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COMMISSION STAFF WORKING DOCUMENT

**Analytical Report
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Commission Opinion on Georgia's application for membership of the European Union**

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A. INTRODUCTION

Contents of the analytical report

This analytical report completes the Commission's Opinion on Georgia's application for membership of the EU adopted on 17 June 2022¹. It assesses the country's overall capacity to uphold the obligations of membership, i.e. the full body of EU law as set down in the Treaty, secondary legislation, and the EU's policies (*acquis* of the European Union).

The analytical report is a structural assessment against the criteria set by the European Council in Copenhagen in 1993 and subsequent European Council conclusions. It builds on knowledge and experience gained from the EU's longstanding close cooperation with Georgia and Georgia's answers to the detailed questionnaires it received on 11 and 19 April 2022. The Association Agreement, including a Deep and Comprehensive Free Trade Area (AA/DFCTA) covers a substantial part of the EU *acquis*. It also provides a comprehensive institutional set-up for bilateral dialogue and for monitoring the process of gradual approximation of Georgia's legislation with the EU *acquis*. Since 2016, Georgia's implementation of the EU *acquis* has been presented in the EU's annual 'Association Implementation Reports'. This analytical report does not address the situation of non-government-controlled areas of Georgia.

This analytical report focuses on Georgia's alignment of its laws with the *acquis* in the 33 *acquis* chapters, except for areas that were covered in detail by the Opinion. Following the adoption of the revised enlargement methodology² for the EU's enlargement policy, the EU *acquis* is further structured around six thematic clusters.

This report takes stock of the situation in June 2022, when the Commission published its Opinion. The report uses the following assessment scales to describe the state of play: early stage, some level of preparation, moderately prepared, good level of preparation and well advanced.

At the invitation of the European Council on 24 June 2022, the Commission will report, as part of its regular enlargement package, on the fulfilment of priorities specified in its Opinion.

B. ABILITY TO ASSUME THE OBLIGATIONS OF MEMBERSHIP

CLUSTER 1: THE FUNDAMENTALS OF THE ACCESSION PROCESS

This cluster covers: judiciary and fundamental rights (Chapter 23); justice freedom and security (Chapter 24); public procurement (Chapter 5); statistics (Chapter 18); and financial control (Chapter 32).

Chapter 23: Judiciary and fundamental rights

The substance of this chapter was covered in the Commission Opinion.

¹ COM (2022) 405 final

² COM (2020) 57 final

Chapter 24: Justice, freedom and security

The EU has common rules governing border control, visas, residence and work permits, external migration and asylum. Schengen cooperation entails removing border controls inside the EU. EU Member States also cooperate with Georgia in the fight against organised crime, corruption and terrorism, and in judicial, police and customs matters with the support of all EU Justice and Home Affairs agencies.

Cooperation in the area of justice, freedom and security makes up an important part of the Association Agreement between the EU and Georgia. Chapter 24 is partially covered by Title III on Justice Freedom and Security.³ The EU-Georgia Association Agenda for 2021-2027 also sets out short- and medium-term priorities for joint work under the justice, freedom and security sectors.⁴ The visa suspension mechanism also covers border control, visas, external migration and asylum.

Fight against organised crime

This section is covered in the Commission Opinion.

Cooperation in the field of drugs

Institutional set-up and legal alignment

The **legal framework** for the fight against drugs in Georgia consists of specific legislation and provisions in the criminal code, which include criminal and administrative sanctions. Georgia is party to the relevant international narcotic drug control conventions. The legal framework for the fight against drugs is partly in line with the EU *acquis*. Rules related to minimum sentences on drug-related criminal offences and sanctions need to be further harmonised.

Georgia has a National Drugs Observatory and a national early warning system on psychoactive substances. The Anti-Drug Council is an interagency council for combating drug abuse and is chaired by the Minister of Justice.

A **national strategy** for combating drug abuse was adopted in 2013. It has been implemented by successive action plans, the current one covering the period 2021-2022. In 2021, Georgia adopted its first stand-alone National Strategy for the Prevention of Drug Abuse (2021–2026), designed to create an effective, coherent and well-coordinated mechanism to prevent substance use in the country.

Implementation and enforcement capacity

In 2020, criminal investigations started against 1162 individuals for crimes related to drug abuse. Of these, 840 were indicted and 743 were convicted, and 8 of these convictions led to imprisonment.

The Ministry of Justice signed a memorandum of understanding with the European Monitoring Centre for Drugs and Drugs Addiction (EMCDDA). This was re-negotiated in 2021 and replaced with the Working Arrangement between the EMCDDA and the Ministry

³ Association_agreement.pdf (europa.eu)

⁴ Recommendation No 1/2022 of the EU-Georgia Association Council of 16 August 2022 on the EU-Georgia Association Agenda 2021-2027 [2022/1422]

of Justice of Georgia signed in September 2022. The Ministry serves as a national focal point for the European Monitoring Centre for Drugs and Drugs Addiction's Reitox Network. In 2022, a drug information system was established to monitor the drug situation and coordinate the work of relevant authorities in the country.

Fight against terrorism

Institutional set-up and legal alignment

A permanent interagency commission, chaired by the head of the State Security Service and composed of ministers and heads of 21 ministries and bodies, is in place. The State Security Service is responsible for terrorism-related incidents and investigations. Its counterterrorism centre maintains a counterterrorism database, updated daily with information collected by the centre. The State Security Service is responsible for investigating cases of terrorism financing.

Anti-terrorism legislation is largely aligned with the EU *acquis* and relevant international law.

Georgia has a comprehensive legal framework in place to criminalise terrorism financing and has adopted a law on facilitating the suppression of money laundering and terrorism financing. However, Georgia continues to be partly compliant with the Financial Action Task Force recommendation relating to an independent Financial Investigation Unit/Financial Intelligence Units.

A national counterterrorism strategy for 2022-2026 and the corresponding action plan were adopted in 2022.

A policy dialogue on counter-terrorism between the EU and Georgia takes place in the framework of the justice, freedom and security subcommittee.

Implementation and enforcement capacity

Georgia is involved in international efforts to fight against terrorism and is an active member of the Global Coalition against Daesh. Georgia has adequate resources to address terrorism preventively. Georgia has signed bilateral international agreements including on cooperation in the fight against terrorism with 29 partner countries, of which 17 are EU Member States. It is a criminal offence to use Georgia's online space of Georgia to support of terrorism and/or incitement to terrorism.

Judicial cooperation in civil and criminal matters

Georgia is a Member of The Hague Conference on Private International Law and Party to six of its core conventions, including the Convention on service of documents (1965) and the Convention on the taking of evidence (1970) and the Convention on international child abduction (1980).

Georgia has not ratified the Convention on choice of court agreements (2005), the Convention on child support and other forms of family maintenance (2007) and its Protocol on the law applicable to maintenance obligations, and the Convention on the recognition and enforcement of foreign judgements in civil or commercial matters (2019). Georgia's legislation does not include a procedure to recognise and enforce foreign judicial decisions outside the framework of bilateral agreements and conventions. Georgia has appointed a liaison prosecutor at Eurojust.

The Law of Georgia on International Cooperation in Criminal Matters provides the basic legal framework for judicial co-operation in criminal matters.

The Ministry of Justice and the Prosecutor's Office of Georgia, as the central authorities designated in accordance with international agreements, manage international judicial cooperation in civil and criminal matters.

Georgia has expressed its readiness to cooperate with the European Public Prosecutor's Office (EPPO) in accordance with the 1959 European Convention on Mutual Assistance in Criminal Matters and its Protocols and further to the declarations issued by the EU Member States participating in the EPPO to this effect. The Prosecution Service of Georgia concluded a Working Arrangement with the EPPO on 28 September 2022.

Foreign judicial decisions are legally enforceable in Georgia if recognised by a competent court in Georgia, under the conditions outlined in the Law on international cooperation in criminal matters. The Convention on International child abduction is implemented efficiently. Georgia does not have a practice of direct judicial communication with third countries.

All aspects of customs cooperation are covered under Chapter 29 – Customs union.

Legal and irregular migration

Institutional set-up and legal alignment

The Ministry of Internal Affairs is in charge of the fight against irregular migration. The Migration Department is responsible, among other responsibilities, for issues related to international protection, for identifying persons illegally residing in the territory of Georgia, for implementing return procedures and for administration of the Temporary Accommodation Centre.

The legislation on foreigners is broadly in line with the EU *acquis*. It provides for the *non-refoulement* principle, residential status of foreign seasonal workers and maximum detention time for irregular migrants in detention centres. The legal framework needs to be further aligned regarding migrants' access to rights, notably for vulnerable migrants. Georgia joined the European Migration Network as an observer in 2021.

Georgia has **readmission agreements** with the EU (in force since 2011) and separately with Denmark as well as Switzerland, Norway, Iceland, Montenegro, Moldova, Belarus and Ukraine. It has implementing protocols with 12 EU Member States⁵.

The 2021-2030 migration **strategy** was adopted in 2020. It covers the improvement of migration management, facilitating legal migration, the fight against illegal migration, the reintegration of returned migrants, an improved asylum system and the integration of aliens.

Implementation and enforcement capacity

In 2021, the number of people detected while irregularly crossing the border was 285.

In the area of migrant smuggling, Georgia cooperates with international organisations and with partner countries in the framework of police and international cooperation on combating cross-border crime.

⁵ Belgium, Bulgaria, Czech Republic, Germany, Estonia, Lithuania, Luxembourg, Hungary, Netherlands, Austria, Romania, Slovakia.

The implementation of the Readmission Agreement with the EU is very good, as it emerged during the last Joint Readmission Committee meeting in November 2022. The return orders issued to Georgian nationals decreased from 12 120 in 2020 to 10 660 in 2021. In the same period, the number of Georgian nationals who returned from EU Member States to Georgia decreased slightly in 2021 to 5 205, compared to 5 740 in 2020.

Asylum

Institutional set-up and legal alignment

The Migration Department of the Ministry of Internal Affairs is responsible for asylum procedures.

Georgia is a party to the 1951 Geneva Convention on the status of refugees and its 1967 Protocol.

Legislation on asylum is broadly in line with the EU *acquis*, notably on improved reception standards and the rights of asylum applicants such as rights for employment, secondary education, psychological and social aid, reunification of families and subsidiary protection. Further alignment is needed in particular on interview techniques, access to rights and legal aid.

A programme for the integration of persons under international protection, asylum seekers and stateless persons is run by the Legal Entity of Public Law for Internally Displaced Persons, Eco-Migrants and Livelihood Agency of the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social affairs of Georgia.

Georgia cooperates with the EU Asylum Agency.

Implementation and enforcement capacity

Georgia has made a significant effort to address unfounded asylum applications in EU Member States. In January 2021, Georgia introduced pre-departure checks to its law regulating entry to and exit from the territory of Georgia. The new provisions establish criteria that mirror the entry conditions for third-country nationals to the EU, as provided for in the Schengen Borders Code. In 2021, applications for international protection in EU Member States increased by 69% compared with 2020, with 14.600 applications in 2021 and 8.650 in 2020; - the end of COVID-19 travel restrictions due to 9 presumably played a role. The recognition rate decreased slightly from 4.6% in 2020 to 4.5% in 2021.

