

# **Export opportunities for Georgia generated by the membership in the PEM Convention**

## **Part 2: opportunities for intensified exports of final (processed) products**

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# Structure

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1. Introduction
2. How Georgia can use the PEM Convention for generate more exports of final (processed) products
  - A. Attract manufacture of products from the Pan-Euro-Med zone countries facing restrictions on exports to the EU market
  - B. Use intermediate inputs from the Pan-Euro-Med zone countries to get originating status of Georgian products
  - C. Use intermediate inputs from the Pan-Euro-Med zone countries to process them together with the Georgian inputs and export

## 3. Conclusions

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# 1. Introduction

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- Georgia joined the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) in July 2017
- The PEM Convention offers so called *diagonal cumulation* implying the use of the preferential rules of origin requirements for trade among its members thereby creating opportunities for more intensive participation in production chains and higher efficiency of the mutual free trade agreements

## Key policy question:

- How can Georgia utilize export opportunities generated by the PEM Convention?
  - In PB/07/2019, we analyzed untapped opportunities for GEO exports of intermediate products to build into production chains abroad
  - Now, we focus on opportunities for attraction of export-oriented production in Georgia and exports of final (processed) products

## 2. How Georgia can use the PEM Convention to generate more exports of final (processed) products

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**Goal:** the expansion of Georgia's exports of processed products using intermediate products originating from the Pan-Euro-Med zone

### **Approaches:**

- A. Use intermediate inputs originating from the Pan-Euro-Med zone to produce in Georgia and export goods that other PEM countries cannot supply freely due to trade restrictions
- B. Use intermediate products originating from Pan-Euro-Med zone to get the origination status in the destination country
- C. Use intermediate inputs from the Pan-Euro-Med zone countries to process them alongside with the Georgian inputs and export thereby overcoming the volume constraints and gaining economies of scale

**Note:** In this policy brief, we analyze the EU as the destination market and other FTA partners in the Pan-Euro-Med zone as potential source markets for intermediate inputs

# A. Products facing restrictions on exports to the EU market

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- **Focus:** tariff rate quotas (TRQs)
- **Potential partner countries:** Ukraine, Turkey, Moldova
- To generate this opportunity, a product has to satisfy several criteria:
  - Not to be a raw material so that Georgia can claim the reasonable working or processing domestically to justify the Georgian origin; and
  - Be a product that Georgia is eligible to exports to the EU (Georgia is so far not eligible to export the most of animal-origin products)
- The next step is to briefly assess the economic viability of the attraction of export-oriented production to Georgia
- Below we review the list of TRQs embedded in Ukraine, Turkey and Moldova Association Agreements with the EU to identify the products satisfying the above criteria

# Tariff rate quotas faced by Ukraine

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- **Total number of TRQs: 36** (see Annex 4), including:
  - **TRQs for raw materials (excl. animal-origin products): 7**, including 4 TRQs containing both raw and processed products ('complex TRQs')
  - **TRQs for animal origin products: 12**
  - **TRQs for semi-processed and processed products: 21**, including 4 complex TRQs
- Out of TRQs for semi-processed and processed products, we analyze the following categories as the most promising:
  - Milling products (flours, pellets, starches, brans etc.)
  - Sugars
  - Processed fruits and vegetables
  - Chemical products / ethanol derived from plant inputs

# Potential products for attracting export-oriented production from Ukraine (1/3)

	GEO total exports, 2018, USD m	GEO exports to EU, 2018, USD m	GEO imports of <u>input</u> from UA, 2018	UA exports of <u>inputs</u> , 2018	Potential assessment
<b>Milling products</b>					
Wheat flours and pellets	2.8	--	Yes	Yes	Potential
Barley flours and pellets	0.0	--	No	Yes	No potential
Maize flours and pellets	0.0	--	Yes	Yes	Very limited
Barley goats and meal	0.0	--	No	Yes	No potential
Malt and wheat gluten	0.0	--	Yes	Yes	Very limited
Starches	0.0	--	Yes	Yes	Very limited
Bran, shaps	0.1	--	Yes	Yes	Very limited
Cereal processed products	0.1	--	Yes	Yes heat flours and pellets	Very limited

Source: TradeMap, own estimates. Methodological note: Georgia exports the product already and imports inputs – “Potential”; Georgia does not export the product, but import inputs and the domestic production exists or technology is simple – “Very limited potential”; otherwise, “No potential”

