



## Cross Cutting SUPPORTING FUNCTIONS AND RULES IN EXPORT

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## LIST OF ABBREVIATIONS

ABBA	Ajarian Beekeeping Business Association
ACCI	Ajara Chamber of Commerce and Industry
ALCP	Alliances Caucasus Programme
BICT	Batumi International Container Terminal
CIS	Commonwealth of Independent States
CMA CGM	Compagnie Maritime d'Affrètement Compagnie Générale Maritime
CMR	Cargo Movement Request
EU	European Union
FCL	<a href="#">Full Container Load</a>
GCCI	Georgian Chamber of Commerce and Industry
GEL	Georgian Lari (currency)
GTE	Georgian Trans Expedition
LCL	Less than Container Load
LHPs	Livestock and Honey Producers
Ltd	Limited company
MoA	Ministry of Agriculture
MSC	Mediterranean Shipping Company
NFA	National Food Agency
RS	Revenue Service
SME	Small & Medium Enterprise
TEU	Twenty-foot Equivalent Unit
TRACES	Trade Control and Export System
UK	United Kingdom
US	United States
USD	United States Dollars
Vet	Veterinary
WTO	World Trade Organization
3PL	Third Party Logistics

## EXECUTIVE SUMMARY

Facilitating the export of products of animal origin such as dairy, meat, wool and honey is the next step in ensuring SME sustainability, especially when Georgia has free trade agreements with the EU, China, Iran, Turkey, CIS countries and preferential trade agreements with World Trade Organisation member countries. Iran for example offers a huge market for Halal meat which was recently boosted by free trade agreements between Georgia and Iran and two wool collection centres in Georgia have been registered in the TRACES system which allows access to the EU market. As the medium tier has grown in meat and dairy and international interest in Georgian honey and wool has continued to develop, cross border and export market opportunities are developing naturally amongst ALCP SME clients as well as in the wider market. Based on programme experience, business expansion is, in a growing number of cases leading naturally to export, which itself is a natural indicator of sustainability and growth.

To date amongst ALCP SME's these include *Sulguni* cheese to Russia, smoked *Sulguni*, *Sulguni* and *Factory* cheese to the US, *Halal* beef and mutton to Iran and Azerbaijan, live cattle and processed beef to Iraq and wool to the Ukraine (China), Kazakhstan, India and the UK<sup>1</sup>. Honey has been exported to North Africa and the Middle East and Asia albeit ad-hoc and in small amounts and Georgian chestnut honey plugs the demand gap in Turkey although smuggled in and sold as Turkish honey. A recent trade deal with China may offer further opportunities. Infographics in the *Introduction* show the stakeholder benefits gained from wool and sheep meat export by ALCP clients.

For several years, export of products of animal origin has suffered from considerable constraints. In the recent past the export of live sheep to a large Middle Eastern market has offered promise but has suffered from international buyers' intent on gaining a cheap commodity and being able to do so due to asymmetrical power balance caused by lack of internal regulation and weakness in national capacity mostly in relation to food safety and hygiene standards but also in relation to governance within public institutions involved in export. However, this has changed recently and the market for processed sheep in the Gulf countries primarily in Iran has exploded changing the dynamics of the meat sector. Ensuring sustainability of supply to allow for future growth and fair-pricing with maximum benefits to producers is of paramount importance.

Honey is another sector of considerable export promise for Georgia. Enlisting Georgia on the EU Third Country list has further increased the export possibilities. Huge interest from Arab states and EU countries in Georgian honey exhibited at the 45<sup>th</sup> Apimondia congress in Istanbul proved its high export potential. The honey sector has never yet reached sustained repeated shipments and a candid market assessment as well as a vision of facilitation is described in the *Prospects for the Export of Georgian Honey*.