Visa policy

The main authorities responsible for examining visa applications are the Consular Department of the Ministry of Foreign Affairs, and Georgia's diplomatic missions and consular posts abroad. The visa register/database is hosted by the Ministry of Foreign Affairs. Visa legislation is broadly in line with the EU *acquis*, but the list of third countries with which Georgia maintains visa-free regimes is not fully aligned with the list of third countries whose nationals are subject to a visa for short stays in the EU.

Security features of visas and travel documents are broadly aligned with EU standards.

Georgia does not have agreements with third countries to issue visas on its behalf. However, individual activities related to the issuance of visas can be entrusted to a third country under conditions determined under an appropriate international agreement or treaty.

The implementation of the **visa-free regime** with the EU, which has been in place since 2017, is globally satisfactory. Overall, Georgia continues to fulfil the visa liberalisation benchmarks and has taken action to address the Commission's previous recommendations. The country has made significant efforts in border control and in raising public awareness on negative effects of illegal migration. However, further efforts are needed to address unfounded asylum applications in Member States.

Schengen and external borders

Institutional set-up and legal alignment

Border management is under the responsibility of the Ministry of Internal Affairs, the Ministry of Finance (Georgia Revenue Service) and the Ministry of Defence.

Under the Ministry of Internal Affairs, the Border Police of Georgia is responsible for the state border protection (land and maritime) and the Patrol Police Department is responsible for state border regime (border-migration control) at border crossing points.

Border control legislation is partly aligned with the EU/Schengen *acquis*.

The Integrated Border Management (IBM) Strategy for 2022-2026 and its action plan are yet to be adopted.

Implementation and enforcement capacity

Capacities of all agencies for integrated border management could be further improved.

Border checks satisfy minimum standards. There is a need for additional technical and human resources to improve the quality of border checks. Expertise on detection of forgeries is satisfactory. A low number of forged documents is detected. There is no vehicle registration plate reader system. The implementation of local border traffic agreements with neighbouring countries is satisfactory. Border checks are inefficient in detecting firearms trafficking. Border surveillance systems are installed at the land border sectors located at the highest risk zones they include fixed and mobile video surveillance systems, thermal imaging devices, radars and camera traps. The Border Management and Coordination Division is in charge of the preparation of border management strategic documents, establishing a unified border risk analysis system, and coordinating activities of analytical units involved in the border management process in terms of border risk assessment.

Georgia's **risk assessment** methodology is based on the Common Integrated Risk Analysis Model developed by the European Border and Coast Guard Agency (EBCGA, Frontex) and includes the three factors – threat, vulnerability and impact – defining border risks. Customs risk management is fully automated and implemented in the automated customs data system and databases for border crossing of passengers, goods and vehicles moving through the customs border and customs clearance processes.

In-land measures and the fight against cross-border organised crime requires improvement in investigations and prosecution of criminal offences. Fighting trafficking in human beings, migrant smuggling, firearms trafficking and terrorism require more efficient delineation of jurisdictions and competences. Exchange of crime-intelligence and biometric data requires significant improvements.

The Air Code of Georgia obliges the air carrier to communicate **Advance Passenger Information/Passenger Name Record** (API/PNR) to the authorised state institution. Implementing legislation defines the API/PNR list and the terms and conditions of their management.

Georgia's Ministry of Internal Affairs signed a working arrangement with Frontex in 2008, which was renewed in 2021. The common core curriculum developed by Frontex is implemented in border-related courses provided to border police officers by the Ministry of Internal Affairs Academy. Georgia is an associate member of the Frontex Partnership Academies Network.

A Frontex Liaison Officer with a regional mandate for the Eastern Partnership has been deployed (currently based in Moldova).

On **operational cooperation with neighbouring countries**, Georgia has bilateral agreements with neighbouring countries, mainly on customs: Azerbaijan, Armenia, Türkiye and Russia.

Some measures are in place to fight **corruption** on the border, in particular the possibility to conduct service inspection in the case of violation of disciplinary norms and to impose disciplinary penalties.

Protection of the euro against counterfeiting (criminal aspects)

In 2000, Georgia has acceded to the 1929 Geneva Convention for the suppression of counterfeiting currency but has not yet ratified it. The criminal code (article 212) provides for liability for counterfeiting.

Summary

Georgia has **some level of preparation** to implement the *acquis* in the area of justice, freedom and security. The country has several strategies in place, notably on terrorism and migration. Legislation in some areas, notably on foreigners and asylum, is broadly aligned with the *acquis*. However, institutional cooperation and coordination are weak. As a result, implementation is sometimes unsatisfactory.

Chapter 5: Public procurement

EU rules ensure that the public procurement of goods, services and works in any Member State is transparent and open to all EU economic operators on the basis of non-discrimination and equal treatment.

In accordance with the public procurement chapter of the EU-Georgia AA/DCFTA, Georgia has committed to a gradual approximation of its public procurement legislation with elements of the EU public procurement directives. The approximation process is planned in five consecutive phases over an eight-year period, from 2016 to 2024. Georgia completed phase 1 but has not yet adopted the draft public procurement law necessary to fulfil phases 2, 3, 4 and 5. The approximation process is currently delayed, mostly due to the delayed adoption of a new public procurement law.

Institutional set-up and legal alignment

The **legislative framework** for public procurement is partly aligned with the EU *acquis*, but progress on harmonisation is delayed. Procurement in the public sector is regulated by the 2005 law on public procurement, with several later amendments. The public procurement law covers public institutions but does not include contracting entities in the utilities sectors. A new draft public procurement law has not yet been adopted. The new law intends to ensure further alignment with the EU public procurement directives *acquis*. There is a separate law on public-private partnerships, which regulates the award of public-private partnerships and concessions contracts, but it refers to procurement procedures established by the public procurement law.

In March 2016, the government adopted the national public procurement strategy ‘Road Map and Action Plan for the Implementation of the Public Procurement Chapter of the EU-Georgia Association Agreement 2016-2022’. This has been updated (in 2018 and 2020) to reflect new challenges and developments. The implementation of phase 1 of the AA (which includes the Road Map/Reform Strategy) was positively assessed by the Association Committee in October 2021. Following this, as of June 2022, reciprocal market access is granted for public procurement of supplies by central government authorities in the European Union to Georgia and for public procurement of supplies by Georgian central government authorities to the European Union.

Implementation and enforcement capacity

The State Procurement Agency is the central public procurement institution responsible for the public procurement system in Georgia. The State Procurement Agency, with 110 staff, is responsible for preparing secondary legislation, monitoring procurement and analysing the functioning of the procurement system, maintaining the procurement databases and e-procurement systems, and operating the ‘white’ and ‘black’ lists of economic operators. Over the years, the State Procurement Agency has been able to establish its authority both among domestic stakeholders and internationally.

Efficient remedy system

As regards the **right to legal remedy**, the law on public procurement was amended in 2020 to establish a new independent and impartial procurement review body, the Procurement-related Dispute Resolution Council. Five members of procurement review body are selected through competitive procedure and appointed by the Prime Minister. The Procurement Dispute Resolution Council is part of the Competition Agency.

Summary

Georgia has **some level of preparation** in the area of public procurement. It should further align its legislative framework with the EU *acquis*, by including contracting entities in the utilities sectors and further align its legislation with the concessions directive on procurement in the defence and security sectors.

Chapter 18: Statistics

EU rules require EU Member States to be able to produce statistics based on professional independence, impartiality, reliability, transparency and confidentiality. Common rules are provided for the methodology, production and dissemination of statistical information.

Statistical cooperation is covered by Chapter 4, Title V of the AA/DCFTA, including the approximation of legislation to the EU *acquis*.

As regards **statistical infrastructure**, the law on official statistics was adopted in December 2009. A new draft law has been prepared to address issues such as the concept of “professional independence”, the status and appointment of the National Statistics Office of Georgia (Geostat) Executive Director and access to relevant administrative data for statistical purposes in accordance with the internationally recognised statistical principles.

According to the Law on official statistics, two institutions are recognised as official statistics producers: Geostat and the National Bank of Georgia. Statistics produced by any other administrative entities only qualify as official statistics if they are produced using the methodology and standards approved by the Geostat Governing Board.

Geostat is the coordinator of the statistical system of Georgia. Its organisational structure is based on the traditional “product” based model. Geostat is led by an Executive Director and has 747 employees, distributed among central and regional offices. Geostat adopted the National Strategy for the Development of Statistics in Georgia (2020-2023).

The national statistical system needs further coordination and cooperation between multiple governmental institutions (both holders of administrative data and producers of statistics) to strengthen the availability and access to data sources. Adequacy of resources is of concern.

The statistical business register held by Geostat is largely in line with international recommendations such as Eurostat's Business registers recommendations manual. A population register has yet to be established. The recommendations manual and alignment on classification is partial. The latest versions of Nomenclature of Economic Activities (ACE), International Standard Classification of Occupations (ISCO) and International Standard Classification of Education (ISCED) are implemented but the latest version of the Statistical classification of products by activity (CPA) is not aligned. Alignment on classification is partial. A population register is not currently established in Georgia but is listed as a priority.

The country needs to provide per capita gross domestic product (GDP) figures harmonised at statistical regions level (equivalent to the Nomenclature of Territorial Units for Statistics (NUTS II level), in line with the provisions of the AA.

On **macroeconomic statistics**, the organisation of national production accounts and their responsibility is being largely in line with the EU *acquis*. Georgia introduced the System of National Accounts (SNA) 2008 methodology in 2019 and compiles main annual and quarterly aggregates, government finance statistics, sector accounts and supply use and input output tables. The alignment with the European System of National and Regional Accounts (ESA) 2010 regulation cannot be assessed at this stage as there are no or very limited data transmissions to Eurostat that would allow performing data validation and analysis of methodological aspects. Georgia needs to start the submission of excessive deficit procedure tables and government finance statistics (GFS) data to Eurostat. Information on government budget is provided by the Ministry of Finance, while data on the financial sector are delivered by the National Bank of Georgia. Government finance statistics are compiled by the Ministry of Finance on a monthly basis in accordance with the Special Data Dissemination Standard.

At this stage, GFS data is not transmitted to Eurostat that would allow performing data validation and analysis of methodological aspects. IMF GFSM differs substantially from 2008 SNA and ESA 2010 in presentation. Development of ESA 2010 compliant data, while ensuring statistical independence, should commence.

Regarding the International Comparison Program, Georgia carries out nearly all the surveys that are required under the relevant regulation, following the methodologies and classifications laid down in the Eurostat - OECD Purchasing Power Parities manual.

The main source of structural **business statistics** is the survey of enterprises (non-financial corporations) conducted by Geostat on an annual basis. Structural business statistics are based on Statistical Requirements Compendium, 2021 edition (Eurostat) and European Business Statistics Manual, 2021 edition (Eurostat). For business statistics, new data requirements stemming from the Regulation on European business statistics and the relevant

Commission implementing regulation⁶ should be taken into account to ensure alignment with the EU *acquis*. Regarding industrial production (PRODCOM), the main source of data on manufactured goods is the survey of enterprises; section B, C, D and E of the NACE Rev.2 are covered by the survey. However, at this stage there are no business statistics data transmissions to Eurostat that would allow performing data validation and analysis of methodological aspects. On transport statistics, Georgia does not refer to the five key acts of statistical legislations.

On **social statistics**, the last population census was conducted in 2014. The next population and housing census is scheduled for 2024. The creation of a population register has yet to be carried out. Demographic statistical data transmitted to Eurostat are in line with international standards and recommendations but statistics on international migration are incomplete. Geostat conducts the survey on information and communication technologies usage in households.