# Potential products for attracting export-oriented production from Ukraine (2/3)

	GEO total exports, 2018, USD m	GEO exports to EU, 2018, USD m	GEO imports of <u>input</u> from UA, 2018	UA exports of <u>inputs</u> , 2018	Potential assessment
<b>Sugars and syrups</b>					
Sugars	0.3	--	No	No	No potential
Other sugars	0.0	--	No	No	No potential
Sugar syrups	0.0	--	No	No	No potential
Sugar processed products	0.0	--	Partly	Partly	No potential
<b>Processed fruits and vegetables</b>					
Prepared tomatoes	0.0	--	No	Yes	Very limited
Grape juice	0.0	--	No	No	No potential
Apple juice	1.0	1.0	Yes	Yes	Potential
Processed sweetcorn	0.0	--	No	Yes	No potential

Source: TradeMap, own estimates. Methodological note: see previous slide



# Potential products for attracting export-oriented production from Ukraine (3/3)

	GEO total exports, 2018, USD m	GEO exports to EU, 2018, USD m	GEO imports of <u>input</u> from UA, 2018	UA exports of <u>inputs</u> , 2018	Potential assessment
<b>Chemical products / ethanol</b>					
Ethanol	3.4	3.2	Yes	Yes	Potential
Mannitol-sorbitol	0.0	--	Yes	Yes	Very limited
Malt-starch processed products	0.0	--	Yes	Yes	No potential

Source: TradeMap, own estimates. Methodological note: see previous slide

# Summary for Ukraine

- Out of semi-processed and processed products subject to TRQs in EU-Ukraine AA/DCFTA, there are several products with some export potential for Georgia:

Potential	Wheat flours and pellets; Apple juice; Ethanol
Very limited potential	Maize flours and pellets; Malt and wheat gluten; Starches; Bran, shaps; Cereal processed products; Prepared tomatoes; Mannitol-sorbitol

- Other factors to be taken into account at the next step of export potential analysis for identified products to assess its business viability:
  - Transportation and logistic costs (see PB/01/2020 for existing bottlenecks)
  - Production costs / economies of scale potential

# Tariff rate quotas faced by Turkey

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- **Total number of TRQs: 17 (see Annex 3), including:**
  - **TRQs for raw materials (excl. animal-origin products): 6**
  - **TRQs for animal origin products: 3**
  - **TRQs for semi-processed and processed products: 8**
- **Out of TRQs for semi-processed and processed products, we analyze the following categories as the most promising:**
  - Vegetable oils
  - Processed tomatoes
  - Jams, jellies, marmalades
  - Fruit juices

# Potential products for attracting export-oriented production from Turkey

	GEO total exports, 2018, USD m	GEO exports to EU, 2018, USD m	GEO imports of <u>input</u> from TUR, 2018	TUR exports of <u>inputs</u> , 2018	Potential assessment
Virgin olive oil, other	0.0	0.0	No	No	No potential
Prepared tomatoes	0.0	0.0	Yes	Yes	Very limited potential
Jams, jellies, excl. of citrus fruits	6.4	5.9	Yes	Yes	Potential
Jams, jellies of citrus fruits	0.0	0.0	Yes	Yes	Very limited potential
Fruits, otherwise prepared (citrus, apricots, peaches, cherries, berries)	0.0	0.0	Yes	Yes	Very limited potential
Fruit juices (orange, grapefruit, grape, mixtures)	1.0	0.5	Yes	Yes	Potential

Source: TradeMap, own estimates. Methodological note: Georgia exports the product already and imports inputs – “Potential”; Georgia does not export the product, but import inputs and the domestic production exists or technology is simple – “Very limited potential”; otherwise, “No potential”

# Summary for Turkey

- Out of semi-processed and processed products subject to TRQs in EU-Turkey arrangements, there are several products with some export potential for Georgia:

Potential	Jams, jellies, marmelates, excluding of citrus fruits; Fruit juices (orange, grapefruit, grape, mixtures)
Very limited potential	Prepared tomatoes; Jams, jellies of citrus fruits; Fruits, otherwise prepared (citrus, apricots, peaches, cherries, berries)

- Other factors to be taken into account at the next step of export potential analysis for identified products to assess its business viability:
  - Transportation and logistic costs (see PB/01/2020 for existing bottlenecks)
  - Applied import duties (GEO-TUR FTA covers only selected agriproducts)
  - Production costs / economies of scale potential

# Tariff rate quotas faced by Moldova

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- **Total number of TRQs: 6, including:**
  - **TRQs for raw materials: 5** (tomatoes, garlic, table grapes, apples, plums)
  - **TRQs for processed product: 1** (grape juice/concentrated grape juice)
- Only potential product is **grape juice/concentrated grape juice**
- Georgia would need to import Moldova grape to produce the juice in order to meet the minimum processing requirement
- But: Georgia has sufficient supply of its own grape and do not export grape juice in commercial quantities
- **Very limited opportunity for use EU-Moldova trade restrictions to attract export-oriented production to Georgia**