Poor efficiency and poor capacity of export officials, agencies and logistics companies undermines and leads to wasted export potential of SME's entering fledgling export markets won by risky and expensive investments. Addressing these constraints is of importance as it directly affects the sustainability of the markets for supplier farmers. Table one and two detail the functions of key players in export, including government officials and agencies as well as logistics companies and freight handlers, and show that the coordinated knowledge and capacity of these players is crucial to attaining greater efficiency within the system. The development of guidelines on export procedures for animal-origin products (honey, wool, meat and dairy) for example and advocacy to the above mentioned players will result in increased capacity

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<sup>1</sup> *Sulguni* and *Imeruli* is also traded with Abkhazia

and support to SME's in diversifying their export markets and further offering more stable markets to farmers.

In parallel to this, an understanding by SME's of the competitive advantage of differentiated products from bulk to niche, exported to a diverse market place needs to be developed for the achievement of maximum benefits.

The programme has conducted sectoral research to identify key constraints, pro-poor opportunities and entry points for ensuring sustainability in the sectors of Dairy, Meat, Honey and Cross-Border Trade. *This research* is tailored to add value to these sectoral research documents and details the constraints in the supporting functions and rules related to the export of animal-origin products and describes and draws out the entry points for programme facilitation. (See *Table 3 Systemic Constraints, Drivers and Pro Poor Opportunities and Entry Points*).

## INTRODUCTION

### *Benefits to the Target Group*

Repeated shipments of meat and wool and dairy to different export countries indicated in Figure 1 have directly resulted in financial benefits for LHP's benefits, which are illustrated in Figure 2 below. Therefore improving export functions to enable businesses to continue to reach diverse markets efficiently which allows for future growth and fair-pricing with maximum benefits to suppliers is of paramount importance.

