

Liberalization

Privatization is an essential component of the Georgian structural reform. The privatization process in Georgia was launched in 1992 preceded by preparation and adoption of relevant legislative frameworks and transformation of industrial enterprises into joint stock companies (JSCs). Controlling blocks of shares of more than 1000 JSCs have already been transferred to private owners. Privatization of trade and servicing entities has been completed. Overall, more than 15,000 enterprises were privatized during 1993-2001. These accomplishments made a huge impact on the formation of a market economy business environment.

The IMF rates Georgia's trade regime at "2" on a scale from "1" (the most liberal) to "10" (the most restrictive), due to the country's low statutory tariffs and minimal non-tariff barriers. The 2002 import tariff schedule had five ad valorem tariff rates – 0, 5, 12, 20, and 30 percent, and some specific rates. The tariff schedule contained a mild escalation aimed at protecting producers of final products, e.g., with inputs facing lower tariff rates. According to the MEITT, the average import-weighted tariff in 2001 was about 10.8 percent, compared to an effective rate of 2.5 percent. Customs fees, at 0.15 percent of the value of the consignment, are in line with those of other CIS countries.

Fiscal and Custom Polices' Design

As a result of reforms and corresponding institutional arrangements, Georgia implemented a tax system suitable for a market economy. Tax legislation preserves broadly accepted principles of neutrality, and equity. Tax rates for incomes and consumption are comparable with or lower than those of accession countries. Despite substantial reduction, the rate of social tax remains higher. However, adequate application of law remains problematic. The Government's effort to improve administration has had few results. Tax collecting structures are perceived by the public as one of the most corrupt institutions and tax evasion happens in a systematic way. The situation is especially difficult with regards to the Value Added Tax (VAT), profit tax, income tax and social contributions. There are frequent cases of disputes on tax matters resulted from ambiguity of tax legislation. Tax inspectors believe that the majority of people employed in the private sector are not officially registered and like the great majority of self-employed, completely evade taxes. The main reason for this is administrative difficulties, especially in the trade and construction sectors. The reasons for poor administration are the inadequate registration of tax base and patronage.

Despite existing problems, Government is making progress in tax collection. Tax revenues of the consolidated budget rose gradually from year to year and reached 15.4 % of GDP in 2002 – a parameter that was preceded by 13.6% in 1999, 14.7% in 2000, and 15.2% in 2001. Tax revenues as a proportion of GDP were 12% on average for Georgia in 1995-99. The same indicator for the CEE5 was 32 per cent.

The budget deficit (cash basis) in 2002 accounted for 3.11% of GDP. This compares closely with that of the CEE 5 in the late 1990s. In recent years the main source of financing the budget deficit

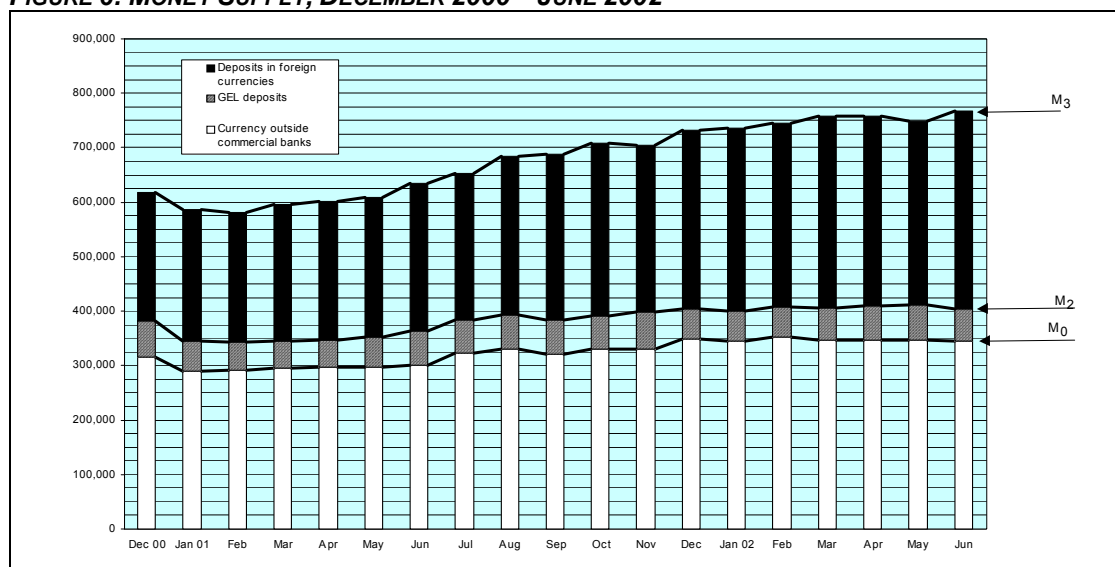
comes from foreign credits. For this reason, the budget deficit is not something which can be sustained for many years. Considerable amounts are paid from the state budget for servicing foreign debt and these amounts are likely to increase in future. Financial stability heavily depends on success in rescheduling payments.

Financial Infrastructures and Payment Systems

The infrastructure in Georgia has been significantly developed since its independence; however, if we judge according to international standards, the system is nevertheless of a very small size. The banking system is one of the main components of the economic system of the country. However, the assets of the banking sector represent only 15.1% of the GDP. The number of commercial banks was significantly reduced due to these measures (from 228 in 1994 to 27 by 2002). By the end-2001, the charter capital of commercial banks equaled 195.1 million GEL, while in 1995 it was only 44.2 million GEL. By end-2002, total assets of the banking system equaled GEL 1116.5 million (15.3 per cent of the GDP), while in 1995, the same indicator equaled 233 million GEL (6.3 per cent of the GDP).

The interest rate charged on loans extended by commercial banks is very high (19 – 35 per cent by end-2002), despite a positive tendency for improvement (24-40% by end-2000). However, banks encounter a lack of credit worthy borrowers, conditioned by the following two reasons: a) there is a small number of financially supported projects in the country, which will be able to repay the high interest rates charged by the banks, and b) due to the problem in recovery of collateral, the banks require the value of collateral to be much higher than the amount of the loan.

FIGURE 6: MONEY SUPPLY, DECEMBER 2000 – JUNE 2002



SOURCE: GEPLAC CALCULATIONS BASED ON DATA PROVIDED BY THE NATIONAL BANK OF GEORGIA

The insurance market has been significantly developed in recent years, although, it is still small in size. During the year 2001, total insurance premiums attracted by 20 insurance companies operating in the country in 15 types of insurance equaled GEL 24.6 million, which exceeds the same indicator for the last year 1.4 times. The indicator of losses was increased as well, which exceeds the same indicator for the last year 2.2 times. The total amount of reimbursed losses equaled GEL 7.4 million, (i.e. 30% percent of the total attracted income) which exceeds half of gross premium in the structure of tariff rates of insurance companies.

In order to enhance solvency of the insurance companies and share assumed financial risks, re-insurance was conducted by 15 insurance companies. GEL 10.5 million in all was directed towards re-insurance (i.e. 42.8% of the total premium). Re-insurance ratio is lower as compared

to the same period of 2000, which demonstrates that transfer of low risk insurance liabilities to re-insuring partners has been streamlined. Out of the total amount of reimbursed loss in 2001 amounting at GEL 7.4 million, GEL 5.02 million (i.e. 67.2%) was repaid by the insurance companies directly and re-insurers paid GEL 2.4 million (i.e. 32,8%).

The securities market still fails to play a large role in the country economy. The infrastructure of the securities market has also been established and investors are protected from market manipulation risks. The guarantees for the openness of the information, government supervision and control in this sector are in place. The latter functions are carried out by an independent regulator – the National Securities Commission of Georgia (set up in 1999).

Based on international examples, the Georgian Stock Exchange was established in 1999 and carried out regular electronic trading beginning in March 2000. Ownership rights on publicly held securities are registered with eight independent Securities Registrars and the Georgian Securities Central Depository. Thirty eight key participants of the securities market (brokerage companies) were set up.

The development of the capital market is hampered by a variety of factors, including: a low level of corporate culture, poor public awareness of the basics of securities market, insufficient protection of shareholder rights (especially small shareholders), discouraging investment climate, low development of the institutional investors, shortcomings in the area of privatization and in the regulation of government securities, and insufficient implementation of the International Accounting Standards in practice.

Economic Infrastructures

Energy: The Government has introduced a series of reforms. One of them was the privatisation of the electricity sector, which was launched in 1998, with the electricity generation and distribution assets offered for sale or in management. Privatization saw some progress and certain electricity sector assets were offered by international tenders. The most important transaction was the Privatization of Telasi (Tbilisi Electricity Distribution Company) through the sale to AES. After considerable investment, including re-metering of the system, AES decided to sell Telasi. This was completed in July 2003 to UES of Russia.

The Ministry of Fuel and Energy in co-operation with the International Finance Corporation, grouped the electricity distribution companies that were still in the state ownership, excluding the companies in Achara, Abkhazia and Ossetia, into one distribution company. This entity is to be transferred into management for 5 years. A tender has been announced and 8 companies have already sent letters of interest to manage the distribution company. Meanwhile, PA consulting has been awarded an interim management contract for 18 months.

To diminish state intervention in the operation of the system of electricity supply, reduce corruption in the sector and to base the relationships between the parties involved on market principles, the Georgian Wholesale Electricity Market (WEM), JSC "Elektrogadatsema" (transmission), "Electrodispecherizacia" Ltd. (dispatch) were transferred into management by international tenders. The Spanish company Iberdrola was awarded a management contract of WEM for 5 years. A tender for the management of the JSC "Elektrogadatsema" (transmission) and "Electrodispecherizacia" Ltd. (dispatch) was won by the Irish company ESB International in 2001.