The census of agriculture and the sample survey of agricultural holdings follow the guidelines of the United Nations Food and Agriculture Organization guidelines. The last census was conducted in 2014. Geostat relies on an integrated approach of agriculture census and sample surveys to produce the official **agricultural statistics**. The next agriculture census is planned for 2024.

On **energy statistics**, Georgia is aligned with the EU statistical *acquis* set out in the Statistical Requirements Compendium, in accordance with the provisions adopted by the Energy Community (EnC) in agreement with the European Commission, except for the data collection on the share of renewable energy in accordance with the Directive⁷. However, the country has now committed to a target for 2030 and they must start providing the data from the cycle 2021 onwards. Georgia has little experience on environmental accounts and there are no waste statistics in the country. On tourism statistics, the provisions of the Regulation on European statistics on tourism⁸ should be taken into account for assessing alignment with the EU *acquis*.

Summary

In the area of statistics, Georgia **has some level of preparation**. To a large extent national legal instruments are in place for producing required statistical data and further developing the system to approximate it with EU standards. As regards administrative capacity, adequacy of resources is of concern. The national statistical office, Geostat, has a relatively small number of employees and salary levels are not aligned with those of officials in other areas of public service. Financial and IT resources are also relatively limited.

Chapter 32: Financial control

The EU promotes the reform of national governance systems to improve managerial accountability, sound financial management of income and expenditure, and external audit of public funds. The financial control rules further protect the EU's financial interests against fraud in the management of EU funds and the eEuro against counterfeiting.

⁶ Regulation (EU) 2019/2152 and Commission Implementing Regulation (EU) 2020/1197

⁷ Directive (EC) 2009/28

⁸ Regulation (EU) No 692/2011

This chapter is partially covered by Chapter 2 of the AA/DCFTA.

Public internal financial control

The **legal and strategic framework** for public internal financial control (POFC) is in place. The law on public internal financial control regulates the introduction of public internal financial control systems and other issues relevant to the development and implementation of the overall public internal financial control system. It adequately covers financial management and control, internal audit and the role of the Central Harmonisation Unit.

A public internal financial control (PIFC) strategy for the period 2021-2024 is in place, addressing the development of financial management and control and internal audit. It is supported by an annual action plan for 2021-2022. A new strategy on reform of public financial management and public administration is currently in the early process of implementation.

A **Central Harmonisation Unit** (CHU) is established in the Ministry of Finance and is responsible for coordinating the implementation of PIFC, including the development of relevant methodological and guidance materials. The CHU does not have sufficient status and staffing to enable it to effectively support the implementation, particularly in respect of financial management and control and managerial accountability. The CHU has co-ordinated the development of methodological guidance, but it does not systematically monitor the implementation of financial management and control institutions.

The arrangements for financial management and **internal control** are adequately regulated through the PIFC law in conjunction with the Budget Code of Georgia. The CHU has subsequently developed guidance and rules and procedures, with the support of various donor projects, to support the implementation of financial management and control. This includes a financial management and control manual, which has never been approved or fully issued.

The PIFC law establishes an adequate framework for the implementation of **internal audit**. All ministries and legal entities of public law (LEPLs) are required to establish internal audit functions. All ministries have established such functions. The CHU has developed various regulations to support the implementation of internal audit including internal audit standards, an internal audit manual setting out the methodology for conducting internal audit work, and a code of ethics. They are broadly in line with international standards for internal audit, although there are areas for improvement. Internal audit units in ministries partially comply with international standards.

External audit

With regard to the **constitutional and legal framework**, the State Audit Office (SAO) operates under a relatively strong legal framework based on the Constitution and the organic law on the SAO. It has full financial and operational independence. Remaining weaknesses relate to the lack of constitutional protection for the Auditor General and the short term of their tenure.

The SAO mandate is broadly defined in legislation and allows the SAO to cover the entire public sector, undertaking all types of audits, and to report on audit findings without impediment. The main limitation is the lack of sufficient clarity on the SAO mandate related to the audit of revenues and the need for the SAO to request separate permission from the court to access information on tax revenues for its audit purposes.

The strategic planning cycle is firmly established, and management has established good control on the main organisational risks.

As regards the **quality of audit work**, in the period 2017-2022, the SAO adopted new standards and guidance for financial and compliance audit that are in full compliance with the international standards. The SAO certifies the financial statements of all central government entities. Although the SAO covers 90% of central government expenditure, it does not carry out an audit of the Consolidated Budget Execution Report, which is the SAO's only required legislative task.

The Parliament has a permanent working group under the Budget and Finance Committee that scrutinises the audit reports. Consequently, the **impact of the audit work** of the SAO has increased: the implementation rate of the SAO recommendations by the executive increased from 43% (2017) to 60% (2020). However, the audit opinion on most financial statements of the ministries remains 'adverse' and continue to reflect the same shortcomings.

Protection of the EU's financial interests

The AA/DCFTA partly covers the EU *acquis* requirements. Given the change from the Convention on the Protection of the European Communities' Financial Interests to Directive 2017/1371 the relevant annex (Annex XXXV) of the AA needs to be revised. Currently, there is no concrete time foreseen for this update. However, Georgia already started the process of legal approximation while taking into account the Directive rather than the Convention.

Cooperation in investigations between the European Anti-Fraud Office and several relevant national authorities takes place on a case-by-case basis. In addition, although there is no such requirement in the AA, Georgia nominated the Prosecutor's Office as main focal point for cooperation with the European Anti-Fraud Office. There is no **anti-fraud coordination service** officially in place.

Summary

Georgia has **some level of preparation** in the area of financial control. The PIFC law is an adequate basis for enabling the development of PIFC in line with international standards and to meet EU PIFC requirements. However, managerial accountability, financial management and control and internal audit are not implemented effectively, due to insufficient capacity, low understanding across the public service of their benefits and ineffective accountability arrangements between ministries and their subordinate bodies. The role and impact of financial inspection within the public sector needs to be reviewed.

CLUSTER 2: INTERNAL MARKET

This cluster covers: free movement of goods (Chapter 1); freedom of movement for workers (Chapter 2); the right of establishment and freedom to provide services (Chapter 3); free movement of capital (Chapter 4); company law (Chapter 5); intellectual property law (Chapter 7); competition policy (Chapter 8); financial services (Chapter 9); and consumer and health protection (Chapter 28).

Chapter 1: Free movement of goods

The free movement of goods ensures that many products can be traded freely across the EU based on common rules and procedures. Where products are governed by national rules, the principle of the free movement of goods prevents these rules from creating unjustified barriers to trade.

General principles

Some of the elements of the general principles of the legislative and institutional framework for the free movement of goods are also in place due to the Georgia's obligations under AA/DCFTA with the EU (e.g. Article 47).

Non-harmonised areas

Non-compliant elements will need to be repealed, or amended, and/or mutual recognition provisions will need to be introduced. Georgia's National Agency for Standards and Metrology (GEOSTM) is the national entry point on technical barriers to trade.

Harmonised areas: quality infrastructure

The legal basis and administrative structure for technical regulations, standards, conformity assessment, accreditation, metrology and market surveillance are in place, and are partly aligned with the EU *acquis*. However, Georgia does not currently have any plans to align with the provisions of the EU *acquis* although DCFTA action plans are adopted and reported upon regularly.

Standardisation is regulated by a national law that is partly aligned with the EU *acquis* and which includes provisions on the organisation and functioning of GEOSTM the national body for standardisation. Georgia has a standardisation council that acts as a consulting body if there are problems on strategy and development in the field of standardisation. GEOSTM recently got the status of affiliate standardisation body to the European Committee for Standardisation (CEN) and the European Committee for Electrotechnical Standardisation (CENELEC). Data show that it has adopted around 10 000 European standards, though Georgia still also has many conflicting Soviet-era standards in place. No Georgian entities are members of the European Technical Standards Institute (ETSI).

Georgia's **accreditation** framework is regulated by its law on product safety and free movement code, which is partly aligned with the EU *acquis*. The accreditation of conformity assessment is ensured by the unified national body, which is an associate member of the European cooperation for Accreditation.

The legal base for **conformity assessment** is Georgia's law on product safety and free movement code, which is partly aligned with the EU *acquis*.

Georgia has a law on **metrology**, which is partly aligned with the EU *acquis*. GEOSTM is Georgia's central authority for metrology.

Georgia's legal base for **market surveillance** is its law on product safety and free movement code, which is partly aligned with the EU *acquis*. Georgia currently relies on a "pre-notification" system of market surveillance before placement on the market, which is not aligned with the *acquis*. Georgia's market surveillance agency is an independent body, and also a legal entity of public law within the system of the Ministry of Economy and Sustainable Development.

Harmonised area: sectoral legislation

As regards the '**New and global approach**', Georgia has adopted legislation that is designed to fully align with the EU *acquis* on cableways, gas appliances, protective systems intended for use in potentially explosive atmospheres, recreational craft, and eco-design, lifts, civil explosives, measuring instruments, non-automatic weighing instruments, and medical devices. It has also adopted legislation designed to be partly or fully aligned with the EU *acquis* on toys, machinery, pressure equipment and personal protective equipment (verification pending). The legislation on construction products is partially aligned with the

intention to extend to all products by the end of this year. Georgia has also aligned its legislation with the EU *acquis* on energy labelling (Georgia is a contracting party to the Energy Community Treaty), but this legislation is not yet in force. It is not yet aligned with the EU *acquis* on electromagnetic compatibility, aerosol dispensers, electrical equipment intended for use within certain voltage limits, radio equipment, simple pressure vessels, outdoor equipment noise emissions, pyrotechnic articles, measuring equipment, bottles as measuring container, or non-automatic weighing devices.

On ‘**Old approach product legislation**’, Georgia is not yet aligned with the EU *acquis* on motor vehicles, two or three wheeled vehicles, tractors, non-road mobile machinery, registration, evaluation, authorisation and restriction of chemicals, chemicals classification, packaging and labelling (CLP), aerosol, dispensers, good laboratory practice, fertilizers, detergents, and pre-packaging, or firearms, crystal glass, defence products, defence procurement, footwear, textile labelling and mixtures, or medicinal products pricing, or EU *acquis* on the return of cultural objects unlawfully removed from the territory of an EU Member State. Information was not provided by Georgia with regard to its alignment with the EU *acquis* on drug precursors (though some procedures on this were reported).

Summary

Georgia has **some level of preparation** in the area of free movement of goods. Some steps have been taken to align with a few elements of the EU *acquis* in the new approach and global approach sectors. However, almost no alignment has been ensured under the old approach including almost all the EU *acquis* on motor vehicles and on chemicals or to almost all of the procedural measures.

Chapter 2: Freedom of movement for workers

Citizens of one Member State have the right to work in another Member State and must be given the same working and social conditions as other workers.

The AA/DCFTA only addresses free movement of young people and research workers.

Three ministries are responsible for the entry and stay of migrant workers in Georgia and there is a ministerial authority in charge of analysing and monitoring economic migrants, but its tasks do not include the promotion and support of EU migrant workers. EU migrant workers have the right to apply to the Labour Inspectorate, the Public Defender or the court if they feel discriminated against.

The legal framework regulating **access to the labour market** relies mainly on the 2015 Resolution on job placement with a local employer and performance of paid labour activities by the labour immigrant. This regulation does not restrict the employment of foreigners in Georgia and does not require a work permit.