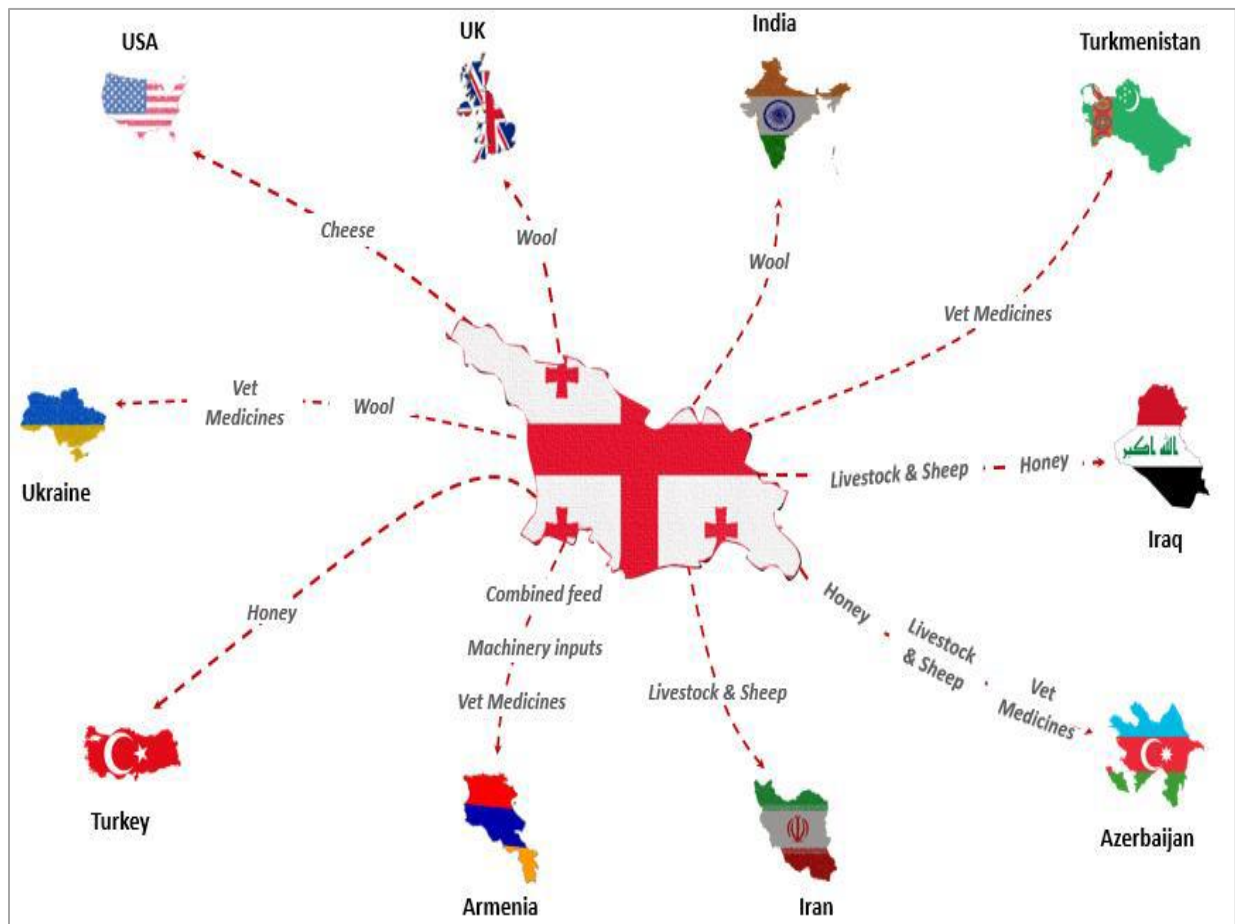


Figure 1 Export from ALCP entities to date

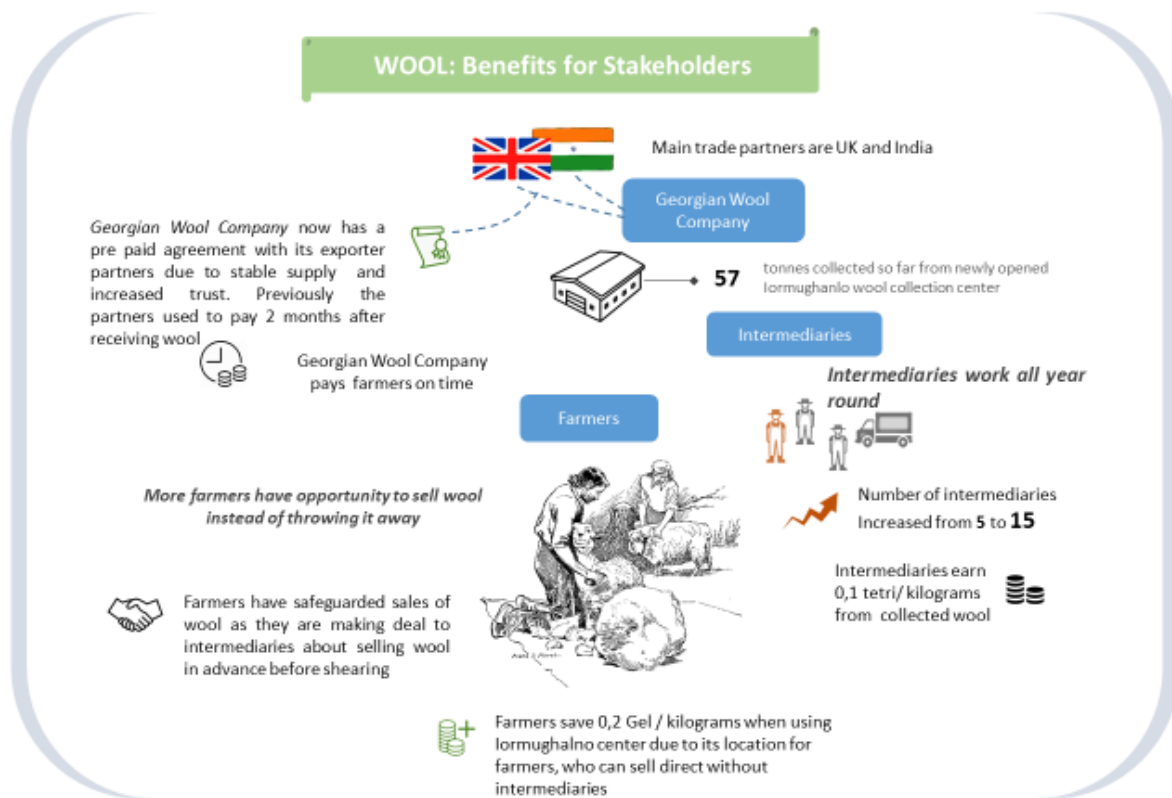


Figure 2 Benefits of Wool Export

*Stable supply to processors* allows them to diversify their export markets. Diversified export markets result in increased investments in facilities, increased export transactions and increased income for the business and LHPs. For example, one of the programme clients, Alali Ltd, invested more than 100,000 USD in the building of a new sheep slaughterhouse and processing plant for sheep by-products to meet increased demand. Figure 3 below describes the impact on business and impact on farmers generated through the export of processed sheep meat:

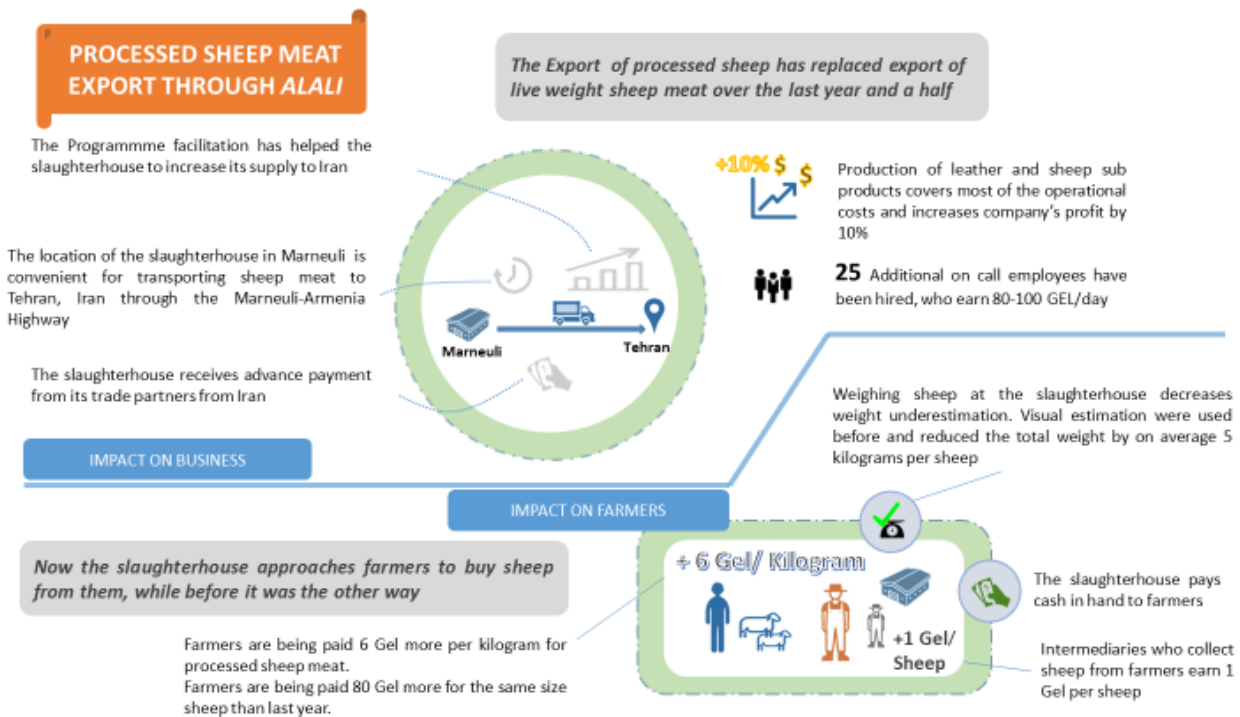


Figure 3 Benefits of Processed Sheep Meat Export

*Efficient operations of the supporting functions and rules related to export* allow SME's to fully exploit export opportunities. Appropriate support systems and a government that maintains a consistent and equitable enabling environment need to be in place. Even though the government has taken several steps forward by enforcing more effective veterinary control including the Bio Security Points and opening three official points to issue a certificate of origin for export which makes the procedure quicker and more flexible; SMEs still face constraints related to supporting functions and rules given in the Market Systems diagram below.