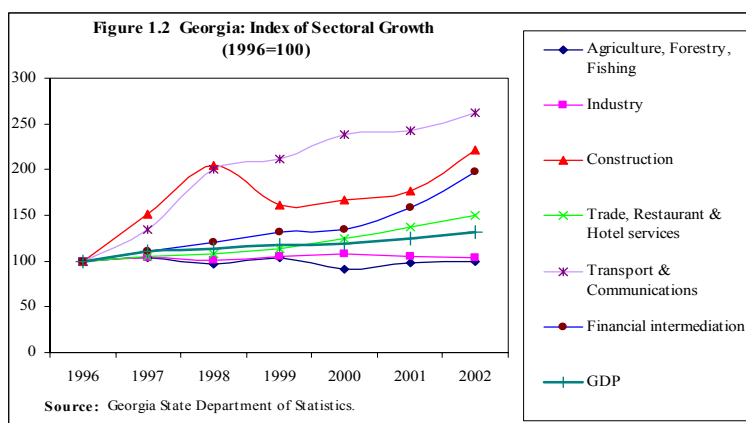
Several gas distribution companies were sold to foreign buyers. However, little success was achieved in privatizing large gas distribution companies. The privatization of the largest gas distribution company Tbilgazi (Tbilisi Gas Distribution Company) is still problematic. The Government announced several tenders to privatize Tbilgazi but all of them failed to bring any results. The privatization of Tbilgazi will take more time and the delay will have a negative effect on the operation of the entire system.

Telecommunication: There are 29 companies engaged in the communications sector, of which 21 are entirely owned by the state. The state controls another 3 and 5 are privately owned. Privatization of telecommunications is a major objective. However in 2002 no actual improvements in this direction were made, as a repeated tender offering 75% shares of Sakartvelos Elektrokavshiri failed to attract bids. This is delaying the inflow of investments and consequently precludes the rehabilitation of the sector.

There are three major cellular companies operating in Georgia: Magticom, Geocell (both GSM 900 and 1800) and Megacom (AMPS). According to data for June 2002, Magticom has approximately 200,000 subscribers, and Geocell 120,000 subscribers. Only 9,5% of population of Georgia uses this service. There were 999,100 users of ordinary telephone lines in Georgia for 2002, mainly localized in major cities of the country.

Real Sector of the Economy

Agriculture, industry, trade and transport dominate the structure of the Georgian economy. Agriculture is the largest sector accounting for just below 20 percent of GDP and 50 percent of employment. However, its share in GDP has decreased steadily (from over 30 percent of GDP in 1996). Industry contributes about 14 percent of GDP and 6 percent of employment. Although declining in some years, its share remains constant. The share of transport and telecommunications has nearly tripled from 4.6 percent in 1996 to 12.1 percent in 2002.



Industry

There were many factors determining the sharp decline of industrial output. During the Soviet period, the Georgian industry was part of the united industrial complex of the USSR. Upon termination of traditional economic links, Georgia lost not only its raw material base but the market as well. Industrial decline reached a critical point in 1993-1994, when the production dropped to an unprecedented level.

Recently, the situation in industry sectors has improved. However, the management of industrial enterprises, inherited from Soviet times, is not market-oriented. It fails to ensure efficient financial management, strategic planning and production control.

The role of investments is crucial in establishing an effective industrial system. Most enterprises retain an outdated Soviet material-technical base. In addition, produced goods are less competitive because of huge energy costs due to the liberalization of energy prices and retained high-power-consuming technologies.

During the Soviet period, most of these enterprises satisfied the demands of the Soviet market. Now they are oriented to a local market, which is much smaller. Hence, it becomes impossible to operate these enterprises at full capacity. As a result, they have surplus property, which, in most cases, is non-liquid.

Default in payment is an acute issue. Due to deficiencies in the bankruptcy mechanism, one non-paying enterprise negatively influences many others. Among other reasons, the non-payment for state procurements due to the insufficient execution of the state budget is noteworthy. The large arrears of the companies within the overall budget are critical. This problem is especially acute among large state-owned companies with huge arrears towards the State budget resulting from inefficient management.

Competition and consumer protection policy in Georgia, like other developing countries is currently being elaborated. Because of the Soviet industrial heritage, most enterprises have become monopolistic. However, Georgia is considered to be a country with an open economy which imposes certain limitations on unfair competition, unlike the countries with closed economies. The antimonopoly service and its corresponding legal base were established in 1997. The existing corruption throughout the country is one of the main reasons for the existence of unfair competition, creating unequal conditions for entrepreneurs, especially in small and medium-sized businesses.

Another critical problem is the large scale of the shadow economy. According to statistical observations, the share of unregistered products as part of total production constitutes 40-42%. This indicates the low efficiency of the measures aiming at reducing this ratio.

The foreign economic policy, implemented by the Government has had a positive influence over the growth of the economy at large. The government of Georgia has been carrying out significant activities aimed at achieving of its integration into the international markets. Georgia has become a participant in international business regulations by becoming a member of the World Trade Organization. Having limited local market, this should largely facilitate investments in the export producing sectors of Georgia. Today, Georgia has signed agreements on mutual support and protection of investments with more than 23 countries, and agreements on elimination of double taxation are signed with the 11 countries.

Agriculture

The development of the agricultural sector, deriving from its volume and the number of people it employs, plays a significant role in the economy of the country. Agriculture and agro-business are a major source of income for the country's population. This fact itself plays a major role in poverty levels in the rural areas of Georgia.

Measures were undertaken for the privatization of state property in the agriculture sector, including the privatization of agricultural land and agro-processing enterprises. Land Reform in Georgia was launched in 1992 and followed by the Land Leasing Program. Georgia was one of the first among former Soviet republics, which adopted legislation that established private ownership on land. These measures have resulted in 57% of arable land under private ownership and 27% leased to private individuals by the state. The given reform has also created a real employment possibility for farmers, though there are several problems hampering the activity of farmers. These include underdeveloped infrastructure (the lack of food-processing enterprises in rural areas), poor irrigation and drainage systems, poor access to credit, expensive operating costs (fuel, pesticides, fertilizers), expensive and/or poorly accessible agricultural tools and machinery, high transportation costs and vulnerability to environmental conditions.

The privatization of agricultural enterprises is still underway. Despite the fact that many agro-business enterprises are in private hands, there has been little significant growth in production volume. The reason is that the owners of those enterprises do not have the possibility to attract

necessary capital to develop modern systems of management and to conquer new markets. The inability to fully use the existing export potential is also related to the above-mentioned problem.

Services and Tourism

The potential of the Tourism industry in Georgia has the following parameters: 102 health resorts, 182 health resort sites, 15,000 historical monuments, 4 of which are listed in the UNESCO cultural treasuries, 2 functional and 7 perspective national parks, 2,400 mineral water springs with 24 a hour output of 130 million liters, healing mud, karst caves, the Black Sea coast, Great and Small Caucasus Peaks, and climate bio-diversity.

According to 1988 data, Georgia was visited by up to 4 million tourists and holiday-makers annually. This number began to decline in 1990. The decline was caused by the fact that hundreds of thousands internally displaced persons were accommodated in the hotels and boarding houses, which paralyzed an essential part of tourism infrastructure. The situation was aggravated further by deteriorated tourism potential of Tbilisi and other historical cities of the country due to incorrect planning and crunch of the resources required to take care of the historical districts. This has resulted in a substantially changed and worsened image of these old districts.

According to the “National Concept of the Tourism Development in Georgia”, numerous problems are hampering the development of the Tourism sector in the country. Five have been identified as the most urgent:

- Georgia, as a country, has an unfavorable image and this is the biggest impediment. Non-financing of activities required for non-commercial state advertising of the positive image of the country and no marketing research of the tourism markets is another important impediment;
- Limited spectrum and poor quality of Georgian tourism production;
- The existing security problem resulting from dangerous criminal situation in the country and instability of the Caucasus Region, in general;
- Lack of qualified personnel in the tourism sector;
- Insufficient and seasonal capacities for accommodating of the tourists, including transportation problems. (insufficient number of the air flights connecting the existing and potential tourism markets, non-flexible timetable of the flights, insufficient regional air connections, conflicts between the air companies and poor road infrastructure.

In the condition of political and economic stability of the country, the tourism industry started to grow gradually from 1995. In 2001, 302 thousand foreign tourists and visitors arrived in Georgia which exceeds the same indicator of 1995 fourfold. The number of those that departed Georgia equaled 306 thousand persons in 2001, which exceeds the same indicator of 1995 by 1.4 times.

The total number of employed staff in the tourist sector was 17,000 in 2001. Approximately 95% of those employed in tourism are engaged in small and medium businesses. The majority live in big cities and resort-recreational centers (Borjomi-Bakuriani, Ureki-Shekviteli, Kobuleti-Makhinjauri, others). The level of employment is low in the mountainous regions. Many feel it is important to develop a specialized form of tourism – agro-tourism. This can be facilitated by the amendments to the Tax Code of Georgia that became effective from March 15, 2003. These amendments provide for the creation of preferential and promotional environment for the investments in tourism infrastructure, especially in the mountainous regions.

External Trade

It is not an easy task to analyze Georgia’s foreign trade. The main difficulty to overcome is the lack of reliable statistical data as a significant share of Georgian trade is not recorded at all.

Furthermore, recorded figures often do not reflect effective transactions, so that it is difficult to draw clear conclusions about trade flows.

The share of the ten main trade partners (Turkey, Russia, Azeri, Ukraine, Germany, USA, UK, Turkmenistan, Switzerland and France) in total registered trade is about 70 per cent. Russia, Turkey, Azerbaijan and the Ukraine together represent about 46 per cent of Georgia's registered trade turnover in past years.

TABLE 2.2: GEORGIA: TRADE BALANCE, 1994-2002

	1994	1995	1996	1997	1998	1999	2000	2001	2002
Exports (m\$)	152	152	199	240	192	238	330	320	348
Imports (m\$)	337	395	687	942	880	602	651	684	731
Trade balance (m\$)	-186	-243	-488	-702	-688	-364	-321	-364	-383
GDP (m\$)	823	1909	3072	3576	3620	2804	3043	3210	3302
Exports/GDP	18	8	6	7	5	8	11	10	10.5
Trade/GDP	59	29	29	33	30	30	32	31	32.6
Trade balance/GDP	22.6	12.8	15.9	19.6	19	13	10.5	11.3	11.6

SOURCE: GEORGIA STATE DEPARTMENT OF STATISTICS.

Exports

10 product groups represented more than 60 per cent of all registered exports in recent years. There was growth of export of gold, military aircraft, chemical fertilizers and wine. The export of military aircraft is still in the leading position at USD 44.5 million (2002). The destination of these exports was mostly Turkmenistan.