The legal framework contains a few initial elements for the free movement of workers and means of enforcement, and judicial redress mechanisms. Georgian labour laws prohibit discrimination on several grounds, including nationality. Employment in the public administration is reserved for Georgia’s citizens for professional civil servant positions but no nationality conditions apply to administrative and labour contract employees. No specific rules for EU citizens are in place. At the same time no work permit is required for non-Georgian citizens, and they can stay up to 1 year without a resident permit with the same rights as Georgian citizens. As regards family members of EU workers, no special regime is in place, and the same rules apply as for family members of any other foreign workers.

The EU rules related to supplementary pension rights of mobile workers, the principles of equal treatment between national and EU workers, resting and waiting periods, export of benefits (occupational pension) etc. as provided for in several Directives⁹ are not incorporated into the national legal order.

Concerning outward mobility of workers, the country has signed international bilateral agreements with three EU Member States (Germany, Bulgaria and France).

Georgia has no preparatory work in place for accessing the **European Employment Services (EURES)** network. It has three websites for job vacancies (for national / international / public positions). The website for national positions is managed by the State Employment Support Agency and is a countrywide database for publishing vacancies, job application and CVs.

As regards the **coordination of social security systems**, Georgia has signed very few international bilateral agreements on social security and only two with EU Member States. Georgia does not have a social security scheme covered by Regulation (EC) 883/2004. Thus, the country has no experience with the application of the principles of coordination of social security such as aggregation, waiving of residence clause. Several risks covered by the Regulation are not covered by the Georgian legislation, such as death grants, unemployment benefits and pre-retirement benefits. Georgia does provide for sickness benefits in kind and family benefits but the extent of their compatibility with the referred Regulation needs to be determined.

The Georgian legal framework regarding pensions does not take into account provisions of the award of old-age pensions and their calculation under Regulations 883/2004 and 987/2009. At present, the system includes a residence clause regarding pensions for non-Georgian citizens (for both economically active and non-active) and is only granted after a legal permanent residence on the territory of Georgia for the previous 10 years at the time of application for a pension.

The Social Service Agency (under the Ministry of Internally Displaced Persons from occupied Territories, Labour, Health and Social Affairs (MoIDP)), is responsible for the payment of all social protection benefits including old-age pensions (except funded supplementary pensions), while the Pension Agency, is an independent administrative body responsible for the management and payment of funded **supplementary pensions**.

No national health insurance card has yet been implemented in Georgia. Therefore, the implementation of the **European Health Insurance Card (EHIC)** can only be envisaged in the longer term.

Summary

Georgia is at an **early stage of preparation** in the field of free movement of workers. The country will need to align its legislation in a comprehensive way with the relevant EU *acquis*, including the rules developed in the Court of Justice of the European Union case law. It will also need to strengthen its administrative capacity and interinstitutional cooperation in order to fully meet all necessary requirements. Further training in the field of EU social security

⁹ Directive (EC) 98/49 and (EU) 2014/50

coordination, in particular to master basic principles regarding EU social security coordination, especially in view of the Georgian internal reforms aiming to develop a Social Code, could be envisaged for the relevant civil servants.

Chapter 3: Right of establishment and freedom to provide services

EU natural and legal persons have the right to establish themselves in any Member State and to provide cross-border services. For certain regulated professions, there are rules on the mutual recognition of qualifications. Postal services have been open to competition since 2017.

This chapter is partially covered by Chapter 6 of the AA/DCFTA on establishment, trade in services and electronic commerce. The DCFTA envisages gradual approximation of legislation in the fields of: postal and courier services, telecommunication services, financial services, and international maritime transport services.

Overall, **regarding the freedom of establishment and the free movement of services**, Georgia's legal framework does not provide for any differences or discriminatory provisions in respect of the rights of foreign natural and legal persons to establish companies and branches of foreign legal persons in Georgia. The legal framework is partly aligned with Directive on services in the internal market¹⁰.

Georgia has established a well-structured and advanced institutional and regulatory framework for SME policy. **New businesses can be established within one day.**

As regards the EU **postal services acquis** (i.e. the three Postal Services Directives and the Regulation on cross-border parcel delivery services¹¹), Georgia still needs to align with the requirements of all three Directives, as well as with the Regulation. The AA/DCFTA annex (on Rules applicable to postal and courier services) has not been updated and discussions are ongoing regarding a future update of the annex with a new commitment related to the Regulation on cross-border parcel delivery services.

Regarding **mutual recognition of foreign qualifications for regulated professions**, legislation in Georgia has not been aligned with professional qualifications Directive¹². The professions of midwife, nurse responsible for general care, veterinary surgeon and architect are not regulated in Georgia.

Summary

Georgia is **moderately prepared** regarding the right of establishment and freedom to provide services. Its legal framework provides for equal treatment of the rights of foreign natural and legal persons to establish companies and branches of foreign legal persons in Georgia.

Chapter 4: Free movement of capital

In the EU, capital and investments must be able to move unrestricted with common rules for cross-border payments. Banks and other economic operators apply certain rules to help combat money laundering and terrorist financing.

¹⁰ Directive (EC) 2006/123

¹¹ Regulation (EU) 2018/644

¹² Directive (EC) 2005/36

The AA/DCFTA has supported gradual liberalisation of the movement of capital and progressive alignment towards the relevant EU *acquis*.

As regards **capital movements and payments**, existing legislation does not impose capital controls or any other restrictions on capital movements. However, certain capital transactions are monitored solely for anti-money laundering purposes. Foreign exchange operations are not restricted.

Foreigners may acquire and own real estate, except agricultural land. Constitutional safeguards exist relating to ownership of land. Under the organic law on agricultural land ownership, agricultural land may exceptionally be owned by foreigners if the land was inherited or if it is through a legal entity registered in Georgia.

Georgia has 34 bilateral investment treaties in force with other countries, including with 16 EU Member States.

As regards the **payment systems**, Georgia is advanced in terms of alignment with the EU *acquis*, administrative capacity and enforcement. While there is a clear commitment to implement key provisions of the revised Payment Services Directive (PSD2), such as open banking, regulation of alternative dispute resolution procedures or regulation of interchange fees, reference is only made to draft legislative acts with no precise timeline as regards the publication in the Official Journal (OJ).

The legislative and institutional framework for **anti-money laundering** is making good progress. Georgia has aligned with the fourth Anti-money laundering/Countering financing of terrorism directive and is in the process of aligning with the fifth directive. The overall coordination mechanism exists on paper but fully effective coordination and cooperation between supervisory, law enforcement and prosecutorial authorities is yet to be achieved. Georgia's anti-money laundering legislation partly addresses recommendations of the Financial Action Task Force (FATF) and relevant international legislation, however outstanding recommendations remain from Moneyval and it is under follow-up process by Moneyval.

Summary

Georgia is **moderately prepared** in the area of free movement of capital. Further efforts are required to align Georgia's legal framework with the EU Payment Service Directive 2 and with EU Financial Services Directive¹³ in the area of money laundering and combatting terrorist financing.

Chapter 6: Company law

The EU has common rules on the formation, registration and disclosure requirements of a company, with complementary rules for accounting and financial reporting, and statutory audit.

Legislative reforms in 2021 in the field of **company law** have led to a greater degree of alignment with the *acquis* in this area. In particular, the national agency of public registry is the authority responsible for holding information on the formation and registration of companies and the disclosure of company information. The National Agency is publicly

¹³ Directive (EU) 2018/843

available online and data disclosed is free of charge, unless a specific request for information needs additional processing. There are no rules on disclosure of the information of foreign branches; such rules are required by the EU *acquis*. Although national legislation provides for administrative penalties in the case of non-submission of financial statements to the service of Accounting, Reporting and Audit Supervision (SARAS), the obligation to do so in the business register (an EU *acquis* requirement) is not clear. In certain cases, the formation of a company can be declared null and void. The administrative capacity of the public service agency requires further strengthening.

In December 2021, the National Bank of Georgia approved a corporate governance code for public issuers, reflecting EU and international standards – including OECD principles and – as well a Commission recommendations covering the role of non-executive or supervisory directors of listed companies, and the ‘comply and explain’ approach. There is EU *acquis* alignment, to varying degrees, in the following areas: single member limited liability company: the obligatory minimum of subscribed capital of a joint stock company, contributions in kind to protect the capital of the company, protection for shareholders and creditors of joint stock company in the case of capital reduction/increase operations, domestic mergers and division of public limited liability companies, and transparency requirements for listed companies. Georgia is also carrying out a gap assessment on takeover bids aimed at further EU *acquis* alignment. There are, however, important alignment gaps with the most recent EU *acquis* on shareholder rights and digital tools and processes. Furthermore, there are no provisions aligning with the *acquis* on cross-border mergers, divisions and conversions, and no rules on the European Company Statute or the European Economic Interest Grouping.

On **company reporting**, while there is partial EU *acquis* alignment with the main legal requirements: (for annual and consolidated financial statements and related reports; disclosure of non-financial, governance and diversity, and country-by-country reporting by very large multinational companies; application of international financial accounting standards; and sanctions for non-compliance with financial reporting requirements) However, further alignment is required, including on financial reporting standards relating to small entities ; the criteria to define company size-categories; and country by country reporting by very large multinational companies.

There is also partial EU *acquis* alignment with the main legal requirements on **statutory audit** (approval and registration of statutory auditors, independence, objectivity and confidentiality of auditors, systems of oversight, investigations and sanctions).

Summary

Georgia has **some level of preparation** in the area of company law. While the AA/DCFTA has supported initial steps to progressively align with the EU *acquis* in many areas, further efforts are needed, in particular where more recent legislation is concerned, and also to ensure the appropriate level of financial and human resources for performing oversight, investigations and sanctions tasks.

Chapter 7: Intellectual property law

The EU has harmonised rules for the legal protection of intellectual property rights (IPR) including copyright and related rights. Rules for the legal protection of IPR cover, for instance, patents and trademarks, designs, biotechnological inventions and pharmaceuticals. Rules for the legal protection of copyright and related rights cover, for instance, books, films, computer programmes and broadcasting.

The area of **copyright and neighbouring rights** is regulated in Georgia by the law on copyright and related rights. This law is partially aligned with the copyright *acquis*. More recent EU *acquis*, most notably the directive on copyright in the digital single market, is not covered by the law.

The National Intellectual Property Center (Sakpatenti) is the authority determining intellectual property policy, it oversees development of the intellectual property system in the country, as well as the grant of IPRs.

As regards **industrial property rights**, Georgia is partially aligned with the Regulation on compulsory licensing of patents relating to the manufacture of pharmaceutical products for export to countries with public health problems¹⁴ and Regulation concerning the supplementary protection certificate for medicinal products¹⁵. Further work is needed to align with the Directive on trademarks¹⁶ and the Directive on the legal protection of designs¹⁷. No work has been done on aligning with the Directive on trade secrets.

As a WTO member, Georgia subscribes to the minimum intellectual property rights protection standards enshrined in the trade-related aspects of intellectual property rights agreement. Georgia is not a member of the European patent convention. However, a validation agreement between Georgia and the European patent organisation was signed on 31 October 2019.

Summary

In the area of intellectual property rights, Georgia has **some level of preparation**. While legislation on copyright and industrial property rights is partially aligned with the EU *acquis* in some areas, a substantial amount of work remains to be done. Furthermore, there is room for improvement in the enforcement of intellectual property rights.