## B. Use intermediate products originating from Pan-Euro-Med zone to get the origination status in the EU

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- How to measure:
  - Identify products that do not meet EU preferential rules of origin:
    - GEO products that (a) it exports to the EU and (b) are eligible for preferential treatment and (c) are not treated under preferential rules and may non-zero MFN rate instead
    - Source: Eurostat by regime of imports
  - Check whether these products need imported inputs. If yes, check what is the current source of inputs. Check whether PEM countries (non-EU) can supply the similar inputs
  - Products that meet both criteria – have potential

# Selected GEO products eligible for preferential trade regime, but exported under non-zero MFN

	GEO production	Inputs from Pan-Euro-Med zone	Potential assessment
New pneumatic tires, of rubber	?	Yes	Very limited
Women's or girls' trousers, knitted or crocheted	Yes	Yes	Potential
Carboys, bottles, of glass	Yes	?	No potential
T-shirts, knitted or crocheted (excl. cotton)	Yes	Yes	Potential
Tanks, casks, drums, cans, boxes and similar containers, of iron or steel	Yes	Yes	Potential
Urea	Yes	Yes	Potential
Dryers	?	Yes	Very limited
Unwrought aluminum alloys	Yes	Yes	Potential
Stoppers, caps and lids, and other packing accessories of base metal (excl. cork corks)	Yes	Yes	Potential
Wrist-watches, whether or not incorporating a stop-watch facility	?	Yes	Very limited
Ferro-silicon, containing by weight > 55% of silicon	Yes	Yes	Potential

Source: TradeMap, Geostat, own estimates.

➤ Apparel and metal products have the best potential to explore the opportunities provided by the diagonal cumulation using intermediate products originating from Pan-Euro-Med zone



## C. Use intermediate products originating from Pan-Euro-Med zone to process together with the Georgian inputs and export

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- Focus: agricultural products as for them a small volume of domestic production is considered among key barriers for exports (see GEO PB/01/2020)
- How to measure:
  - Identify food products originating in Georgia that are treated under preferential rate at the EU
    - Source: Eurostat by regime of imports
  - Check whether these products need imported inputs. If yes, whether PEM countries (non-EU) can supply the similar inputs
  - Products that meet both criteria – have potential

# Selected GEO food products featuring preferential treatment at the EU market and small volume of exports

Description	GEO production	Inputs from Pan-Euro-Med zone	Potential assessment
Cereal flours	Yes	Yes	Potential
Flour, meal and powder of dried leguminous vegetables	Yes	Yes	Potential
Chocolate and other food preparations containing cocoa	Yes	?	Very limited
Vegetables, fruit, nuts, prepared or preserved by vinegar	Yes	Yes	Potential
Mushrooms and truffles, prepared or preserved otherwise than by vinegar or acetic acid	?	Yes	Very limited
Vegetables, fruit, nuts, fruit-peel and other edible parts of plants, preserved by sugar	Yes	Yes	Potential
Jams, fruit jellies, marmalades, fruit or nut purée	Yes	Yes	Potential
Fruit juices, incl. grape must, and vegetable juices, unfermented	Yes	Yes	Potential

Source: TradeMap, Geostat, own estimates.

➤ Prepared or preserved vegetables, fruits and nuts, including juices, have the best potential to use the opportunities provided by the diagonal cumulation by mixing domestic inputs and inputs originating from Pan-Euro-Med zone for export-oriented production

# 3. Conclusions

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- The participation in the PEM Convention creates new opportunities for Georgia to develop export-oriented domestic production and exports
- We explored three approaches for using intermediate inputs originating from the Pan-Euro-Med zone that feasible in short- to medium-term and identified the following potential products:
  - A. Goods that other PEM countries cannot supply freely to the EU due to trade restrictions**  
**Potential:** apple juice, wheat flour, and ethanol using inputs from Ukraine; jams, excl. of citrus fruits, and fruit juices using inputs from Turkey
  - B. Getting origination status in the EU**  
**Potential:** apparel and metal products
  - C. Processing alongside with the Georgian inputs to boost export volume**  
**Potential:** prepared or preserved vegetables, fruits and nuts
- In order to know if there is a business case, it is necessary to assess other factors, in particular the cost of transport; but this task goes beyond the scope of this briefing

# About the German Economic Team



The German Economic Team (GET) advises the governments of Ukraine, Belarus, Moldova, Georgia and Uzbekistan regarding the design of economic policy reform processes and a sustainable development of the economic framework. As part of the project we also work in other countries on selected topics.

In a continuous dialogue with high-level decision makers of the project countries, we identify current problems in economic policy and then provide concrete policy recommendations based on independent analysis.