The wine sector in Georgia is mainly export oriented. About 14 per cent of export growth was observed, a performance similar to that of recent years. Despite the fact that Georgia's wine export is relatively small, this sector has huge growth potential. Russia has been the traditional importer of Georgian wines. The destination of exports of wine made from fresh grapes (HTS chapter 2204) is Russia (70 per cent), Ukraine (20 per cent), and the USA (4 per cent). EU market access is still a problematic issue for the Georgian winemakers.

Export of gold (HTS chapter 7108) in semi-manufactured forms has become an important export item in recent years. Export of this item increased from USD 12.5 million (about 4 per cent of all exports in 2001) to USD 28.5 million in 2002 (8.1 per cent of all exports). The main destination for this export item was the UK.

Natural and mineral waters (HTS chapters 2201 and 2202) are another export-oriented sector in Georgia. In 2002, compared to the previous year, export of this item increased by about 30 per cent.

Other main export items are Ferrous scrap and ferroalloys (HTS chapters 7204), ferroalloys (HTS chapter 7202), sugar (HTS chapter 1701), copper ores and concentrates (HTS chapter 2603), mineral or chemical fertilizers (HTS chapter 3102) and mineral fuels (HTS chapters 2709, 2710).

TABLE: COMPOSITION OF REGISTERED EXPORTS ACCORDING TO THE HARMONIZED COMMODITY SYSTEM, BY 2-DIGIT CATEGORIES (THOUSAND OF US \$)

	1999	2000	2001	2002
TOTAL	238,167.5	329,872.8	320,028.8	347,844.2

of which				
01 - Live Animals	3.7	8.7	10.2	12.2
02 - Meat and edible meat offal	1,019.4	303.2	189.6	2,042.7
03 - Fish and crustaceans, molluscs and other aquatic invertebrates	230.2	135.6	342.7	115.0
04 - Dairy produce; birds eggs; natural honey; edible products of animal origin, not elsewhere specified or included	140.2	42.8	23.5	816.9
05 -Products of animal origin, not elsewhere specified or included	-	-	0.2	0.0
06 -Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	41.0	216.3	118.1	185.0
07 -Edible vegetables and certain roots and tubers	779.4	559.7	488.4	676.7
08 -Edible fruit and nuts; peel of citrus fruit or melons	18,076.7	22,255.0	11,636.7	9,217.5
09 -Coffee, tea, maté and spices	12,461.8	7,261.7	6,803.2	5,846.6
10 -Cereals	1,380.6	1,184.5	1,302.2	6,632.8
11 -Products of the milling industry; malt; starches; inulin; wheat gluten	553.4	1,900.6	1,226.3	0.0
12 -Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder	649.4	1,193.5	702.1	563.1
13 -Lac; gums, resins and other vegetable saps and extracts	56.9	5.0	1.3	12.3
14 -Vegetable plaiting materials; vegetable products not elsewhere specified or included	37.5	4.4	4.8	8.7
15 -Animal or vegetable fats and oils and their cleavage products prepared edible fats; animal or vegetable waxes	67.3	32.3	49.8	57.8
16 -Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	15.0	67.3	75.2	36.4
17 -Sugars and sugar confectionery	1,913.4	2,844.1	3,167.2	13,785.0
18 -Cocoa and cocoa preparations	0.6	12.3	132.7	578.6
19 -Preparations of cereals, flour, starch or milk; bakers' wares	85.1	161.7	164.6	137.3
20 -Preparations of vegetables, fruit, nuts or other parts of plants	1,836.9	1,117.0	1,410.3	1,410.9
21 -Miscellaneous edible preparations	220.1	385.2	512.5	444.0
22 -Beverages, spirits and vinegar	23,330.4	46,856.9	53,593.0	59,975.0
23 -Residues and waste from the food industries; prepared animal feed	3.1	4.6	15.4	4.8
24 -Tobacco and manufactured tobacco substitutes	3,321.9	6,119.3	1,568.0	1,981.6
25 -Salt; sulfur; earths and stone; plastering materials, lime and cement	1,720.1	1,371.6	1,227.2	603.1
26 -Ores, slag and ash	14,096.1	29,858.0	23,322.8	19,110.9
27 -Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	23,117.6	27,641.4	27,476.6	18,880.2
28 -Inorganic chemicals; organic or inorganic compounds of precious metals, of rare earth metals, of radioactive elements or of isotopes	3,122.9	5,657.2	4,082.6	5,748.3
29 -Organic chemicals	4.3	100.4	124.6	79.4
30 -Pharmaceutical products	2,161.4	5,226.9	4,156.3	3,074.4
31 -Fertilizers	11,369.1	16,177.0	4,931.1	12,036.8

32 -Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastics; inks	572.2	757.9	459.6	269.5
33 -Essential oils and resinoids; perfumery, cosmetic or toilet preparations	208.9	1,099.8	2,093.6	926.8
34 -Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modeling pastes, "dental waxes" and dental preparations with a bas	42.6	53.3	122.0	75.8
35 -Albuminoidal substances; modified starches; glues; enzymes	10.5	3.6	0.5	6.3
36 -Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	-	-	0.4	49.1
37 -Photographic or cinematographic goods	14.1	6.1	-	18.3
38 -Miscellaneous chemical products	129.5	3,057.6	761.4	431.1
39 -Plastics and articles thereof	993.6	1,341.3	966.3	1,402.5
40 -Rubber and articles thereof	83.0	92.3	112.5	38.9
41 -Raw hides and skins (other than furskins) and leather	745.4	2,216.3	2,089.3	1,713.4
42 -Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	3.2	104.6	2.4	4.2
43 - Fur skins and artificial fur; manufactures thereof	10.4	-	0.2	0.1
44 -Wood and articles of wood; wood charcoal	5,606.1	7,491.8	4,206.2	5,388.5
45 -Cork and articles of cork	95.9	0.0	30.9	21.2
46 -Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	-	0.0	-	-
47 -Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard	-	3.6	-	9.0
48 -Paper and paperboard; articles of paper pulp, of paper or of paperboard	463.1	611.2	252.5	279.6
49 -Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	105.4	61.5	634.7	62.1
50 -Silk	4.0	105.9	0.0	-
51 -Wool, fine or coarse animal hair; horsehair yarn and woven fabric	-	5.8	26.9	15.8
52 -Cotton	-	11.7	-	1.3
53 -Other vegetable textile fibers; paper yarn and woven fabric of paper yarn	-	-	-	-
54 -Man-made filaments	319.9	1.0	6.7	35.6
55 -Man-made staple fibers	0.3	36.8	67.3	15.9
56 -Wadding, felt and nonwovens; special yarns, twine, cordage, ropes and cables and articles thereof	8.4	45.0	2.0	10.2
57 -Carpets and other textile floor coverings	10.4	16.0	24.5	11.8
58 -Special woven fabrics; tufted textile fabrics; lace, tapestries; trimmings; embroidery	0.3	9.0	1.0	6.4

59 -Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	7.9	6.1	14.7	5.4
60 -Knitted or crocheted fabrics	-	-	2.0	-
61 -Articles of apparel and clothing accessories, knitted or crocheted	100.9	90.1	161.4	537.8
62 -Articles of apparel and clothing accessories, not knitted or crocheted	714.8	915.6	896.2	710.3
63 -Other made up textile articles; sets; worn clothing and worn textile articles; rags	455.1	321.6	908.3	845.1
64 -Footwear, gaiters and the like; parts of such articles	1,499.5	1,523.4	705.2	27.1
65 -Headgear and parts thereof	1.1	7.0	0.9	0.1
66 -Umbrellas, sun umbrellas, walking sticks, seatsticks, whips, riding-crops and parts thereof	0.3	1.0	0.5	1.8
67 -Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	-	-	0.1	0.0
68 -Articles of stone, plaster, cement, asbestos, mica or similar materials	73.3	47.0	83.0	24.7
69 -Ceramic products	27.8	50.5	83.7	36.0
70 -Glass and glassware	1,072.5	1,409.3	1,089.8	222.5
71 -Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewelry; coin	17.2	1,576.3	14,110.4	29,335.9
72 -Iron and steel	44,822.4	53,389.4	50,788.8	52,591.2
73 -Articles of iron or steel	2,084.4	3,080.5	2,989.6	1,597.0
74 -Copper and articles thereof	856.1	4,349.0	7,667.5	5,524.4
75 -Nickel and articles thereof	-	20.1	3.0	94.2
76 -Aluminum and articles thereof	6,998.8	17,601.3	18,409.2	10,671.8
78 -Lead and articles thereof	170.4	84.1	114.2	133.7
79 -Zinc and articles thereof	79.6	74.6	23.7	27.1
80 - Tin and articles thereof	-	-	-	-
81 -Other base metals; cermets; articles thereof	614.7	514.7	272.6	9.5
82 -Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	220.2	1,918.8	436.2	173.1
83 -Miscellaneous articles of base metal	136.9	10.9	380.1	45.8
84 -Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	9,306.9	21,341.8	11,681.9	6,702.7
85 -Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	3,521.3	4,792.2	5,152.3	3,450.5
86 -Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment	725.2	1,258.0	2,495.9	2,523.9
87 -Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	6,776.3	1,646.6	2,461.5	1,844.9
88 -Aircraft, spacecraft, and parts thereof	20,201.8	11,215.2	36,084.2	52,561.2

89 -Ships, boats and floating structures	1,265.9	1,811.5	160.3	62.8
90 -Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	646.2	576.1	675.2	1,393.9
91 -Clocks and watches and parts thereof	26.0	8.3	18.7	33.4
92 -instruments; parts and accessories of such articles	47.8	24.8	19.5	21.8
93 -Arms and ammunition; parts and accessories thereof	3,649.9	2,742.5	165.4	180.5
94 -Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated sign illuminated nameplates and the like; prefabricated buildings	275.8	416.5	385.1	617.0
95 -Toys, games and sports requisites; parts and accessories thereof	23.0	225.5	95.9	128.0
96 -Miscellaneous manufactured articles	444.9	725.8	648.3	791.6
97- Works of art, collectors' pieces and antiques	60.3	260.2	123.1	50.2