Chapter 8: Competition policy

EU rules protect free competition. They include antitrust rules on restrictive agreements between companies and the abuse of a dominant position, and rules on concentrations between companies that would significantly impede competition. EU rules also set out a system of State aid control. Governments are only allowed to grant State aid if restrictive conditions are met, to prevent the distortion of competition.

The AA/DCFTA with Georgia contains competition provisions covering merger control and antitrust, subsidy transparency, establishing a competition authority and dedicated rules for public undertakings and undertakings with special and exclusive rights. However, there are no provisions requiring the approximation of such laws and enforcement practices to the EU *acquis*.

Antitrust and mergers

As regards the **institutional framework**, Georgia has partly aligned its legislation with the EU *acquis*. The 2014 law on competition mirrors, to a large extent EU provisions on restrictive agreements and on abuse of dominant position. The law also provides for *ex ante*

¹⁴ Regulation (EC) 2006/816

¹⁵ Regulation (EC) 469/2009

¹⁶ Directive (EU) 2015/2435

¹⁷ Directive (EC) 98/71

control of the effects on competition of mergers above certain turnover thresholds, largely in line with the principles of the EU Regulation on mergers.

The Georgian National Competition Agency is responsible for enforcing competition rules. The agency is an operationally independent body that is accountable to the Prime Minister and the Parliament. From January 2023, the competition agency will be governed by a board consisting of five members. Currently, the competition agency has 60 staff.

The agency may act *ex officio*, on a complaint or upon a notification. It may impose fines and remedies if it identifies a breach of competition rules. The agency can impose behavioural or structural remedies in the case of concentrations. Agency decisions can be appealed before the competent administrative court. The competition council can provide opinions on draft legislation that may affect competition.

State aid

As regards State aid, **the legal framework** diverges from the EU *acquis*. Under the law on competition, only aid for economic development of certain regions and aid to promote the preservation of culture and cultural heritage require a notification and prior approval of the agency. Other types of aid, i.e., aid in the case of a disaster, environmental aid, aid for important national projects, aid granted to fulfil international obligations, do not require a notification to the consent of the agency, but they are considered compatible *per se*.

On the **institutional framework**, the Georgian National Competition Agency is also responsible for enforcing the State aid provision of the law on competition. However, regulatory bodies in certain economic sectors (e.g., energy) are responsible for enforcement in those sectors of the applicable provisions, on mergers, antitrust and State aid, of the law on competition. There is also no formal complaint procedure for State aid.

Positive decisions of the agency are final and binding. However, negative conclusions have to be submitted to the government of Georgia for a final decision. The government has the power to overturn the agency's negative decision. In addition, the agency does not have the power to recover unlawful and incompatible aid. Consequently, the competition authority cannot enforce State aid rules.

Summary

Georgia is at an **early stage of preparation** in the area of competition policy. The country should continue to further align its legislative framework in this area, in particular on abuse of dominant position and cartels. Substantial changes to Georgia's State aid legislation are needed to align it with the EU *acquis* in this area. Georgia would need to ensure that all types of State aid (except *de minimis* aid) in all sectors are notified to the competent enforcer and that no aid is granted until that enforcer has approved it. The National Committee of Accreditation needs to build a solid track record of enforced decisions, in particular in the area of State aid. Georgia should significantly strengthen the administrative capacity of the institution and raise awareness about State aid rules among aid grantors.

Chapter 9: Financial services

EU rules aim to ensure fair competition between, and the stability of, financial institutions, namely banking, insurance, supplementary pensions, investment services and securities markets. They include rules on the authorisation, operation and supervision of these institutions.

The EU *acquis* covers three major areas in which these principles apply: banking services,

insurance services and investment services.

The National Bank of Georgia (NBG) is the central bank of Georgia. Its independence is defined by the Constitution of Georgia. The members of Georgia's legislative and executive bodies do not have the right to intervene in the NBG's activities. There are no legal or budgetary constraints on the operational independence of the NBG. In contrast, there are standards regarding corporate governance, ethics and conflict of interest and confidentiality requirements for NBG employees and members of the board.

The NBG exercises supervision over the financial sector for the purposes of ensuring financial stability and transparency of the financial system, and for protecting the rights of the sector's consumers and investors. The NBG also supervises the process of compliance, by reporting entities as defined by the Georgia's law facilitating the suppression of money laundering and terrorism financing.

As regards **banks and financial conglomerates**, all credit institutions and bank-like institutions are subject to prudential regulation and supervision by the NBG. The NBG oversees granting and withdrawing of authorisations to its regulated entities. Georgia's financial sector is characterised by a high concentration of banks. The banking sector accounts for over 90% of total financial institution assets in Georgia. The two largest banks account for 74% of total banking assets and several control non-bank financial institutions. Some banks are also affiliated with non-financial companies in a wide range of industries (e.g., real estate, healthcare, water utilities, renewable energy).

The system of deposit insurance is based on the 2017 deposit insurance law and is operationalised through the Deposit Insurance Agency. The Deposit Insurance Agency covers resident and non-resident natural persons and all legal entities in all commercial banks. The coverage level is 15.000 Georgian lari (roughly EUR 5000) far below the level EUR 100 000 needed to comply with the EU *acquis*.

Georgia will also need to take major additional legislative and operational steps to align its rules with the Bank Recovery and Resolution Directive and will need to build its capacity to implement the new measures.

As regards the supervision of financial conglomerates, since 2019, the NBG in cooperation with the State Insurance Supervision Agency has been developing a draft law to implement the Directive on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate¹⁸.

The current supervisory regime in Georgia is based on the Solvency I regulatory framework, for both insurers and reinsurance undertakings. In particular, the minimum solvency margin is determined on the basis of either the annual amount of premiums or the average amount of claims for the last three financial years.

As regards **insurance and occupational pensions**, progress in key areas on motor insurance is yet to be made. A draft law introducing third party liability motor insurance for domestic vehicles has been pending Parliament approval since 2019 and is a priority for the Insurance State Supervision Service of Georgia and the industry.

This service is the national competent authority for the supervision of pension schemes. The

¹⁸ Directive (EC) 2002/87

1998 law on the provision of non-State pensions and non-State pensions insurance provides for occupational and personal pension schemes. However, the market for occupational pension products and personal pension products is not very well developed in Georgia.

Georgia's **financial market infrastructure** legislation is aligned with part of the EU framework, especially the Settlement Finality Directive and the Financial Collateral Directive. It is partly aligned with the Central Securities Depositories Regulation. The Regulation on Derivatives, Central Counterparties and Trade Repositories, the Regulation on a framework for recovery and resolution of central counterparties, and the Regulation on Transparency of Securities Financing Transactions are not implemented in the Georgian legal framework.

The only regulated market in Georgia is the stock exchange. Georgia has requirements regarding the listing on the stock exchange similar to the rules set out in the EU Listing Directive.

The law on securities markets and the law on investment funds create the legislative framework for **securities markets and investment services**. The most recent amendment was adopted in 2020 and covers the transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market. Georgia has a market abuse regime in place, which is in line with the EU Market Abuse Regulation.

Georgia's national legislation on collective investment undertakings is aligned with the EU *acquis*. The management companies are licensed, capital requirements are set forth, a depositary is appointed and the necessary level of supervision is set in the national laws. The laws permit various legal structures and internal or external management of an investment fund.

Summary

In the area of financial services Georgia has **some level of preparation**. Georgia will need to take major additional legislative and operational steps for aligning its rules in numerous areas, in particular with Capital Requirements Regulation and Directive, Investment Firms Regulation and Directive, the Bank Recovery and Resolution Directive and general financial market infrastructure legislation. Furthermore, Georgia will need to reinforce its capacity substantially to implement the new measures in all areas. Insurance and capital markets remain underdeveloped.

Chapter 28: Consumer and health protection

EU rules protect consumers' economic interests, including in relation to product safety, dangerous imitations and liability for defective products. The EU also ensures high common standards for tobacco control, blood, tissues, cells and organs, and medicines for human and veterinary use. The EU also ensures high common standards for upholding patients' rights in cross-border healthcare and tackling serious cross-border health threats including communicable diseases.

The AA/DCFTA provides for the alignment of national consumer and health protection legislation and standards with those of the EU.

Consumer protection

The Georgian National Competition Agency is legally the main consumer enforcement authority. It also undertakes activities to raise public awareness on consumer rights. Other agencies or sector regulators are permitted by law in certain circumstances, including the

national energy and water supply commission, the energy ombudsman, the state insurance supervision service, and the national communications commission. The national bank also has a dedicated consumer protection unit to monitor the protection of consumer rights in the financial sector and to handle consumer complaints in this area.

Georgia's national legislation on consumer protection is partly aligned with the EU *acquis*. It is not aligned with the EU *acquis* on package travel and linked travel arrangements, or to that on timeshares. It is also not aligned with EU *acquis* on better enforcement and modernisation of consumer protection rules, or representative actions, or with the rules on digital content or the sale of goods.

As regards **product safety**, the market surveillance system in the country uses risk assessment of non-food consumer products and selection of corrective measures, which establishes the methodological framework for assessing the level of risk posed by non-food consumer products. Georgia's legal framework on product safety is partly aligned with the EU *acquis*.

Public health

As regards public health, a national health strategy covering the period 2022-2030 is in place, its objective is to achieve universal health coverage, ensuring equitable access to affordable and highest attainable level of health services with financial risk protection for all. On digital health Georgia has some elements in place, such as a hospital discharge registry and a registry of new cases, and data collection on cancer, births and pregnancies.

Georgia is partly aligned with the *acquis* on **tobacco control**. It is a party to the WHO framework convention on tobacco control (FCTC, and its legal framework is designed to be in line with this, though it is yet to complete its accession to the protocol to eliminate illicit trade in tobacco products).

As regards **cross-border health threats including communicable diseases**, Georgia is partly aligned with the EU *acquis*. It has established an epidemiological surveillance system, a central body for the disease control and public health, a list of communicable diseases that are subject to surveillance, and an early warning system to notify the serious cross-border threats to health. Georgia also has in place a non-communicable disease prevention strategy.

Georgia's legal framework regulating the areas of **blood, tissues, cells and organs** is not yet aligned with the EU *acquis*, which means that the required oversight functions are not yet being carried out in line with EU requirements.

As regards **patients' rights in cross-border healthcare**, Georgia's legal base provides that citizens of EU Member States and other countries can receive medical treatment on the territory. In addition, Georgian citizens are reimbursed for treatment abroad within the framework of a relevant state programme, under certain conditions.

On community-based *mental health*, Georgia's national mental health strategy 2022-2030 supports the deinstitutionalisation of mental health services by strengthening community-based care for people with mental health problems. In 2021, 7 % of beneficiaries were treated in mental health hospitals, while the rest received care in community-based services.

Georgia is implementing **drug abuse** prevention and harm reduction by means designed to be aligned with the relevant European Council recommendations. National legislation on prevention of *alcohol abuse* is designed to be aligned with the EU *acquis*. Georgia's legislation is partly aligned with the EU *acquis* to protect the workers from adverse health effects arising from *exposure to electromagnetic fields* in working conditions.

As regards **preventive measures**, Georgia has national **cancer** control programmes. As regards *rare diseases* control, Georgia does not yet have a national programme in place.

On **medicines for human use**, Georgia's national legislation is not aligned with the EU *acquis* on the market authorisation of drugs, on quality assurance, or on post-marketing monitoring. [As regards *medicines for veterinary use*, Georgia has not provided information on the state of legal alignment to the EU *acquis*, or on the administrative capacity or enforcement system, neither on the state of legal alignment to the EU *acquis* on cosmetics.] Georgia is not aligned with the EU *acquis* on **medical devices**.