In addition, GET supports German institutions in the political, administrative and business sectors with its know-how and detailed knowledge of the region's economies.

The German Economic Team is financed by the Federal Ministry of Economics and Energy (BMWi). The consulting firm Berlin Economics has been commissioned with the implementation of the project.

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# Annex 1: Overview of the PEM Convention

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- **The Regional Convention on pan-Euro-Mediterranean preferential rules of origin** (PEM Convention) is an international agreement that specifies a single set of rules of origin for goods among its member countries
  - Members as of October 2019: 50 countries and territories, including *EU-28, EFTA, Albania, Bosnia and Herzegovina, Egypt, Faroes, North Macedonia, Georgia, Israel, Jordan, Lebanon, Moldova, Montenegro, Morocco, Palestinian Authority, Serbia, Tunisia, Turkey, Ukraine*
  - **Key principle of diagonal cumulation:** goods or products that have originating status in one of the countries within the Pan-Euro-Med zone may be added to products originating in another country within the Pan-Euro-Med zone without losing originating status within the PEMC zone. But not in “any other country within the Pan-Euro-Med zone”, but only in the countries that have mutual FTAs
- **GEO can use the PEM Convention for trade with its FTA partners**
- **Current list: the EU, EFTA, Turkey, Ukraine and Moldova**

## Annex 2: EU-Turkey trade arrangements by product categories

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**1964:** EU-Turkey Association Agreement (the "Ankara Agreement") enacted

**1996:** Customs Union as a final stage of the Association Agreement, but not for all products:

### **Industrial products (excl. coal & steel, some food products)**

- Customs union
- No quantitative restrictions, no TRQs
- Rules of origin: bilateral and diagonal cumulation

### **Coal and steel products**

- Preferential arrangements with the European Coal and Steel Community
- No quantitative restrictions, no TRQs
- Rules of origin: bilateral and diagonal cumulation

### **Agricultural products**

- Preferential arrangements
- Contains TRQs
- Rules of origin: bilateral and diagonal cumulation

# Annex 3: Turkey's TRQs

Categories	Products
<b>Raw materials (excl. animal origin products)</b>	1. Potatoes fresh or chilled; 2. Onions; 3. Eggplants; 4. Courgettes; 5. Fresh table grapes; 6. Watermelons
<b>Animal-origin products</b>	1. Meat of sheep or goats; 2. Meat of turkey; 3. Kashkaval cheese; cheese made from sheep's milk
<b>Semi-processed or processed products</b>	1. Other virgin olive oil; 2. Prepared tomatoes; 3. Other prepared or preserved tomatoes; 4. Jams, jellies, marmalades, excl. of citrus fruits; 5. Jams, jellies, marmalades, of citrus fruit; 6. Other preparations; 7. Fruit, nuts and other edible parts of plants, otherwise prepared and preserved (related to: citrus, apricots, peaches, cherries, berries); 8. Fruit juices (orange, grapefruit, grape, mixtures)

*Source: Decision No 1/98 of the EC-Turkey Association Council of 25 February 1998 on the trade for agricultural products (as amended on 20.7.2018)*

# Annex 4: Ukraine's TRQs

Categories	Products
<b>Raw materials* (excl. animal origin products)</b>	1. Garlic; 2. Common wheat; 3. Barley; 4. Oats; 5. Maize; 6. Mushrooms; 7. Sweetcorn (fresh)
<b>Animal-origin products</b>	1. Beef meet; 2. Pork meat; 3. Sheep meat; 4. Poultry meat and poultry meat preparations; 5. Eggs and albumins; 6. Honey; 7. Milk, cream, condensed milk and yogurts; 8. Milk powder; 9. Butter and dairy spreads; 10. Fermented-milk processed products; 11. Processed butter products; 12. Milk-cream processed products;
<b>Semi-processed or processed products*</b>	1. Sugars; 2. Other sugars; 3. Sugar syrups; 4. Wheat flour and pellets; 5. Barley flour and pellets; 6. Maize flour and pellets; 7. Barley goats and meal, cereal grains and otherwise worked; 8. Malt and wheat gluten; 9. Starches; 10. Starch processed; 11. Bran, shaps and residues; 12. Prepared tomatoes; 13. Grape and apple juice; 14. Sweetcorn (processed); 15. Sugar processed products; 16. Cereal processed products; 17. Food preparations; 18. Ethanol; 19. Cigars and cigarettes; 20. Mannitol-sorbitol; 21. Malt-starch processed products

*Source: EU-Ukraine Association Agreement; Appendix to Annex I-A; several TRQs are split between categories as they contain both raw and semi-processed or processed products*