TABLE: GEORGIAN REGISTERED EXPORTS BY PARTNER COUNTRY

EXPORT thousand of US \$				
	1999	2000	2001	2002
TOTAL	238,167.5	329,872.8	320,028.8	347,844.2
of which				
Afghanistan	-	3.8	14.8	126.7
Albania	110.6	-	178.2	-
Algeria	-	-	241.1	-
Andorra	-	-	-	-
Angola	311.7	-	-	-
Azerbaijan	19,201.0	21,270.0	10,597.7	29,756.4
Argentina	0.8	-	-	-
Australia	7.9	5.2	28.6	51.9
Austria	449.1	57.9	764.2	474.7
Bahamas	-	700.5	533.6	-
Bahrain	-	-	-	0.1
Bangladesh	-	4.3	-	13.3
Armenia	15,008.2	13,672.4	12,352.9	20,456.9
Belgium	687.7	593.4	7,102.5	1,422.2
Bermuda	-	-	-	-
Bhutan	112.8	24.1	1.3	10.8
Bolivia	-	-	-	148.9
Bosnia and Herzegovina	-	0.5	4.5	-
Botswana	-	1.8	-	18.9
Brazil	0.1	187.1	3.3	-
Belize	0.2	-	-	184.7
British Indian Ocean Territory	-	-	-	-
Virgin Islands British	-	293.2	19.7	-

Bulgaria	444.4	2,420.5	577.0	138.3
Belarus	570.1	649.3	1,521.1	2,365.0
Canada	99.1	0.2	35.4	73.2
Cayman Islands	-	-	-	-
Center African Republic	-	-	-	-
Sri Lanka	-	1.5	1.1	15.2
Chile	-	-	-	0.2
China	229.7	907.6	1,045.1	1,177.2
Taiwan Province of China	-	32.0	-	7.3
Colombia	-	-	80.0	3.0
Congo	8,000.0	3,736.1	-	-
Costa Rica	-	-	-	-
Croatia	26.7	-	0.6	8.2
Cuba	-	-	-	-
Cyprus	884.7	1,055.6	97.9	87.6
Czech Republic	993.0	685.8	659.6	844.7
Denmark	260.7	503.0	507.7	345.4
Dominica	-	-	-	-
Dominican Republic	-	-	-	-
Ecuador	-	-	-	8.4
Equatorial Guinea	-	-	-	-
Ethiopia	789.4	5.9	10.2	1.0
Estonia	213.4	86.4	-	59.7
Finland	-	5.8	60.0	-
France	789.5	1,359.9	371.8	3,265.1
Djibouti	-	-	-	67.8
Gabon	42.0	-	-	-
Gambia	-	-	6.0	2,445.6
Gaza Strip (Palestine)	35.0	-	-	-
Germany	24,530.2	34,289.7	7,918.1	5,544.4
Ghana	-	-	99.5	1.0
Gibraltar	-	-	463.7	4,782.5
Greece	2,972.6	5,978.5	3,015.2	3,236.5
Grenada	-	-	-	-
Guatemala	-	-	-	-
Guinea	-	146.9	65.6	28.5
Haiti	-	0.1	-	-
Holisi	-	-	-	-
Honduras	1.0	35.0	-	2.5
Hong Kong	-	4.8	0.7	115.0
Hungary	398.5	608.6	310.1	113.5
Iceland	0.1	-	16.4	-
India	291.7	1,320.4	4,649.4	2,125.1

Indonesia	10.1	28.8	96.9	50.4
islamuri respublika	2,958.7	6,806.4	4,323.2	3,316.0
Iraq	0.7	14.0	66.0	-
Ireland	21.9	376.7	0.8	134.6
Israel	347.4	530.1	550.5	778.4
Italy	10,788.9	12,433.9	8,593.6	7,577.7
Cote d'ivoire	-	-	-	-
Jamaica	-	-	-	-
Japan	404.0	380.7	1,039.1	690.9
Kazakhstan	1,674.7	4,553.5	4,318.1	3,011.6
Jordan	88.7	427.4	139.3	41.3
Kenya	-	-	3.0	-
Korea Democratic People's Repu	-	24.8	-	43.2
Korea Republic of	-	3.9	90.2	1,538.8
Kuwait	-	0.1	-	5.5
Kyrgyzstan	159.2	43.1	0.1	77.8
Lebanon	-	-	75.4	193.4
Latvia	301.4	1,057.1	537.4	423.2
Liberia	-	-	-	4.4
Libyan Arab Jamahiriya	-	-	23.2	-
Liechtenstein	368.5	8.8	874.1	-
Lithuania	1,369.0	3,082.3	2,933.0	1,627.8
Luxembourg	-	-	0.6	-
Malawi	-	-	-	-
Malaysia	-	2.5	19.4	0.2
Malta	8.8	-	-	27.5
Mauritania	-	-	-	-
Mauritius	-	-	-	-
Mexico	-	-	1.1	4.7
Monaco	-	-	-	-
Mongolia	461.4	394.4	296.4	437.6
Moldova Republic of	125.9	221.6	148.4	130.6
Morocco	-	-	-	1.6
Mozambique	-	-	5.0	-
Oman	-	-	-	-
Nauru	-	-	-	-
Nepal	-	-	38.8	-
Netherlands	2,258.4	1,949.5	3,495.9	4,404.4
New Zealand	10.4	24.8	-	3.0
Nigeria	-	-	10.8	0.3
Niue	-	15.4	15.4	-
Norway	57.7	1.9	0.2	2.6
Pakistan	-	13.4	14.2	3.8

Panama	356.7	899.1	-	666.2
Peru	-	-	-	6.0
Philippines	-	-	19.7	6.0
Poland	330.4	401.4	938.0	1,025.6
Portugal	90.8	114.7	100.2	96.4
Guinea-Bissau	-	1.5	-	-
Romania	267.7	65.6	425.1	72.5
Russian Federation	44,625.1	69,649.8	73,462.4	60,975.9
Rwanda	-	83.0	-	-
Anguilla	-	11.3	-	-
San-Marino	-	-	-	0.8
Saudi Arabia	-	-	21.5	2.9
Singapore	929.0	2.5	243.8	231.2
Slovakia	29.2	29.3	181.5	3.5
Viet Nam	-	27.2	-	3.2
Slovenia	54.3	0.3	3.0	-
Somalia	-	-	-	-
South Africa	-	552.3	62.3	9.4
Zimbabwe	-	-	-	-
Spain	1,979.4	2,395.6	1,955.9	679.7
Sudan	-	-	-	-
Sweden	37.1	90.8	856.5	21.8
Switzerland	5,675.2	13,383.1	15,571.8	24,382.5
Syrian Arab Republic	3,870.8	3,534.9	532.4	595.1
Tajikistan	1,055.0	112.8	323.5	521.8
Thailand	0.1	18.2	19.7	1.8
Tonga	-	-	-	-
Trinidad and Tobago	-	-	-	-
United Arab Emirates	2,930.0	588.6	1,254.2	2,044.0
Tunisia	-	-	-	7.7
Turkey	37,729.3	74,783.9	68,694.9	53,861.9
Turkmenistan	12,905.6	10,581.4	28,867.4	36,731.4
Turks and Caicos Islands	-	128.2	-	-
Tuvalu	-	-	-	-
Uganda	-	80.1	-	213.0
Ukraine	10,902.6	10,974.9	11,686.8	12,674.3
Macedonia the	-	52.3	25.0	5.0
Egypt	48.2	46.5	5.8	19.7
United Kingdom	4,091.4	10,261.0	22,946.3	32,794.8
Tanzania United Republic of	-	4.8	-	-
United States	9,986.5	7,273.8	9,488.9	13,533.1
Uruguay	-	-	-	-
Uzbekistan	1,016.6	660.3	1,152.5	2,575.2

Yemen	-	11.9	-	-
Yugoslavia	378.8	9.0	124.9	23.3

SOURCE: THE STATE DEPARTMENT FOR STATISTICS OF GEORGIA

Imports

Georgia depends on foreign energy imports and mineral products continue to dominate imports. However the import structure is changing gradually. The share of petroleum, oils and gases (HTS chapters 2710, 2711) in total imports is about 18 per cent. Other major imported product groups are medicines, sugar, motor cars, and tobacco.

TABLE: COMPOSITION OF REGISTERED IMPORTS ACCORDING TO THE HARMONIZED COMMODITY SYSTEM, BY 2-DIGIT CATEGORIES (THOUSAND OF US \$)

	1999	2000	2001	2002
TOTAL	585,966.4	652,458.5	685,001.1	731,381.7
of which				
01 - Live Animals	195.7	257.3	267.0	659.2
02 - Meat and edible meat offal	9,786.4	9,530.8	10,320.4	14,927.4
03 - Fish and crustaceans, molluscs and other aquatic invertebrates	1,187.5	1,229.8	1,085.2	1,334.2
04 - Dairy produce; birds eggs; natural honey; edible products of animal origin, not elsewhere specified or included	10,614.7	6,077.4	5,346.8	4,339.5
05 -Products of animal origin, not elsewhere specified or included	21.0	16.8	5.2	27.8
06 -Live trees and other plants; bulbs, roots and the like; cut flowers and ornamental foliage	427.6	128.4	160.8	157.6
07 -Edible vegetables and certain roots and tubers	3,288.3	1,291.8	2,394.9	2,266.5
08 -Edible fruit and nuts; peel of citrus fruit or melons	2,558.0	1,751.8	2,517.1	2,726.7
09 -Coffee, tea, maté and spices	5,516.8	4,945.4	2,623.5	1,840.9
10 -Cereals	16,591.8	22,199.0	11,531.4	15,913.3
11 -Products of the milling industry; malt; starches; inulin; wheat gluten	15,843.2	22,478.7	17,272.2	9,379.1
12 -Oil seeds and oleaginous fruits; miscellaneous grains, seeds and fruits; industrial or medicinal plants; straw and fodder	949.5	308.3	291.1	237.3
13 -Lac; gums, resins and other vegetable saps and extracts	47.0	102.8	151.7	156.9
14 -Vegetable plaiting materials; vegetable products not elsewhere specified or included	44.1	39.7	9.3	28.4
15 -Animal or vegetable fats and oils and their cleavage products prepared edible fats; animal or vegetable waxes	3,652.1	3,305.3	5,863.4	7,520.8
16 -Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	2,277.4	2,378.9	4,126.5	2,748.8
17 -Sugars and sugar confectionery	17,293.0	25,477.1	25,117.4	36,411.2