As regards **health inequalities**, Georgia estimates that access to health services for the Roma population is guaranteed under its laws on health care and on the elimination of all forms of discrimination. However, it is not clear whether any measures are in place to ensure effective and equal access to mainstream health services for members of vulnerable groups, such as Roma.

Summary

Georgia has **some level of preparation** in the field of consumer protection and public health. Attention should be paid to aligning national legislation on consumer protection and on health with the EU *acquis* and ensuring its proper enforcement.

CLUSTER 3: COMPETITIVENESS AND INCLUSIVE GROWTH

This cluster covers: digital transformation and media (Chapter 10); taxation (Chapter 16); economic and monetary policy (Chapter 17); social policy and employment (Chapter 19); enterprise and industrial policy (Chapter 20), science and research (Chapter 25); education and culture (Chapter 26); and customs union (Chapter 29).

Chapter 10: Digital transformation and media

The EU supports the smooth functioning of the internal market for electronic communications, electronic commerce and audio-visual services. The rules protect consumers and support the universal availability of modern services.

The main policy-making body regarding information society policy is the Department of Communications, Information and Modern Technology, which is based in the Ministry of Economy and Sustainable Development. The Ministry is working on a long-term national strategy for the development of a digital economy and digital transformation, focusing on digital government platforms, digital financial services, business/entrepreneurship, skills, infrastructure, and legal/regulatory aspects. The Digital Governance Agency is expected to present the second Digital Government strategy by the end of 2022.

Regarding **electronic communications and information and communication technology**, a Law on electronic communications establishes the legal and economic framework for the operation of electronic communications networks. It designates the Ministry as a policy-making authority and the Georgian National Communications Commission as the national regulatory authority. In 2021, Georgia adopted a National Broadband Development Strategy and its third National Cybersecurity Strategy (2021-2024), thus partly aligning with the EU Regulation on the use of electronic identities and qualified electronic trust services (e-IDAS). As regards **cybersecurity**, Georgia has in place a legislative framework on information security and is currently preparing secondary legislation for its implementation, such as a

technical regulation of the network sensor of critical information system entities of the first and higher categories. The alignment of this new secondary legislation under preparation with the relevant EU legislation, and notably the NIS framework, is currently being assessed.

Georgia has expressed an interest to join the EU's "roam like at home" regime, which would require implementation of the EU Regulation on roaming and agreement on further market opening.

In the field of telecommunications, three main mobile service and 25 fixed telephone providers operate in the Georgian market. The penetration rate of mobile services and fixed telephone subscribers among households in 2021 was 160% and 26% respectively. Fixed broadband internet services are available in all cities and towns of Georgia, and also in 69% of rural settlements. Fixed broadband Internet subscriptions among households increased to 86.7%.

The national frequency allocation table refers to the Commission implementing decisions adopted under the Radio Spectrum Decision for the technical harmonisation of the use of the spectrum. Georgian legislation is not harmonised with the spectrum provisions of the European Electronic Communications Code Directive. There is no reference to the possibility to trade spectrum usage rights nor to the principles of service and technology neutrality. Georgia does not have universal service provisions for electronic communications in its national law, but it has launched a working process to implement the provisions of the European Electronic Communications Code.

In the field of **information society services** Georgia's basic legal framework on the open reuse of public sector information is only partially aligned with the Open Data Directive. Georgia has not implemented the Geo-blocking Regulation or the Platform-to-Business Relations Regulation, which are not covered by the AA. It is not aligned with the recently adopted Digital Markets Act and the Digital Services Act. Georgia plans to adopt a law on electronic commerce by the end of 2022. Georgia's participation in the various areas of digital research and innovation is covered in H2020/Horizon Europe (artificial intelligence, microelectronics, photonics, quantum etc.) is very limited. The infrastructure-sharing law, key for digitalisation reforms in the country, has not been adopted.

With regard to **audio-visual policy**, the Georgian legislation is not aligned with the Audio-visual Media Services Directive. This is a requirement under the AA, with a deadline of 30 September 2022 that is overdue. A draft law is under discussion in the Parliament since 7 September 2022, which initially seems to be mostly aligned with the revised AVMSD.

Summary

Georgia has **some level of preparation** in the area of information society and media. It has taken some steps to align its legislation with the EU *acquis*. Georgia has several digital policy strategies in place, but efforts should be made to ensure that they are aligned with the EU's "Shaping Europe's Digital Future" and the "Digital Compass". Implementation of the spectrum provisions of the European Electronic Communications Code is not evident. There is a lack of universal service regime and therefore implementation of universal services under the European Electronic Communications Code is not yet possible. There are no specific legal acts or rules on open internet access in place. Progress seems to be made towards an alignment with AVMSD.

Chapter 16: Taxation

EU rules on taxation cover value added tax and excise duties and aspects of corporate taxation. They also cover cooperation between tax administrations, including the exchange of information to prevent tax fraud and evasion.

In the area of **indirect taxation**, the AA requires Georgia to align its indirect tax legislation with EU legislation, namely value added tax (VAT) and excise duties.

Standard VAT in Georgia is 18%. Georgia has partly aligned its VAT legislation with the EU *acquis*. In the field of excise duties, Georgia follows the main structure of EU legislation, but there are some differences in the products covered. Georgia has to apply excise duty equally for national and imported products. The legislation on excise duties on alcohol and alcoholic beverages is partially aligned, and remains to be done on tobacco, energy products and electricity. For all three categories of excisable products – alcohol, tobacco and energy – Georgia needs to reach the EU minimum levels of taxation and to adopt the EU's system of warehousing and duty suspension. The fiscal markers for fuel in gas oils and kerosene are not applied by Georgia. The EU excise movement control system . remains to be put in place.

In the area of **direct taxation**, residents are taxed on their worldwide income whereas non-residents are taxed only on their Georgian-sourced income. The income tax rate is 20% with some exceptions. The rate is fixed, it does not depend on the total amount of income received. As of 1 January 2017, Georgia introduced a Distribution Tax System, which means that distributed profits are subject to taxation, while retained profits are not taxed. The national legislation for direct taxation is not yet in line with the principles of the Merger Directive, the Parent-Subsidiary Directive and Interest and Royalties Directive.

As regards **administrative cooperation and mutual assistance**, Georgia is a member of the Inclusive Framework on Base Erosion and Profit Shifting. This brings the Georgian tax legislation more in line with its commitments to the EU and with international best practices. As a member of the Inclusive Framework, Georgia signed the Multilateral Convention to Implement Tax Treaty related Measures to prevent Base Erosion and Profit Shifting. In addition, Georgia is one of the 137 Inclusive Framework members who have joined the October 2021 Statement on a Two-Pillar Solution to Address the Tax Challenges Arising from the Digitalisation of the Economy. Georgia is also a member of the Global Forum on Transparency and Exchange of Information for Tax Purposes. Furthermore, Georgia has joined the EU Fiscalis programme for the period of 2022-2027 which will allow the country to benefit from all the activities in the tax area that are available for EU Member States.

The **operational capacity and computerisation** of the tax administration remains to be addressed. The tax administration is relatively small and relies heavily on automatized controls facilitated by electronic invoicing and tax reporting. Significant efforts, both administrative and financial, are needed in order to equip the tax administration with the corresponding IT systems, procedures and staff in order to align with the EU *acquis*. IT systems for exchange of information on direct and indirect taxation exchange of information are not yet developed.

Summary

Georgia has **some level of preparation** in the area of taxation. Steps have been taken to align the legislation with the EU *acquis* on VAT and excise duties. Legislation on direct taxation remains to be aligned with the EU *acquis* and international best practices.

Chapter 17: Economic and monetary policy

EU rules require the independence of central banks and prohibit them from directly financing the public sector. EU Member States coordinate their economic policies and are subject to fiscal, economic and financial surveillance.

In the area of **monetary policy**, the National Bank of Georgia (NBG) is the responsible body. The country uses the *lari* as currency units. The medium-term inflation target and other key directions of monetary and exchange rate policy are set by Parliament based on a draft document prepared by the NBG. The inflation target was set at 3% for the period 2022-2024. Georgia has a floating exchange rate regime. The NB intervenes sporadically to maintain foreign reserve adequacy or to offset short-term fluctuations arising from capital flows. Besides fixing monetary policy rates, the NBG instruments for conducting monetary policy include refinancing loans, open market operations, and the minimum required reserves.

The primary objective of the NBG is to ensure price stability, which is in line with the EU monetary policy legislative framework. Other objectives include maintaining financial stability and achieving sustainable economic growth. The institutional independence of the NBG is guaranteed by the Constitution of Georgia and the law on the National Bank of Georgia (*see also Chapter 9 – Financial services*). The law imposes on the Bank a duty to report to the Parliament of Georgia on its monetary, exchange rate and supervision policies, and audited annual financial statement. In terms of personal independence, the members of the Board are nominated by the President and appointed by decision of the Parliament for a seven-year term. The National Bank's Governor is selected by the Bank's Board from among its members and appointed by the Presidency. Dismissal of the Board members is possible only through an impeachment procedure by Parliament, on the grounds of having violated the Constitution or committed a crime. The legislative provisions enables the governing removals of the Governor in some cases which derivate from the Statute of the European System of Central Banks and of the European Central Bank.

In the area of **economic and fiscal policy**, the main actors are the Ministry of Finance in charge of conducting fiscal policy and revenue administration, and the Ministry of the Economy tasked with structural and trade policies. The Ministry of Finance is also mandated to prepare and execute the budget, while the Parliamentary Budget Office coordinates the budgetary and financial oversight by providing budgetary analysis, assesses compliance with fiscal rules, and promotes fiscal sustainability for the medium-term period. The Parliamentary Budget Office is considered as an independent fiscal institution. The Ministry of Finance prepares and executes the annual budget in line with the IMF's Government Finance Statistics methodology, while the methodology for accounting and reporting public sector data is based on the International Public Sector Accounting Standards.

Georgia has been producing a medium-term budgetary framework document called Basic Data and Direction since 2005, covering the macrofiscal framework and expected sectoral expenditures over a four-year time horizon. The country has numerical fiscal rules setting ceilings on public finance deficit (3% of GDP) and government debt (60% of GDP), which were strictly obeyed.

Summary

Georgia is **moderately prepared** in economic and monetary policy. As regards monetary policy, the National Bank of Georgia is an efficient institution; its independence is guaranteed in the Constitution and legislation, and confirmed in practice. However, some legal provisions regarding the independence of the Bank needs to be further clarified and aligned

with the EU *acquis*. On economic policy, efforts are required in some areas, such as improving the quality of analytical work and the institutional setup of the Parliamentary Budget Office to be aligned with EU requirements on independent fiscal institutions.

Chapter 19: Social policy and employment

EU rules on social policy include minimum standards for labour law, equality, health and safety at work and non-discrimination. They also promote social dialogue at European level.

Chapter 14 of the AA on employment, social policy and equal opportunities, of the AA covers the area of social policy and employment. On health and safety at work it covers only the EU framework directive¹⁹ and two other Directives on minimum safety and health requirements at temporary or mobile construction sites²⁰ and on the minimum safety and health requirements for improved medical treatment on board vessels²¹.

Regarding **labour law**, Georgia has adopted legislation concerning all eight directives where it has an obligation to harmonise with the EU *acquis*. Georgia demonstrates an overall good understanding of the EU *acquis* in most areas of labour law. Legislation concerning the rights of young workers aims at aligning with the EU *acquis*.