*Note:* Detailed export constraints related to each core sector e.g. honey and the detailed requirements for honey export and testing, or export of machinery parts to Armenia are given in detail in their respective reports.



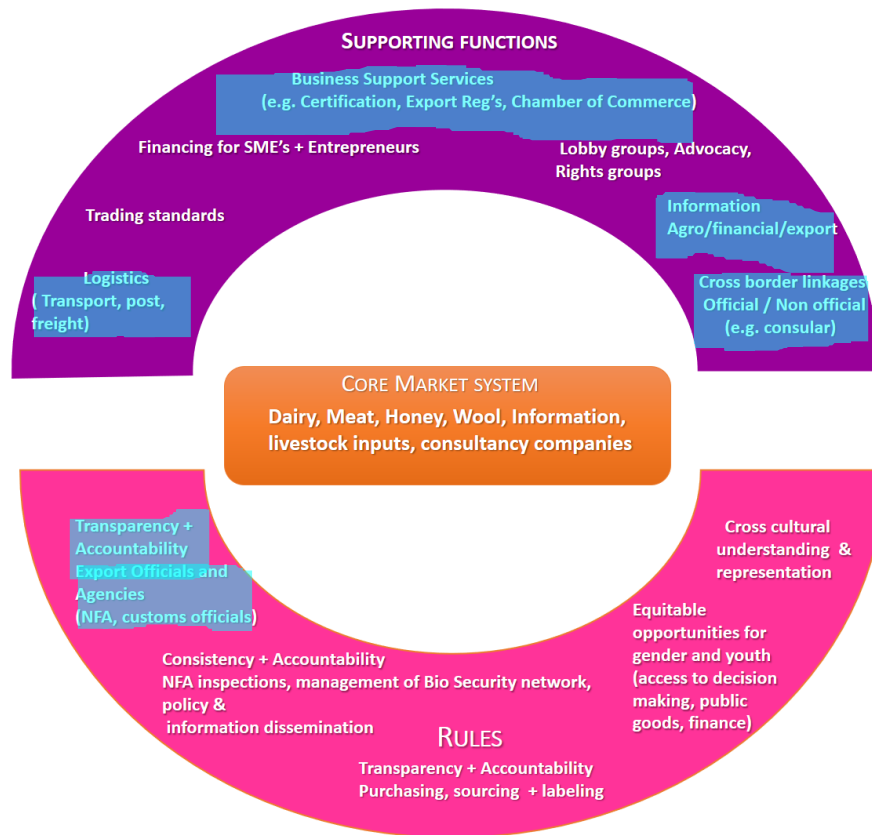


Figure 4 Market Systems Diagram with Highlighted Supporting Functions and Rules

## KEY EXPORT FUNCTIONS

### LOGISTICS COMPANIES

*Efficient business performance highly depends on the work of logistics companies, as their service influences product delivery time. Transaction costs are reflected in the final price of the product and altogether they have a considerable impact on customer satisfaction. The favorable geographic location of Georgia has promoted the development of all types of transport (air, road, railway, and pipeline) in the country. At present, there are three active sea ports (Batumi, Poti and Kulevi<sup>2</sup>), one airport (Tbilisi<sup>3</sup>), one railway operator (Georgian Railway) and hundreds of road haulage and forwarding companies organizing cargo transportation within and outside the country. However, Georgia has little or almost no experience of exporting animal-origin products and therefore the experience and performance of these logistics companies are poor when it comes to the export of these specific products. Please see a detailed description of the function of key logistics players in *Table 1* below.*