18 -Cocoa and cocoa preparations	890.7	1,748.0	3,287.1	5,968.8
19 -Preparations of cereals, flour, starch or milk; bakers' wares	1,660.6	2,772.3	2,693.3	4,020.4
20 -Preparations of vegetables, fruit, nuts or other parts of plants	2,209.3	1,441.7	1,621.6	2,335.0
21 -Miscellaneous edible preparations	4,784.6	4,613.5	7,754.6	5,861.7
22 -Beverages, spirits and vinegar	3,079.3	3,038.4	5,031.8	3,273.2
23 -Residues and waste from the food industries; prepared animal feed	473.0	388.5	668.3	1,270.8
24 -Tobacco and manufactured tobacco substitutes	35,316.0	33,669.6	23,411.9	29,219.3
25 -Salt; sulfur; earths and stone; plastering materials, lime and cement	3,381.3	3,842.2	3,874.7	5,071.3
26 -Ores, slag and ash	25.9	48.7	37.9	33.9
27 -Mineral fuels, mineral oils and products of their distillation; bituminous substances; mineral waxes	122,574.7	139,500.1	161,780.4	163,298.1
28 -Inorganic chemicals; organic or inorganic compounds of precious metals, of rare earth metals, of radioactive elements or of isotopes	2,312.8	5,145.9	3,458.4	3,820.5
29 -Organic chemicals	957.3	1,379.4	1,168.9	1,829.6
30 -Pharmaceutical products	43,205.7	35,752.9	40,440.1	48,561.7
31 -Fertilizers	175.3	695.7	214.6	155.4
32 -Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other coloring matter; paints and varnishes; putty and other mastics; inks	983.8	1,800.5	2,135.8	2,610.2
33 -Essential oils and resinoids; perfumery, cosmetic or toilet preparations	2,766.3	5,514.8	6,808.6	8,134.3
34 -Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial waxes, prepared waxes, polishing or scouring preparations, candles and similar articles, modeling pastes, "dental waxes" and dental preparations with a base	3,675.7	4,177.8	4,205.4	5,149.1
35 -Albuminoidal substances; modified starches; glues; enzymes	322.0	701.4	802.9	641.6
36 -Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	281.5	196.1	855.8	1,797.4
37 -Photographic or cinematographic goods	258.1	231.7	296.1	458.4
38 -Miscellaneous chemical products	2,234.8	2,224.5	3,048.7	4,152.7
39 -Plastics and articles thereof	8,691.4	13,087.0	14,767.4	13,816.8
40 -Rubber and articles thereof	3,580.1	2,732.5	3,560.1	5,506.7
41 -Raw hides and skins (other than furskins) and leather	871.4	1,467.7	830.4	232.3

42 -Articles of leather; saddlery and harness; travel goods, handbags and similar containers; articles of animal gut (other than silkworm gut)	270.4	314.0	334.9	342.9
43 - Fur skins and artificial fur;manufactures thereof	222.1	2.2	1.5	1.4
44 -Wood and articles of wood; wood charcoal	2,901.6	2,696.0	2,857.6	3,427.9
45 -Cork and articles of cork	520.4	1,201.0	1,507.6	1,401.4
46 -Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	0.7	0.5	18.1	5.3
47 -Pulp of wood or of other fibrous cellulosic material; waste and scrap of paper or paperboard	136.0	65.9	86.2	22.7
48 -Paper and paperboard; articles of paper pulp, of paper or of paperboard	8,914.7	11,551.4	14,748.7	19,130.8
49 -Printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	4,916.8	3,410.2	4,160.9	5,111.3
50 -Silk	51.0	94.8	54.3	64.5
51 -Wool, fine or coarse animal hair; horsehair yarn and woven fabric	397.0	502.2	657.4	340.9
52 -Cotton	299.2	176.6	249.8	140.0
53 -Other vegetable textile fibers; paper yarn and woven fabric of paper yarn	11.0	5.4	52.2	8.1
54 -Man-made filaments	351.5	678.1	1,339.7	1,415.5
55 -Man-made staple fibers	1,163.0	956.0	953.5	1,983.7
56 -Wadding, felt and nonwovens; special yarns, twine, cordage, ropes and cables and articles thereof	260.3	439.2	768.7	478.1
57 -Carpets and other textile floor coverings	207.0	263.3	582.0	530.5
58 -Special woven fabrics; tufted textile fabrics; lace, tapestries; trimmings; embroidery	107.2	63.8	91.9	84.7
59 -Impregnated, coated, covered or laminated textile fabrics; textile articles of a kind suitable for industrial use	329.4	387.3	373.0	396.7
60 -Knitted or crocheted fabrics	246.2	73.6	100.8	228.0
61 -Articles of apparel and clothing accessories, knitted or crocheted	2,987.4	2,778.4	1,502.3	1,023.5
62 -Articles of apparel and clothing accessories, not knitted or crocheted	6,317.8	2,582.0	1,573.0	1,239.2
63 -Other made up textile articles; sets; worn clothing and worn textile articles; rags	3,505.2	2,214.0	3,140.9	3,704.8
64 -Footwear, gaiters and the like; parts of such articles	4,355.2	5,034.6	4,346.5	3,402.0
65 -Headgear and parts thereof	208.5	71.1	34.8	25.1
66 -Umbrellas, sun umbrellas, walking sticks, seatsticks, whips, riding-crops and parts thereof	511.2	45.2	80.0	56.1

67 -Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles of human hair	12.6	10.9	5.8	4.6
68 -Articles of stone, plaster, cement, asbestos, mica or similar materials	1,918.4	3,038.1	1,867.8	2,410.7
69 -Ceramic products	2,704.8	4,400.0	4,807.8	4,743.7
70 -Glass and glassware	4,156.9	10,259.9	9,487.5	9,676.4
71 -Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad with precious metal and articles thereof; imitation jewelry; coin	52.0	1,116.7	1,237.1	256.9
72 -Iron and steel	5,366.1	6,570.6	11,343.9	13,996.1
73 -Articles of iron or steel	8,038.3	16,434.2	26,162.3	13,509.5
74 -Copper and articles thereof	536.6	562.0	492.6	972.9
75 -Nickel and articles thereof	8.7	1.8	41.8	6.7
76 -Aluminum and articles thereof	1,705.8	2,600.4	3,058.0	2,876.6
78 -Lead and articles thereof	0.9	3.6	11.3	16.6
79 -Zinc and articles thereof	15.1	55.6	17.5	47.8
80 - Tin and articles thereof	1.7	30.0	34.2	13.6
81 -Other base metals; cermets; articles thereof	58.0	29.6	59.8	164.6
82 -Tools, implements, cutlery, spoons and forks, of base metal; parts thereof of base metal	939.4	1,511.2	1,797.9	754.5
83 -Miscellaneous articles of base metal	1,053.3	1,516.2	2,634.6	2,301.7
84 -Nuclear reactors, boilers, machinery and mechanical appliances; parts thereof	49,213.9	54,060.1	69,460.5	73,098.8
85 -Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television image and sound recorders and reproducers, and parts and accessories of such articles	40,984.9	73,535.8	55,576.4	61,926.5
86 -Railway or tramway locomotives, rolling-stock and parts thereof; railway or tramway track fixtures and fittings and parts thereof; mechanical (including electro-mechanical) traffic signalling equipment	3,316.7	11,914.8	5,047.5	11,359.2
87 -Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	45,045.8	21,697.4	21,822.8	34,118.4
88 -Aircraft, spacecraft, and parts thereof	18,393.9	13,531.9	21,102.2	10,780.4
89 -Ships, boats and floating structures	721.3	275.1	622.9	43.4
90 -Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical instruments and apparatus; parts and accessories thereof	14,193.6	17,407.9	15,987.2	13,439.5
91 -Clocks and watches and parts thereof	108.4	151.7	138.2	254.8
92 -instruments; parts and accessories of such articles	33.3	9.2	18.5	13.4
93 -Arms and ammunition; parts and accessories thereof	591.6	560.8	398.9	1,005.7

94 -Furniture; bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; lamps and lighting fittings, not elsewhere specified or included; illuminated sign illuminated nameplates and the like; prefabricated buildings	11,075.2	5,916.1	8,507.5	9,281.1
95 -Toys, games and sports requisites; parts and accessories thereof	1,035.0	1,054.0	1,021.3	983.1
96 -Miscellaneous manufactured articles	484.1	899.2	773.0	830.5
97- Works of art, collectors' pieces and antiques	3.7	6.9	9.4	34.4

SOURCE: THE STATE DEPARTMENT FOR STATISTICS OF GEORGIA

TABLE: GEORGIAN REGISTERED IMPORT PARTNER COUNTRIES

IMPORT thousand of US \$				
	1999	2000	2001	2002
TOTAL	585,966.4	652,458.5	685,001.1	731,381.7
of which				
Afghanistan	-	-	2.5	0.2
Albania	-	5.0	1.2	3.5
Algeria	-	-	-	-
Andorra	2.5	-	-	9.3
Angola	-	-	-	27.3
Azerbaijan	41,510.7	55,366.6	73,175.1	80,080.4
Argentina	76.0	432.6	9.9	-
Australia	1,015.0	983.5	393.0	552.4
Austria	5,007.7	8,339.7	9,563.0	9,837.1
Bahamas	2.6	178.1	306.6	3,168.0
Bahrain	-	-	-	-
Bangladesh	27.5	-	-	-
Armenia	11,844.7	13,474.6	10,364.7	8,507.1
Belgium	5,431.1	3,659.1	7,143.4	6,941.7
Bermuda	5.3	-	-	-
Bhutan	1.6	3.2	9.6	1.4
Bolivia	-	-	-	-
Bosnia and Herzegovina	20.1	-	-	-
Botswana	-	-	4.0	5.3
Brazil	3,829.4	5,423.7	3,975.2	18,450.2
Belize	228.9	-	-	-
British Indian Ocean Territory	880.7	-	-	2.2
Virgin Islands British	240.1	371.2	321.8	4,427.5
Bulgaria	11,546.2	15,480.5	10,582.8	14,256.0
Belarus	1,200.2	880.2	1,620.8	654.2