With regard to administrative capacity and enforcement, the Ministry of Internally Displaced Persons from the Occupied Territories, Labour, Health and Social Affairs (MoIDP) is responsible for preparing labour legislation proposals. The authority responsible for ensuring application of labour legislation is the Labour Inspection Office, which was established as an independent agency under the Ministry. This Office has been operational since 2021, and has 167 staff members and two regional offices.

On occupational **health and safety at work**, the 2019 Organic Law on labour safety is the main legal source for health and safety at work and is mainly based on the EU Framework Directive²². Under the AA, Georgia has made important steps to approximate its legislation to 26 EU directives on occupational health and safety at work. Of these, in addition to the Framework Directive, Georgia has approximated its legislation on medical treatment on board of fishing vessels and partially to the *acquis* concerning temporary or mobile construction.

With respect to enforcement health and safety at work are covered by the mandate of the Legal Entity of Public Law Labour Inspection. Georgia has ratified International Labour Organization Conventions 87 and 98 on social dialogue, freedom of association and the right to organise and collective bargaining. Two social partner organisations are recognised as representative at national level, the Georgian Trade Union Confederation and the Georgian Employers Association.

The Legal Entity of Public Law Labour Inspection is responsible, among others, for ensuring the application of collective employment agreements and agreements reached through mediation in collective disputes.

¹⁹ Directive (EEC) 89/391

²⁰ Directive (EEC) 92/104

²¹ Directive (EEC) 92/29

²² Directive (EEC) 89/391

As for **employment policy**, the Law on employment promotion regulates measures to promote employment it sets out active labour market policies as well as institutions responsible for employment promotion. The main policy document for employment support is the 2019 – 2023 National Strategy of Labour and Employment Policy. Some initial efforts have been made with regard to adopting legislation in line with the *acquis* concerning guidelines for the employment policies and on enhanced cooperation between Public Employment Services.

Public Employment Services are in place and provided by the State Employment Support Agency, which has been operational since January 2020 and has 292 staff members.

On **social inclusion and protection**, various pieces of legislation address poverty. In addition, state programmes on social protection/assistance are approved annually. Georgia's social protection system is funded by general revenue, with the exception of statutory funded pensions, which are funded by contributions

The MoIDP is in charge of developing a policy against poverty and social exclusion and coordinating relevant measures at various levels of government.

On **non-discrimination in employment and social policy**, the Constitution and the 2014 law on the elimination of all forms of discrimination adopted in 2014 both forbid all forms of discrimination irrespective of race, skin colour, language, sex, age, citizenship, origin, place of birth or residence, property or social status, religion or belief, national, ethnic or social origin, profession, marital status, health, disability, sexual orientation, gender identity and expression, political or other opinion, or other characteristics. 'Sexual orientation' is not specifically mentioned as a non-discrimination ground in the Constitution, but non-discrimination on this ground is protected under the general anti-discrimination law.

The Public Defender of Georgia carries out functions similar to an equality body. Its mandate and powers are defined in the Organic Law adopted in 1996 and extended by the amendments in 2019. The Public Defender monitors and oversees the efforts for the elimination of discrimination, collects and analyses statistical data, drafts opinions on relevant legislative amendments and carries out various activities to raise public awareness on discrimination issues.

As regards **equality between women and men in employment and social policy**, the basic institution and provisions exist in current legislation. General gender equality rules exist in legislation.

Summary

Georgia has **some level of preparation** in the field of social policy and employment. Across all policy areas, the challenges are similar, to work towards alignment with the EU *acquis*.

Chapter 20: Enterprise and industrial policy

EU industrial policy strengthens competitiveness, facilitates structural change and encourages a business-friendly environment that stimulates small and medium-sized enterprises.

The Association Agreement establishes cooperation to develop and strengthen the business environment, with particular emphasis on small and medium-sized enterprises (SMEs) to

improve the administrative and regulatory framework for businesses operating both in the EU and in Georgia and to ensure both parties benefit from the DCFTA.

Georgia's enterprise industry policy is integrated in its economic policy 2021-2024 and is defined in the Government Programme 2021-2024 "Toward Building a European State". Its objective is to finance, foreign trade and investment, improving the infrastructure and fostering start-ups and innovation. Support measures on energy efficiency and digitalisation are implemented. It is weak on decarbonisation and lacks circular objectives, yet emphasises resilience. The skills deficit is addressed by a sectoral approach.

The Ministry of Economy and Sustainable Development has the overall competence. Two agencies implement the main interventions: Enterprise Georgia on business development and foreign trade and investment; Georgia's Innovation and Technology Agency. They both concur to create an entrepreneurship ecosystem, promote innovation and export activities for start-ups.

Public-private dialogue is arranged in thematically focused groups with the participation of the involved ministries. While the regulatory impact assessment (RIA) has developed in recent years, its scope of application is still limited. Annual reports are published by Enterprise Georgia and for the SME Development Strategy. The two agencies evaluate their programmes.

Georgia has a countrywide small and medium-sized enterprises strategy for 2021-2025 and related action plan. It incorporates best practices of EU Member States in terms of SME development policy and in particular the EU's Small Business Act for Europe.

A manual for "Small and medium enterprise test" in the context of RIA contains guidelines as to when a test should be carried out for any draft legislation that could potentially affect SMEs. Georgia has made further progress since 2016 by adopting a more strategic approach to SME development through targeted initiatives; the country is the seventh out of 190 countries for this category and second in the starting a business category. In the OECD "SME Policy Index: Eastern Partner Countries 2020" Georgia improved its position in all 12 categories of the Index. Resolving insolvency still needs to be improved, due to limited recovery rate and high length of procedure

The SME definition is in line with the EU SME definition to the extent that it is based on staff headcount and annual turnover. The financial thresholds – still well below the EU ones – were updated in 2017 to take into account the development of the Georgian economy.

A thorough alignment work is needed with the Late Payment Directive. Provisions on payment terms appear to apply only in public administration to business transactions (whose terms are unclear though), not in business to business transactions. Other key provisions e.g. late payment interests, are neither existent nor aligned.

Georgia uses special economic zones and Technology parks are available in various regions. Industry-specific policies exist, that detail the applicable industry policy instruments, e.g. in mining, information and communication, whose core is a broadband deployment strategy, and tourism.

Legal entities from Georgia participate as third country partners in the Enterprise Europe Network. Negotiations are currently ongoing regarding Georgia's participation in the new Single Market Programme.

Summary

Georgia is **moderately prepared** in the area of enterprise and industrial policy. Special attention is needed for the diversification of inward foreign direct investment to tradable industries and linkages to the domestic industrial tissue. Alignment with the EU legislation on Late Payment needs to be ensured.

Chapter 25: Science and research

The EU provides significant support for research and innovation. All EU Member States, associated Countries and third countries participate in the EU's research and innovation programmes, and can benefit from them, especially where there is a scientific excellence and solid investment in research and innovation. Future supporting measures for SMEs should focus on the internationalisation, access to finance, access to innovation (including transition to green market), fair competition and entrepreneurial learning.

Cooperation in the area of science and research is covered by Chapter 12 of the Association Agreement (AA). However, no transposition of the EU *acquis* in this policy area is required. The key goal is to assess Georgia's ability to implement the relevant EU R&I framework programmes and align with values and principles underpinning the European Research Area (ERA). The main actor for research and innovation in Georgia is the Ministry of Education and Science (MoES). The Ministry is responsible for planning and funding in the field of science whilst the Academy serves as a scientific advisor to MoES. A separate Research and Innovation Council, in place since 2015, is tasked with coordinating the development of national and regional innovation ecosystems between the state and private educational and scientific agencies.

A unique administrative entity, the National Office Horizon Europe (NOHE), was established in 2021, operating under the umbrella of the Shota Rustaveli National Science Foundation of Georgia (SNRSFG) and tasked with initiating and coordinating activities for promotion and dissemination of information about Horizon Europe (HE). The NOHE coordinates all as well all HE University Grant Offices (14 at present). In addition, in 2021 the Research Management School (RMS) has been put in place under the umbrella of NOHE, entrusted to deliver trainings for all research stakeholders in Georgia.

The Georgian research and innovation (R&I) system has undergone significant reforms over the past years. Most important milestones in this process have been the establishment of new executive funding agencies for research and innovation, the Shota Rustaveli National Science Foundation of Georgia (SNRSFG) and the Georgian Innovation and Technology Agency (GITA). The reorganisation of the Academy of Science took place in 2011, when most of its research institutes were transferred under the auspices of universities. A substantial driver for all reforms of the national R&I system of Georgia was provided by the Horizon 2020 Policy Support Facility (PSF) "Specific Support to Georgia" in 2017-18 recommending urgent actions in three areas: priority setting in R&I, performance-based research funding system, and strengthening the science-business links. The implementation of these recommendations triggered the preparation and entry into force of a new "Unified National Strategy for Education and Science for 2022-2030" and the "Sectoral Action Plan for 2022-2024". The Strategy and the Sectoral Action Plan for 2022-2024 are aligned with the four strategic objectives of ERA.

In terms of **framework programmes**, Georgia has been associated with Horizon 2020 since 2016, with an excellent track record, and to the Horizon Europe programme since 2021. Under Horizon 2020, Georgia participated in 58 Horizon 2020 funded projects and obtained a direct EU contribution of EUR 8.7 million. GE participation in Horizon 2020 was the best

from all Caucasus countries. The European Commission and Georgia signed the agreement granting Georgia the association status to Horizon Europe on 7 December 2021. The Agreement became provisionally applicable on the day of the signature and entered into force on 12 January 2022. Georgia joined the EURAXESS network in 2019 and it has been a member of the European Cooperation in Science and Technology (COST) association since 2022. Georgia remains a very active participant in the Eastern Partnership (EaP) regional cooperation for R&I. The 4th Informal Working Group meeting at expert level under the EaP Panel for R&I on 19 and 20 October 2022 has been hosted by Georgia.

Regarding smart specialisation, the Ministry of Regional Development and Infrastructure of Georgia launched a pilot of a smart specialisation strategy in the Imereti region in 2019, which will run until 2023. Gross Domestic Expenditure on R&D (GERD) in Georgia has increased from a very low of 0,08% in 2013 to about 0,3% of GDP in 2019 and 0,4% in 2020

Summary

Georgia has achieved in a very short time a good progress to align its research and innovation system to European and international practices. Georgia is **moderately prepared** in the area of science and research. As a new ERA governance has been launched, preparation and adoption of a national ERA roadmap is urgently required, which would include a strategic and well-defined approach on open science but also on researchers mobility (attracting back scientific diaspora and international talents by fully capitalising on the opportunities offered by association to HE). Regarding innovation, if Georgia would effectively combine efforts of academia, research and business to develop a sustainable innovation ecosystem, this would contribute to improving the national and regional innovation excellence and competitiveness.

Chapter 26: Education and culture

The EU supports cooperation in education and culture by funding programmes and the coordination of Member State policy through the open method of coordination. The EU and its Member States must also prevent discrimination and ensure quality education for children of migrant workers, including those from disadvantaged backgrounds.

Under the AA Georgia and the EU Member States have committed to cooperation to promote lifelong learning, and to encourage cooperation and transparency at all levels of education and training.