**Table 1: Overview of Logistic Service Providers linked to Export**

Logistics Service Providers		
Name	Description	Link to Export
<b>Ports &amp; Container Terminals</b>	<p>Batumi International Container Terminal (BICT) and APM Terminals Poti provide container handling, dry bulk handling and ferry facility to shipping lines. At present BICT is leased to Philippians ICTSI for 50 years and APM is in private ownership by Danish shipping line MAERSK. Neither of the terminals have any legal liability towards Georgian government.</p> <p>BICT has a capacity to handle 100,000 TEU per year, however currently only 60-70% of its capacity is used. In case of increased demand capacity of the terminal can be increased to 300,000 TEU per year. At present, only one shipping line is operating in BICT-Italian shipping Line MSC (Mediterranean Shipping Company). BICT's advantage over APM Terminals Poti is more competitive terminal rates and timely service. However, big shipping lines and forwarding companies are established in Poti due to higher capacity of the port. Batumi Port is mainly used for oil and oil products transportation.</p> <p>Maximum capacity of APM Terminals Poti is to handle 10 million tonnes of dry cargo per year, however at present only 80% of the capacity is used. APM terminals Poti does not own any cargo terminals (except 1 terminal for imported vehicles) for container storage, discharged containers are directly moved to private terminals and there are 15 such terminals in Poti. Up to 5 shipping lines are present in Poti Port.</p>	SME willing to export goods have to establish contact with shipping lines or freight forwarding companies, which work directly with terminals. The APM terminal or BICT are not responsible for any kind of delays of container shipping or handling.
<b>Shipping Lines</b>	<p>Out of 5, 3 shipping lines were surveyed – MSC (Italian company), CMA CGM (French company) and Evergreen Line (Taiwanese company). All of them have head offices in Tbilisi and sub-offices in Poti. just MSC is present in Batumi as well. The freight rates of all surveyed companies slightly differ from each other.</p> <p>Among the surveyed shipping lines, MSC offer the most rapid service, as compared to Evergreen that receives 1 ship/week and CMA CGM receiving 1 ship /10 days, MSC receives 2 ships/week in</p>	Exporter (consignor) either works directly with one of these shipping lines, Lasare ltd or road haulage company or use the service of intermediary called freight forwarding company. In case of cooperating directly with shipping lines, Lasare ltd or road haulage company, the consignor is responsible for providing a

<sup>2</sup> The biggest port of Anaklia is in process of construction, construction to be finished in 2020.

<sup>3</sup> Batumi and Kutaisi airports do not have cargo terminals

	<p>Poti and 2 ships/week in Batumi port, so the cargo storage time and thus charges are minimized.</p> <p>One of the main factors to be taken into account is that the shipping lines organize only FCL (full container Load) shipment, so consignors working directly with shipping lines are liable either to fill the whole container, find another consignor and organize consolidated shipment or organize LCL (less container load) shipment but pay the FCL charges.</p>	<p>full set of shipping documents (invoice, packing list, certificate of origin, customs declaration and other specific documents required by the consignee) and he/she is responsible for the accuracy of these documents.</p>
<b>Air Cargo Terminal</b>	<p>Lasare Ltd has a monopoly in airfreight shipment in Georgia. It is a Private Air Cargo Terminal operating in Tbilisi and offering aircraft cargo handling, customs warehouse and storage services. Business operator can directly contact the company in order to get price quotation or organize shipment (book the cargo space), however in this case, it is in consignor's responsibility to supply the goods to the terminal with all necessary shipment documents. Lasare Ltd does not take responsibility for the accuracy of the documents, if a document is missing or is not accurate the consignor is responsible to correct it and in such case, additional storage charges apply to the cargo.</p> <p>Regarding the rates, the air freight rates are much higher compared to sea rates, therefore cargo air service is used only in case of fulfilling urgent orders or for sending small cargo (for example, product samples).</p>	
<b>Road haulage companies</b>	<p>There are hundreds of road haulage companies present in Georgia. Main constraints these companies face is a lack of high quality vehicles that meet international standards. Operational area of Georgia based companies owning its own fleet of vehicles is mainly limited to organizing shipments to neighbor countries, as in case of EU countries, they do not have appropriate infrastructure to get a license. The road freight is cheaper than air freight but more expensive than sea freight.</p>	
<b>Freight forwarding companies</b>	<p>Different freight forwarding companies are operating on the logistics market. They act as an intermediary between a consignor and various transportation service providers and offer a full range of services including: tracking inland transportation, preparation of shipping and export documents, warehousing, booking cargo space, negotiating freight charges, freight consolidation, cargo insurance and filing of insurance claims.</p> <p>One of the biggest and most experienced freight forwarding company, Georgian Trans expedition Ltd (GTE), was surveyed. The company has been operating since 1996 and has offices in Tbilisi and Poti and representatives in Batumi. The company has its own vehicles and owns a container terminal in Poti. Today GTE holds the leading position on regional market of cargo shipments and offers the customers full set of logistic service. Its services include but are not limited to: Freight Forwarding (Sea/ Rail/ Air/ Road); Warehousing/Terminal Services; Customs Clearance; Liner Agency; Project Cargo Handling; 3PL Logistics, etc.</p>	