Canada	493.3	1,009.7	1,224.5	441.6
Cayman Islands	-	18.5	-	-
Central African Republic	-	-	7.2	-
Sri Lanka	61.3	223.1	66.5	61.9
Chile	-	-	-	-
China	2,595.7	2,833.1	3,774.4	8,691.9
Taiwan Province of China	141.4	309.1	270.2	506.0
Colombia	272.0	332.9	18.0	217.5
Congo	-	-	-	-
Costa Rica	70.4	20.0	-	134.2
Croatia	123.4	1,293.3	590.8	2,547.8
Cuba	-	-	-	0.3
Cyprus	1,498.3	8,514.1	2,573.7	1,080.1
Czech Republic	2,701.6	2,313.9	2,924.6	5,368.1
Denmark	4,487.3	1,986.8	4,865.2	8,357.3
Dominica	-	-	-	86.7
Dominican Republic	-	-	-	119.9
Ecuador	258.5	438.8	556.7	833.8
Equatorial Guinea	-	-	40.0	-
Ethiopia	-	-	-	-
Estonia	70.1	61.2	93.2	137.1
Finland	2,731.5	1,704.3	10,041.1	2,256.7
France	15,173.7	10,886.4	18,649.6	15,003.2
Djibouti	-	-	-	-
Gabon	-	-	-	-
Gambia	-	6.6	-	2.0
Gaza Strip (Palestine)	-	-	-	-
Germany	44,156.6	50,157.1	63,669.1	57,186.4
Ghana	-	-	-	-
Gibraltar	176.4	213.0	445.4	1,387.6
Greece	10,331.8	8,572.6	4,673.6	8,373.3
Grenada	-	26.4	-	-
Guatemala	-	-	0.1	-
Guinea	-	-	-	-
Haiti	-	-	-	-
Holisi	-	-	-	18.5
Honduras	-	84.6	147.3	1.9
Hong Kong	41.8	285.8	347.5	248.7
Hungary	4,156.9	4,664.9	5,057.1	5,259.7
Iceland	95.6	-	33.0	734.8
India	1,447.6	1,205.8	2,057.0	4,188.6
Indonesia	2,256.6	5,038.0	2,597.1	196.9
islamuri respublika	4,083.7	5,593.9	6,300.9	8,017.0

Iraq	-	-	-	10.4
Ireland	2,895.4	2,343.2	756.2	653.9
Israel	2,954.0	2,025.4	747.8	1,249.2
Italy	13,114.8	17,326.5	25,521.7	33,979.2
Cote d'Ivoire	1.9	28.7	-	-
Jamaica	6.6	0.9	3.2	81.6
Japan	2,674.7	7,318.6	2,850.0	3,906.3
Kazakhstan	618.6	9,719.8	5,263.0	5,283.0
Jordan	-	-	14.2	-
Kenya	-	-	3.2	0.8
Korea Democratic People's Repu	103.4	121.8	110.7	375.0
Korea Republic of	1,820.4	1,015.8	688.0	326.5
Kuwait	-	-	1.1	-
Kyrgyzstan	338.5	275.7	230.3	187.4
Lebanon	2,183.9	3,438.6	1,358.7	218.8
Latvia	339.9	2,427.7	983.7	922.8
Liberia	-	96.0	-	-
Libyan Arab Jamahiriya	640.8	-	-	2.1
Liechtenstein	2.4	81.1	124.3	64.8
Lithuania	1,210.1	1,213.1	4,511.1	1,251.9
Luxembourg	49.7	64.0	139.1	232.4
Malawi	-	-	301.5	332.0
Malaysia	0.1	149.8	51.5	3.5
Malta	-	-	30.3	2.1
Mauritania	-	48.2	35.3	167.6
Mauritius	8.3	-	-	-
Mexico	-	3.8	2.0	-
Monaco	0.1	-	0.1	23.0
Mongolia	-	-	-	-
Moldova Republic of	154.1	174.1	231.1	339.8
Morocco	220.4	-	18.2	-
Mozambique	-	-	-	1.7
Oman	-	-	2.5	280.2
Nauru	-	-	-	0.2
Nepal	-	-	-	-
Netherlands	7,302.2	7,967.3	8,936.5	14,976.2
New Zealand	1,695.7	239.0	492.4	838.0
Nigeria	0.4	-	-	-
Niue	43.1	3,004.6	2,351.2	1,795.3
Norway	1,095.5	79.3	193.6	257.5
Pakistan	7.0	8.4	-	-
Panama	520.5	-	-	47.9
Peru	-	-	-	46.0

Philippines	-	-	0.3	60.2
Poland	4,107.2	3,446.6	3,471.2	2,926.6
Portugal	422.5	1,336.9	1,329.5	1,396.4
Guinea-Bissau	-	-	-	-
Romania	12,498.3	13,312.4	16,897.5	4,796.0
Russian Federation	99,939.0	93,644.6	97,584.8	121,322.9
Rwanda	-	-	-	-
Anguilla	2.3	-	35.5	-
San-marino	14.4	17.6	9.6	0.7
Saudi Arabia	1.9	-	1.9	135.3
Singapore	703.0	113.2	201.5	470.9
Slovakia	257.3	338.1	760.6	745.5
Viet Nam	1.9	0.8	22.3	46.0
Slovenia	2,145.5	3,683.0	5,763.7	2,709.3
Somalia	-	-	0.5	-
South Africa	164.7	311.3	24.7	243.9
Zimbabwe	16.1	-	1,044.9	678.0
Spain	1,815.0	2,360.1	1,980.7	2,850.6
Sudan	2.6	-	-	-
Sweden	1,200.8	10,608.9	1,127.5	7,851.0
Switzerland	11,532.1	22,749.2	13,991.7	18,207.4
Syrian Arab Republic	453.2	368.3	424.8	370.9
Tajikistan	2.2	17.8	121.5	2.1
Thailand	38.6	6.0	104.4	319.0
Tonga	-	-	10.9	-
Trinidad and Tobago	-	-	-	1.0
United Arab Emirates	9,978.1	10,003.0	8,240.4	6,107.8
Tunisia	-	-	-	-
Turkey	73,261.7	104,003.8	105,032.4	87,636.0
Turkmenistan	22,056.2	13,304.3	17,638.3	14,619.5
Turks and Caicos Islands	-	-	-	-
Tuvalu	-	-	-	14.2
Uganda	-	-	-	-
Ukraine	27,087.9	35,364.4	49,499.0	58,954.6
Macedonia the	98.3	34.3	60.7	46.3
Egypt	86.3	72.6	409.2	68.1
United Kingdom	21,143.0	22,960.5	25,143.5	26,540.6
Tanzania United Republic of	-	-	3.7	-
United States	71,568.0	35,722.6	27,821.1	24,819.1
Uruguay	0.2	8.8	-	8.1
Uzbekistan	4,358.2	6,935.0	1,497.7	376.2
Yemen	-	-	-	-
Yugoslavia	711.3	171.2	295.0	817.2

Important Information for doing Business in Georgia

List of Bi-lateral and Multilateral Agreements

Georgia had signed 30 bi-lateral agreements containing substantive provisions directly affecting foreign trade in goods and/or services. Georgia has concluded Free Trade Agreements with Armenia, Azerbaijan, Kazakhstan, Moldova, the Russian Federation, Turkmenistan, Ukraine and Uzbekistan. Georgia has also signed 22 agreements on trade and economic cooperation or economic relations, as well as a number of agreements and treaties on the promotion and reciprocal protection of investment. Georgia had signed a Partnership and Cooperation Agreement (PCA) with the European Communities on 22 April 1996. Georgia is a participating State in the Black Sea Economic Cooperation (BSEC), established on 25 June 1992. Georgia is member of GUUAM (Georgia-Ukraine-Uzbekistan-Azerbaijan-Moldova) multilateral Free Trade Agreement signed in 2002.

Customs Procedures

The Customs Code of Georgia is the primary legal instrument in the field of customs, under which the Customs Department of Georgia operates and it defines legal, economic and organizational principles of the administration of the customs.

The Customs Code regulates the crossing of the customs frontiers of Georgia with goods and means of transport, customs procedures (Section II), customs duties and taxes (Section III), customs clearance (Section IV), customs control (Section V), customs offences, delivery subject to control (Section VI), customs statistics of foreign trade and commodity nomenclature of foreign economic activity (Section VII), informing and consulting (Section VIII), organization of customs activities (Section IX) and civil servants of Customs Bodies of Georgia (Section X).

The Customs Code defines the customs territory and customs frontiers of Georgia. The customs territory of Georgia comprises land area, territorial and inner waterways, and air space of Georgia. The customs territory of Georgia also comprises the areas of man-made islands, installations and structures, created in a special marine economic zone, to which the special jurisdiction of Georgia extends. The customs territory of Georgia may also include free customs zones and warehouses regarded as being outside the customs territory of Georgia. To such free customs zones and warehouses a special customs procedure is applied. The boundaries of the customs territory of Georgia, as well as the perimeters of free customs zones and free warehouses, constitute the customs frontier of Georgia.

The Customs Code regulates the following 15 types of customs procedures:

1. release for free circulation (import);
2. re-import;
3. transit;
4. customs warehousing of goods;
5. free trade;
6. inward processing;
7. processing under customs control;
8. temporary importation and/or exportation;
9. placement and use of goods in a free warehouse;
10. placement and use of goods in free customs zone;
11. outwards processing;
12. export;
13. re-export;

14. destruction;
15. refusal in favor of the state.

A person has a right to choose any customs procedure or replace it with another, irrespective of the type of goods or means of transport, their number, the country of production or destination. Any person is entitled, without discrimination, to import and export goods into and from Georgia in accordance with those customs procedures.

Some of the above-mentioned customs procedures are regulated by the relevant Regulations of the Customs Department. These provisions are based on the Customs Code and consist of additional information on rules and procedures to be applied.

Release for Free Circulation

The release of goods for free circulation (importation) is the most frequently used customs procedure in Georgia. It is the import of goods to Georgia for the purpose of permanent keeping or exploitation without obligation of removal. It is subject to the payment of customs charges: customs duty, VAT, and excise in the case of excisable goods and customs fee. The release of goods for free circulation is also subject to the protection of economic policy measures. Art. 5 of the Customs Code defines the economic policy measures as the special conditions for importation and exportation of goods and means of transport into and from Georgia which are established with the view of economic interests of Georgia and may comprise quotation, licensing, establishment of minimum and maximum prices, as well as other measures governing relations of the economy of Georgia with the world economy

Re-import

The customs procedure for re-import of goods describes the re-importation of goods that were produced in Georgia and exported from its customs territory pursuant to the exportation procedure. The goods under the re-importation procedure have to be re-imported within 3 years from the date of exportation. It is necessary that at the moment of importation the goods have to be in the same condition as they were at the moment of exportation.

Transit

The customs procedure for transit of goods and/or means of transport covers the movement of goods and/or means of transport to the territory of foreign states by passing through the territory of Georgia.

The Code provides the following requirements in order to subject the goods and/ or means of transport to customs transit procedure, the goods shall:

- remain in the same condition except for the changes conditioned by natural wear and tear, losses from transportation or storage in normal conditions, and shall not be used for purposes other than transit;
- be delivered from the entry customs station to the exit customs station within the time limit fixed by the customs station with due regard for capacities of means of transport, the fixed route and other conditions of shipment, but within no more than ten days.

The obligation to affect the transit of goods and/or means of transport is borne by the carrier and for payment of customs charges in the event of violation of transit rules. This reflects the responsibility of the carrier for the safe delivery of goods.

The goods under the transit procedure are exempted from VAT, excise and customs duty.

Customs Warehousing of Goods

The customs procedure for customs warehousing of goods means the keeping of goods conveyed to Georgia or intended to be conveyed out of the territory of Georgia under customs

supervision. Goods may be stored in customs warehouses within a period of one year. Upon expiry of the established period, the goods shall be placed under another customs procedure.

A customs warehouse can either be open - accessible for any person, and closed - used solely by specified persons. Customs warehouse can be owned by the customs body or any Georgian natural or legal person. Rules on setting and operating of warehouses are provided by the Regulation of the Customs Department "On Customs Warehouses" from December 1999.

Free Trade

Free customs procedure is used for the sale of goods in duty-free retail trade objects under the customs control (in airports, ports and other places, which are open to international communication). Under this procedure can be sold any goods importation and sale of which on the territory of Georgia is not prohibited. A duty-free retail trade object may be established by a person entitled to perform entrepreneurial activity in Georgia.

The rules of establishment and operation of duty-free retail trade objects are regulated by the Regulation of the Customs Department "On Customs Procedure of Free Trade" from December 1999.

Inward Processing

The Code determines the customs procedure of processing of goods on the customs territory as processing of foreign goods on the customs territory of Georgia with the view of further exportation of the processed goods from Georgia.

The Code enumerates the operations falling under the inward processing, in particular:

- the manufacture of goods (processing, re-processing), including installation, assemblage and fitting to other goods;
- the repair of goods, in particular their restoration and putting in order;
- the application of the goods facilitating the manufacture of processed products, even if these goods are consumed in part or in full in the course of processing

It has to be stressed that the processing of goods on the customs territory of Georgia shall be effected under a license issued by the Customs Department of Georgia. The order of issuance of license is regulated by the temporary Rules of the Customs Department of Georgia from October 1999 "On Sample and Issuance of License for Allocation of Goods under the Procedures of Processing of Goods on the Customs Territory and Processing of Goods under the Customs Control".

Processing under the Customs Control

The customs procedure for processing of goods under the customs control means the use of foreign goods for processing on the customs territory of Georgia under established procedure with the view of releasing of the processed goods into free circulation (import) or placing under another customs procedure. The provisions of the Customs Code on procedure of processing of goods on customs territory are as well applicable to the given procedure.

The order of issuance of license for the allocation of goods under the procedure of processing under the customs control is regulated by the temporary Rules of the Customs Department of Georgia from October 1999 "On Sample and Issuance of License for Allocation of Goods under the Procedures of Processing of Goods on the Customs Territory and Processing of Goods under the Customs Control".

Temporary Importation and/or Exportation

The Code defines the customs procedure for temporary importation and/or exportation of goods as the importation of goods to the customs territory of Georgia or their exportation out of its borders for a definite period of time, with the liability of return. The temporary importation and/or exportation of goods shall be subject to return in the same condition, except for the changes caused by the natural tear and wear, transportation, or natural losses in conditions of normal storage. The temporary importation and/or exportation of goods are admissible only if the liability if importation and/or exportation are presented. Customs bodies shall not issue a permit for temporary importation and/or exportation of goods unless the reliable identification thereof is secured.

A period for temporary admission and/or removal of goods shall not be more than a year. The right to extend the period indicated above, where necessary, shall be assigned to the Customs Department of Georgia.

The goods under the temporary importation procedure are exempted from VAT, excise and customs duty.

Placement and Use of Goods in Free Warehouses and Free Customs Zones

The customs procedure for storing and/or using of goods in a free customs zone and free warehouse means the storing and/or using of foreign goods within corresponding territorial limits or warehouses, and the storing and/or using of domestic goods – under the corresponding conditions of export customs procedure.

Outward Processing

The customs procedure for outward processing means the export and use of Georgian goods outside the customs territory of Georgia for the purpose of processing thereof with the view of release of the obtained products for free circulation on the customs territory of Georgia.

The requirements to the operations in order to fall under the procedure of outward processing are the same as stipulated for inward processing. The customs procedure for outward processing of goods is not applicable in the cases:

- where in removing goods from the customs territory of Georgia the return of the import customs duties or the exemption from duties may be demanded;
- where, prior to the removal, goods were pleased for free circulation with the complete exemption from the import duties;
- in other cases provided for by the law.

The outward processing of goods is carried out on the basis of a license issued by the Customs Department.

Exportation

The customs procedure for exportation of goods means the removal of goods from the customs territory of Georgia without obligation of their return to the same territory. Export procedure is the subject to economic policy measures. In releasing goods under the export customs procedure the goods shall be removed from the customs territory in the same conditions as they were at the date of the presentation of a goods declaration to customs bodies, except for the changes caused by the natural tear and wear, the natural losses during transportation or storage in normal conditions.

The exportation of goods is exempted from VAT, excise and customs duty (except for seasonal and specific customs duties).

Re-exportation

The customs procedure for re-exportation of goods means the removal of foreign-made goods from the customs territory of Georgia. The goods at the time of importation of which to the customs territory of Georgia was declared for re-exportation shall be exported within not later than six months from the date of acceptance of the customs declaration.

Upon the importation of goods intended for re-export excise, VAT and customs duty is paid or the bank guarantee or goods of respective value are retained by the Customs Department of Georgia. Upon the exportation of said goods the Customs Department refunds the paid excise, VAT and customs duty, cancels the bank guarantee or returns the goods retained as a guarantee according to the value of the actually exported goods.

Destruction

The customs procedure for destruction of goods is the destruction of foreign goods under the customs supervision, including their bringing to the unusable state. The goods are destroyed by the holder or proprietor at his own expense.

Refusal in Favor of the State

The customs procedure for surrender of goods for the benefit of the state means the renunciation by a person of his/her title in goods. The surrender of goods for the benefit of the state shall not invoke any expenses on the part of the state.

Customs Charges and Customs Clearance

The Code provides for the types of customs charges consisting of taxes and fees. Upon the release of goods from customs control the following taxes and fees are levied:

- customs duty, VAT and excise duty;
- customs fees for customs procedure and customs duty for the issue of license.

Customs clearance is the execution of customs procedures for the purpose of placing goods and/or means of transport under a relevant customs procedure. The essential element of customs clearance is the declaration of goods and means of transport. The Code defines the four types of declaration – goods-customs declaration, declaration of natural person, mail consignment declaration and special goods-customs declaration.

Upon the acceptance of the customs declaration, the following customs clearance procedures shall be performed:

- presenting of goods and means of transport, their customs examination;
- taking samples and specimen of goods under examination;
- examination of documents proving the inspection of goods before their conveyance;
- calculation and leaving of taxes and duties;
- presenting of guarantees to the customs;
- release of goods.

The Customs Code regulates customs control of goods and means of transport, which envisages:

- the examination of documents and certificates required for customs purpose;
- customs examination of goods and means of transport;
- personal examination;
- accounting of goods and means of transport;
- oral questioning of natural persons;
- examination of accounting and reporting;
- checking of the territory of terminals and stores, customs warehouses, spare stores, free trade zones and duty-free shops and other places, where goods and means of transport subject to customs control may be stored, or is performed the activity has to be controlled by the customs bodies.

The Customs Code provides the comprehensive list of circumstances under which the persons are released from the customs control. Finally, it has to be noted that the Customs Code refers to the Criminal and Administrative Offences Codes in the case of violation of customs legislation.

For more information please see www.customs.ge

Import Tariff Rates According to the Harmonized Commodity System

Customs tariffs must be in conformity with the “Bound Tariffs”, agreed with member countries.

Till the end of 2002, according to Law No. 1316 IIs "on Customs Tariff and Duty" of 20 March 1998 customs tariffs were levied at the rate of 12 per cent, 5 per cent or zero. All customs duties were ad valorem rates. Most imports were subject to the 12 per cent rate, while the 5 per cent rate was applied to imported pharmaceuticals; capital goods, including spare parts and supplementary equipment; and specific goods used in production.

According to Georgia’s World Trade Organization obligations, on December 6 of 2002 Parliament of Georgia adopted the “Law of Georgia on changes to the Law on “Customs Tariffs and Duties”. Since 11 January 2003 in Georgia there are applied 22 different tariff lines from 0 to 30%(0, 2, 3, 4, 5, 7, 8, 9, 10, 12, 13, 14, 15, 16, 17, 18, 20, 22, 24, 25, 27 and 30). Also, there are seasonal tariffs, for some agricultural products and specific duties for alcoholic beverages.

Tariffs on the most import are decreased, according to the so-called “sectoral initiatives” which Georgia had joined. Those initiatives covers chemical products, wood and paper products, rubber products, still products, agricultural and medical equipment, products of the informational technology, civil aircraft, furniture’s, fish and fishery products, vegetable and animal oil products.

Tariffs are increased on processed food products, alcoholic beverages and tobacco.