The transparency and accountability of export officials at ports and borders and agencies such as the National Food Agency form the rules underpinning the export process and determine its efficiency and effectiveness. The key to successful export in addition to finding a reliable transportation service provider is the provision of an accurate and comprehensive set of export documents. It can influence the cargo transit time as well as logistics costs. In particular, the capacity of export officials and agencies and freight forwarding companies in terms of the knowledge and experience of *working on and issuing required export documentation* is of high importance. Inaccuracy in documentation and delays in delivery can cause additional transaction fees which can result in them being paid by the exporter as none of these agencies feel accountable. An example of such a case is given in Box 1 below.

**Box 1 Example of wool export case resulting in additional transaction costs**

The ALCP client, Georgian Wool Company Ltd (wool exporter) had to pay an additional 2,000 USD for stopping their freight for 1.5 weeks at the importer country port because of a mistake in the number of the container in the Vet Certificate (prepared by the NFA). The inaccurate document had passed through several border officials before the consignment was sent from Georgia but none of them responsibly checked the compliance and detected the mistake. Neither NFA nor border officials feel accountable for the mistake made, which harmed the exporter significantly.

Table 2 below gives a description of government related agencies, which provide services essential for export. Provision of Mandatory documentations such as export declaration, certificate of origin, vet certificate is under the responsibility of these agencies.

**Table 2: Overview of government agencies linked to export**

Legal requirements/Mandatory Documentation/Administration/Technical Support		
Name	Description	Link to Export
<b>National Food Agency</b>	The National Food Agency (NFA) operating under the Ministry of Agriculture of Georgia is responsible for issuing Veterinary (Vet) Certificate's for the export of animal origin products from Georgia. The exporter has to apply to the NFA in written form and pay 50 GEL in order to receive the document. The Vet certificate is not issued if a cargo does not comply with the veterinary requirements of the importing country. For that reason, it is crucial for the NFA officials to know the veterinary requirements of import countries categorized by products. However currently this responsibility lies on the shoulders of exporter, who is accountable of knowing all the requirements, procedures and rarely gets support from the agency. The agency officials lack the knowledge and experience of filling in such document mainly resulting from inexperience.	Exporter applies to NFA, which is the main body issuing veterinary certificate required for the export of animal-origin products.
<b>Revenue Service</b>	All exported/imported products pass through the Revenue Service (RS) in Georgia, which is a legal entity of public law of the Ministry of Finance of Georgia. However, as the export procedures are simplified in Georgia, RS is limited to issuing just one document - export declaration, based on the additional set of documents supplied by the consignor (or forwarder).	Any export that takes place from Georgia pass through the Revenue Service. Export Declaration is the main document issued by the agency approving the export.