Import Restrictions

As a WTO member country Georgia doesn’t apply quantitative restrictions on imports, or other non-tariff measures such as licensing, quotas, bans and other restrictions having equivalent effect that could not be justified under the provisions of the WTO Agreement. If balance-of-payment measures were ever necessary in the future, Georgia has a right to impose them in a manner consistent with the relevant WTO provisions, including Article XII of the GATT 1994 and the Understanding on Balance-of-Payments Provisions of the GATT 1994.

Technical Barriers to Trade

List of Products Subject to Mandatory Certification

Code of the Nomenclature of the Products of Foreign Economic Activity	Product	Statistical Classification of Products, according to the activities CPA 002
1.	2.	3.
Group 02. Meat and Meat Sub-products		
0210	Meat and meat foodstuff sub-products, salted, in brine, dried or smoked: flour made of meat and meat sub-products,	15311
Group 08. Edible fruits and nuts, rind and peel of citruses and melons		
0813	Dried fruits	153325
Group 09. Coffee, tea and spices		
090500000	Vanilla	011340
Group 10. Grain crops		

100110	Wheat, hard	011111
100190	Wheat, soft	011112
100200	Ray	011116
100300	Barley	011115
100400	Oats	011116
1005	Corn	011113
1006	Rice	011114
1008	Buckwheat	011117
Group 17. Sugar and confectionary made of sugar		
1701	Cane and beat sugar and chemically pure solid saccharose	15831
1702	Other sugars	158313
Group 18. Cocoa and its products		
180100000	Cocoa beans, whole or grinded, roast	011334
Group 19. Finished products made of grains, flour, starch or milk, farinaceous confectionary		
1902	Macaroni foods of thermal or non-thermal treatment	15851
1905	Bread, farinaceous confectionary, pastry, cakes and other bakery or non-farinaceous confectionary	158111 158112 158211 158212 158213
Group 20. Products made through processing of other parts of vegetables, fruits, butts or plants		
2007	Jam, fruit and berry jell, marmalade, puree of fruits and berries, of nuts or pasta, including those ones subjected to thermal treatment, with sweetening agents	153322
Group 25. Salts, sulphur, soils and stones,		
2517	Pebbles, road-metals, gravel or crushed stones, usually used for concrete fillers, for ballast (layer of road-metal) for highways of railways or for other types of ballast.	142112
252400	Asbestos	145023
Group 27 mineral fuel, oil and products received as a result of oil procession		
221800000	Electric power	401010
Group 34. Volatile oils and resins, perfumery, cosmetic and toilet means		
3301	Volatile oils	246440
3302	Mixtures of odorous substances and mixtures (including spirit mixtures	246440
Group 35. Protein substances, modified starches, glues		
350300100	Gelatin and its products	246210
Group 38 other chemical products		
381900000	Fluids for brakes, hydraulic	246633
382000000	Antifreeze and anti freezing fluids, readymade	246633
Group 44. Timber and its products, wooden products		
4412	Plywood, plywooden panels and analogous materials from layered timber	202011 202012
4418	Wooden construction products	203013
Group 61. Textile garments and garment accessories sewed by machine and by hand		
6101 6102 6103 6104	Upper textile garment, machine or hand sewed	18221
6105 6106 6109 6110 6111 6112 6115	Textile garments and garment accessories, machine or hand sewed	17721 18231 18233
Group 69. Ceramic products		
690100	Bricks, blocks, tiles and other ceramic products from rock stone flour or from analogous rock stones	262611
Group 72. Ferrous metals		
7202	Ferrous alloys	271012
Group 73. Ferrous metal products282111		
730900	Reservoirs, cisterns, containers, basins and analogous capacities from black metals, for any substances (except condensed or diluted gas) of 300 liters or more, or thermo isolation or without, without mechanical or thermo technical devices	287211

732111	Household appliances – for preparing food and heating of plates from black metals or copper, non-electric	
Group 85.E electric machines and devices, their parts, sound recording and sound reproducing devices, TV image and sound recording and 8502reproducing devices and their parts and accessories		
8504	Electro generator devices and rotating electric transformers	31103
8507	Transformers electric, static, electric transformers	31104
8508	Accumulator electric, including separators instruments with straight angles or other forms manual electro incorporated with mechanic engines	31402
8509	Machines electro mechanic household incorporated with engines	294052
8517	Devices electric telephone or telegraph cable connection including wireless handset telephone devices and communication systems of cable transmission frequency or devices of digital cable system connection	297121
852510	Transmission devices radiotelephone, radiotelegraphic connection, radio broadcasting and television	322020
852520	Transmission devices radiotelephone, radiotelegraphic connection, radio broadcasting and TV, which includes receiver devices	312011
Group 95. Toys, games and sporting appliances their parts and accessories		
950410	Videogames using TV receiver	365042

Currency

The Georgian national currency, the Lari (GEL), is freely convertible. For more information visit <http://www.nbg.gov.ge>

Main Routes of Transportation

The physical location of Georgia as the most direct route between the Black Sea and the Caspian Sea, and Central Asian countries, makes the country a key transport link and corridor for the movement of goods in the region, particularly for Azerbaijan and Armenia. This location on the "Silk Road" historically brought considerable benefits to Georgia. Georgia, in close cooperation with other countries on the Silk Road, has sought to recreate this corridor since 1993, under the umbrella of the TRACECA initiative (Transport Corridor Europe Caucasus, Central Asia).

Ports. The two major ports in Georgia, in Poti and Batumi, handling respectively 3.4 and 8.4 million tons in 2001. These ports are the main external gateway for Armenia and Azerbaijan. The port of Poti can service almost all types of general, bulk, and liquid cargo. The construction of an oil terminal by a UK-based investor in partnership with EBRD will expand the facilities in Poti. Up to 90 percent of traffic through Batumi is crude oil and oil products from Azerbaijan and Kazakhstan. The average revenue per ton in Batumi is three times lower than in Poti, in part due to lower rates applied to oil. A recent comparison of tariffs for non-oil commodities in the ports of Poti and Batumi with regional and international benchmarks indicates that overall tariffs are reasonably in line with international tariffs. Nonetheless volumes of containerized cargo coming through ports in the region are very low at only a 36,000 TEUs a year, and are primarily destined for the Caucasus. The overall port capacity is not fully utilized, but in some specific segments, such as containerized cargo, capacity and handling speed are too limited in both ports to offer good services. Additional competition within the ports would be instrumental in further improving their efficiency. The port of Batumi can accommodate the two main types of rail gauge and allow the shift from one type to the other, a useful feature for ferries carrying wagons.

Pipeline. Over 70 percent of pipeline oil exports from Azerbaijan are routed through the Baku-Supsa pipeline (5 million tons in 2001) going across Georgia, with the remainder transported by the Baku-Novorossisk Russian-state controlled pipeline. The present capacity is sufficient for present oil flows when combined with rail, but an expansion in flows is foreseen, based on new developments on the Caspian Sea. The capacity of the Baku-Supsa pipeline is increasing rapidly (from 110,000 b/d in 2001 to a projected 165,000 b/d in 2003). While the pipeline through Russia

could be expanded, higher transit fees, quality issues related to oil blending, and frequent closures have made this option less attractive. The Azerbaijan International Operating Company (AIOC) exported all of its oil through the Baku-Supsa pipeline. The construction of a major export pipeline, the Baku-Tbilisi-Ceyhan pipeline through Georgia and Turkey, has recently started. Upon completion, it will enable a bypassing of the congested Bosphorus Straits. It will however seriously impact the Georgian railways and port of Batumi, by offering a highly competitive alternative corridor for the transit of crude oil from the Caspian Sea.

Rail. Rail transport dominates the transport of freight in Georgia, with the exception of the oil transported to Supsa by pipeline. After dropping by 90 percent between 1989 and 1994, rail transport increased 300 percent to 4 billion ton-km in 2000 (ECMT). Georgia's fully electrified railway network covers 1,583 kilometers of track. The main route runs across the country, starting from Baku in Azerbaijan, via Tbilisi to Samtredia and then on to Batumi and Poti ports, as well as into Russia via Sukhumi. A new line is planned between Tbilisi and northern Turkey, but the engineering obstacles, the low subsequent line speeds and the concomitant cost, are likely to undermine the viability of this route. While the Georgian Railway has managed to improve significantly over the past seven years and generate a profit, users voiced the need for further restructuring to enhance the commercial orientation of this key player in transit. The construction of the Baku-Tbilisi-Ceyhan pipeline is expected to impact the cargo mix transported by the railways, forcing the railways to explore new markets like oil products.

Road. Georgia's roads consist of international motorways (1,474 kilometers), state highways (3,326 kilometers), and local roads (15,429 kilometers). The poor condition of roads in Georgia, caused by a lack of financing and maintenance, represents a large barrier to investment and growth. Roads in Georgia often lack shoulder markings and centerlines, increasing the risk of accidents. Georgia spent on average only US\$625 per kilometer in 1999, compared to US\$4,000 per kilometer in the Baltic countries.

Air Transport. In 2001 Georgia had 35 international air routes with 14 countries. The annual volume of air cargo is low at 2,300 tons in 1999. Tbilisi airport has been rehabilitated with EBRD financing with a focus on passenger handling capacity. There are smaller airports at Kutaisi, Batumi, Poti and Senaki all near Black Sea Ports. Both airport passengers and air freight volumes declined in recent years. Air cargo transport capacity has not been expanded, even at major airports.

Market Opportunities

During the Soviet era Georgia was considered as one of the most prosperous republic. The dissolution of the Soviet Union had a negative impact on the economy of Georgia and whole industries were collapsed. Nevertheless, some signs of industry resurrection already have been seen and all of them are under private ownership. There is a number of sectors that were backbones of Georgian economy such as Agriculture, Tourism, Telecommunications, and transport which are prosperous but mostly private and state competition would be quite weak.

Market Constraints

This list is not big but problems reflected there create substantial problems to potential investors:

- Taxation Policy
- Corruption
- Undue interference of Governmental bodies into private business
- High Loan rates
- Absence of benefits for foreign investors

Banking System

For banking system information see www.nbg.gov.ge

Trade Fairs

<http://www.expo.com.ge/flash.html>

<http://georgiatrade.com/>