	<p>Cargo has to be accompanied by invoice and transport weigh bill. In case of export of livestock products, additional document required is a vet certificate that is issued by the NFA. Cargo Movement Request (CMR) is made by the exporter and based on all these documents, customs export declaration is made by the RS within two working days. Some countries may require the certificate of origin, which is issued either by customs office free of charge or by Chamber of Commerce and Industry for the fee of 100 GEL/per cargo.</p> <p>When the cargo is customs cleared it has to leave the country within the next 10 days. All export procedures are regulated by the Statement #290 issued by the Minister of Finance of Georgia.</p> <p>General information on the list of required export documentation and export procedures is provided on the website of the Revenue service.</p>	
<b>Ministry of Agriculture of Georgia (MoA)</b>	The Ministry is responsible for analysis of the local market, identifying export products, the promotion of Georgian products and support exporters.	Exporter can advocate with MoA for the promotion of the sector and the export product to international markets.
<b>Enterprise Georgia</b>	Enterprise Georgia is a government agency under the Ministry of Economy and Sustainable Development of Georgia, which implements export support programme in addition to other support programmes. The agency works with exporters by providing technical backstopping and technical financial assistance up to 10, 000 GEL.	Exporter can apply for the Agency's support up to 10, 000 Gel plus receive information on export markets + participate in international exhibitions with the financial support of the Agency.
<b>Chamber of Commerce and Industry</b>	The Georgian Chamber of Commerce and Industry (GCCI) is a central level institution with the main goal of supporting and developing businesses in Georgia. It has regional branches throughout Georgia and works in coordination with Ajara Chamber of Commerce and Industry (as a separate entity). As an alternative to government agencies, the chamber of commerce issues Certificate of Origin and EUR 1 certificate to exporters for the fee of 100 GEL each. It also offers arbitration service and expertise of products to businesses. The chamber of commerce and industry offices can also offer paid service of collecting information on importer country requirements + opportunities.	Exporter can apply to chamber of commerce and industry for issuing Certificate of Origin for the fee of 100GEL if she/he wants to get it immediately.
<b>Consular</b>	Foreign consular offices in Georgia can play vital role in facilitating linkages and exchanging the export related information related to the country it represents. For example, Consulate General of Turkey provided support to ABBA/ACCI in establishing linkages with Turkish beekeepers and supported ABBA's participation in Honey festival held in nearby region (Artvin, Turkey) and Apimondia 2017 in Istanbul, Turkey,	Chamber of Commerce, Associations and government agencies can cooperate with consular in the promotion and export of Georgian products.

## KEY CONSTRAINTS, OPPORTUNITIES AND ENTRY POINTS

Constraints faced by the SMEs result in wasted potential, undermining fledgling markets. As entry into these markets usually demands expensive and risky investments to get to the point of export being an option, export becomes much less feasible unless constraints further increasing risk and expense are not removed. Key constraints are listed in the Table 1, where pro-poor drivers and entry points are also defined.

Table 3: Systemic Constraints, Drivers & Pro-Poor Opportunities and Entry points

Export Market System		
Systemic Constraints	Drivers & Pro-Poor Opportunities	Entry points
<b>Export Officials and Agencies</b>  Poor efficiency: <ul style="list-style-type: none"> <li>- Lack of expertise, experience and responsibility in preparing and issuing export documents related to animal-origin products resulting in errors in documents and additional transaction costs to SMEs</li> <li>- Lack of coordination between agencies (NFA, border officials, Revenue Service)</li> </ul> Poor capacity: <ul style="list-style-type: none"> <li>- Lack of knowledge of importer country requirements</li> </ul> <b>Exporter SMEs</b> Wasted potential: <ul style="list-style-type: none"> <li>- Lack of information on export procedures</li> <li>- Lack of knowledge of importer country requirements</li> <li>- Distrust of export officials and agencies</li> <li>- High transaction costs</li> </ul>	<ul style="list-style-type: none"> <li>- Sustainable SMEs with diversified export markets offer stable markets for LHPs.</li> <li>- Exporter SMEs become willing to penetrate new markets as a result of increased knowledge of different import markets and its requirements + opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>- Facilitate coordinated work of export officials and agencies led by MoA via utilizing tools such as Advisory Committee resulting in consistency within the market system with appropriate support systems and a government that maintains a consistent and equitable enabling environment.</li> <li>- Facilitate development of guidelines on export procedures for animal-origin products (honey, wool, meat and dairy) + advocacy to relevant government agencies (NFA, MoA, Revenue Service, Enterprise Georgia).</li> <li>- Facilitate a study of the requirements of individual markets and developing understanding of the competitive advantage of differentiated products for a diverse market place from bulk to niche products.</li> <li>- Facilitate SMEs in penetrating differentiated export markets.</li> </ul>