On **education and training**, the right to education is ensured by the Constitution and further expanded in the law on early and preschool education and care, the law on general education, the Law on vocational education, the Law on higher education, the Law on education quality enhancement and the National Curriculum and strategic policy documents. The Ministry of Education and Science oversees planning and implementation of policies and activities in line with the applicable law. The 70 Educational Resource Centers coordinate the education policy at a regional level.

Georgia's education policy has been covered by the Unified Strategy of Education and Science of Georgia 2022-2030 which was approved by the government in August 2022.

Data collection on education is well-developed. Georgia participates in international surveys, such as the OECD for International Student Assessment (PISA). In the 2018 PISA studies, Georgia's share of 15-year-old underachievers in reading was 64.4% in Georgia compared with an EU average of 22.5%.

In the field of higher education, Georgia has been a member of the Bologna process since 2005 and has ratified the Lisbon Recognition Convention. Georgia has already made significant advancement on the key commitments of the European Higher Education Area. This is a useful basis for full engagement in EU higher education policy and transnational cooperation.

Concerning social inclusion in education, the state ensures universal access to primary, basic and secondary education for every child residing in Georgia. The “law on general education” and the national curriculum recognise the individual and alternative forms of Education. For accessible and quality education Georgia developed additional services for Students with special educational needs in public schools.

In the field of **Vocational Education Training (VET)** Georgia aims at promoting private sector involvement in work-based learning and dual-education. Creating partnerships with business is a guiding principle of Georgia’s Technical and VET reform.

In 2019, Georgia approved a new National Qualifications Framework, which considers the requirements and guiding principles of the European Qualifications Framework and the Qualifications Framework for the European Higher Education Area. In further reforming the Georgian National Qualifications Framework to an operational stage, the focus should be on implementation.

A regulatory framework has been introduced to ensure the quality of dual training. The rules and criteria for work-based learning have been developed to define the role and responsibilities of colleges and companies, as well as student rights, and quality assurance issues.

Georgia has revised its regulations, procedures and tools to align with the EU’s 2012 Council Recommendation on Validation of non-formal and informal learning.

The development of digital skills has recently become an integral part of Georgia’s educational curricula in VET and at each level of higher education.

In the field of **youth** policy, the Parliament of Georgia developed in 2020 a new Youth Policy Concept for 2020-2030. Based on this concept the Youth Agency has prepared a National Youth strategy, which is expected to be adopted by December 2022.

Georgia cooperates on **sport** with European partners, including in the European Week of Sport Beyond Borders and the Council of Europe’s sport partnership. The Council of Europe Antidoping Convention was ratified in 2003 and in 2010 the United Nations Educational, Scientific and Cultural Organization International Convention against Doping took legal effect in Georgia.

Overall, Georgia’s **cultural policy** documents and programmes reflect the general priorities of the New European Agenda for Culture, when it comes to culture’s societal, economic and external dimensions. Georgia ratified the UNESCO Convention on the Protection and Promotion of the Diversity of Cultural Expressions.

Georgia participates in international actions of the Erasmus+ programme (2021-2027). Georgia is also participating in the eTwinning. The National Erasmus+ Office in Georgia has been supporting the implementation of the Erasmus+ programme. Such support is foreseen to continue for the period 2022 onwards. Georgia benefits from international youth actions of Erasmus+ and European Solidarity Corps Programmes. Georgia joined the Creative Europe Programme (2021-2027) in 2021. Georgia is also participating in the DG NEAR led EU4Culture programme.

Summary

Georgia is **moderately prepared** in the area of education and culture. The education system in Georgia is broadly aligned with the EU objectives. Georgia is also broadly aligned with the EU objectives on youth policy. Georgia's cultural policy broadly reflects the general priorities of the New European Agenda for Culture. Georgia enjoys a good level of cooperation with its European partners on sport. The country is broadly aligned with the EU policy on training and qualifications.

Chapter 29: Customs union

All EU Member States are part of the EU customs union and follow the same customs rules and procedures. This requires legislative alignment, adequate implementing and enforcement capacity, and access to the common computerised customs systems.

The AA requires Georgia to align its customs system and **customs legislation** with that of the EU. The Customs Code, which entered into force in 2019, is mostly aligned with the Union Customs Code. Georgia is a party of the Pan-Euro Medditerenean Convention on the rules of origin and benefits from the diagonal cumulation of origin between the Pan-Euro Medditerenean Convention member countries. The country completed the procedure for the application of revised transitional rules of the Convention in 2021. The national Authorised Economic Operator programme is under development. The legislation on controls of cultural goods is mostly aligned with the EU rules.

Georgia is preparing its accession to the Convention on the Simplification of Formalities in Trade in Goods and to the Convention on a common transit procedure. The country has developed the New Computerised Transit System and will start using it nationally as a preparatory step. Georgia intends to become a member of the convention in 2024.

Georgia needs to fully align its law on customs with the Union Customs Code and work on further alignment with the EU rules, in particular in the areas of duty relief, value added tax on imports, transit and simplification procedures. Georgian legislation is aligned in broad terms with the EU rules on Intellectual Property Rights, however there are some divergences, which should be addressed.

With regard to administrative and operational capacity, the Revenue Service needs to progressively adapt its structure to the EU customs requirements and work on continuously increasing its resources, in order to enforce effectively customs legislation. Procedures and working methods need to be revised. An improvement of administrative capacity and additional resources for the Information technology sector are of particular importance, as there is still significant work to be done in order to ensure that customs information technology systems are compatible with the EU.

Summary

Georgia is **moderately prepared** in the area of customs union. Customs legislation is not fully aligned with the EU *acquis*. Georgia needs to further align its 2019 Law on customs with the Union Customs Code. The administrative and operational capacity needs to be improved and resources of the customs service increased. Strengthening of administrative capacity in the IT sector is of particular importance.

CLUSTER 4: THE GREEN AGENDA AND SUSTAINABLE CONNECTIVITY

This cluster covers: transport policy (Chapter 14); energy (Chapter 15); trans-European networks (Chapter 21); and environment and climate change (Chapter 27).

Chapter 14: Transport

The EU has common rules for technical and safety standards, security, social standards, State aid and market liberalisation in road transport, railways, inland waterways, combined transport, aviation and maritime transport.

The AA between the EU and Georgia is listing transport dispositions under Title VI of the agreement. Further international standards are defined by Annexes XXIV and XV-D. The main objectives of the AA in the area of transport are to promote transport cooperation between the EU and Georgia and to boost the development of sustainable transport systems, to promote efficient and safe and secure transport operations as well as inter-modality and inter-operability of transport systems. The gradual integration of Georgia into the EU internal aviation market is governed by the European Common Aviation Area Agreement signed in 2010.

The main competences in the transport sector are exercised at state level. Tasks are performed by the Ministry of Economy and Sustainable Development. The Ministry is responsible for international and inter-entity transport, including agreements, relations with international organisations and preparation of strategic and planning documents. The other key bodies are the Land Transport Agency, the Maritime Transport Agency and the Civil Aviation Agency.

The main **horizontal strategic document** is missing. The National Transport and Logistics Strategy, which aims to transform the country into a regional transport and logistics hub in the region as well as part of middle corridor, is not in place.

Regarding **road transport**, the National Road Safety Strategy 2022-2025 is in place and is in line with the EU and UN targets to reduce deaths and serious injuries. It also covers all the road safety pillars. Its principle objective is to reduce the number of deaths and serious injuries resulting from road crashes by 25%. Currently, road crashes average is far above the EU level, with 4999 crashes in 2020. Georgia is largely aligned with relevant provisions of the European agreement concerning the work of crews of vehicles engaged in international road transport.

Concerning rules on driving and rest times, Georgia has not adopted main EU texts such as the Regulation on the harmonisation of certain social legislation relating to road transport, the Directive on the organisation of the working time of persons performing mobile road transport activities and the Directive for posting drivers in the road transport sector.

Regarding market access, the Regulation establishing common rules concerning the conditions to be complied with to pursue the occupation of road transport operator has been fully aligned for domestic transport operators but only partially for transport operators.

Rail transport is governed by the Railway code adopted in 2002. There is no competition for rail services (the market is not opened) and no regulatory body. Separation between infrastructure management and transport operations is not provided. There exists a sole integrated railway undertaking - JSC Georgian Railways, which consists of three strategic business units (Infrastructure, Freight, Passenger), which have no accounting separation. Safety responsibilities lay solely with the incumbent rail company JSC Georgian Railways.

There is no independent safety supervision. Technical specifications for interoperability (TSIs) are not implemented. An independent national safety authority and an investigating body are not established. Tasks of those bodies are currently performed by the national incumbent rail company JSC Georgian Railway and its departments.

There are no provisions on **transport of dangerous goods**.

On **maritime transport**, Georgia has adopted laws for the approximation of the International Maritime Organisation conventions, aiming at the implementation of the EU maritime transport *acquis*. The country is a member of Black Sea Memorandum of Understanding and has implemented (to the extent possible) the Directive on port State control. Georgia needs to implement legislation aligning to the Port Services Regulation²³.

On **civil aviation**, Georgia is committed to implement air transport provisions in line with the EU-Georgia Common Aviation Area Agreement. The Common Aviation Area Agreement contains a list of aviation-related EU provisions (market access, safety, air traffic management, security, environment, consumer rights and social aspects) that has to be implemented. Georgia is signatory of the International Civil Aviation Organization, the European Civil Aviation Conference and EUROCONTROL. It is an observer of the European Union Aviation Safety Agency.

There are no provisions on **EU passengers' rights**.

There are no provisions on **multimodal and combined transport**.

Summary

Georgia has **some level of preparation** in the area of transport policy. The country needs to further align with and implement transport *acquis* in all sectors and at all levels of government. On road safety, Georgia needs to enhance its administrative capacity, enhance infrastructure maintenance and launch awareness-raising campaigns to reduce the high number of accidents and fatalities.

Chapter 15: Energy

EU energy policy covers energy supply, infrastructure, the internal energy market, consumers, renewable energy, energy efficiency, nuclear energy and nuclear safety, and radiation protection.

Georgia has been a member of the Energy Community since July 2017. By signing the Energy Community Treaty, Georgia committed to aligning with and implementing key EU energy law, develop an adequate regulatory framework and liberalise their energy markets in line with the Treaty *acquis* within a fixed timeframe. The Energy Community *acquis* comprises legal acts in the following areas: electricity, gas, renewable energy, energy efficiency, climate, environment, competition, statistics, infrastructure and oil. Since joining the Energy Community, Georgia has been working towards aligning with the EU Energy *acquis* under the Energy Community treaty.

Since Georgia currently has no direct connection to energy networks of any EU or Energy Community Treaty country, parts of the EU *acquis* are derogated.

²³ (EU) 2017/352

The main competencies in the energy sector are exercised at state level by the Ministry of Economy and Sustainable Development. Other key bodies at state level are the Georgian Energy Development Fund, a state-owned joint-stock company in charge of developing Georgia's renewable energy potential, and the public-private partnership agency.

There are currently no main horizontal strategic documents on energy policy in place.

Georgia's energy balance is made up of natural gas, oil, renewable energy sources and coal. In 2020, the major energy sources for gross inland consumption were natural gas (46.5%), oil (27,5 %) and renewables (19%), whereas coal only accounted for 4%. Domestic production is 21% of the total gross inland consumption.

In terms of **security of supply**, Georgia does not have emergency oil stocks. The country has not aligned with the oil stocks Directive, which imposes an obligation to maintain minimum stocks of crude oil and/or petroleum products. There are insufficient human resources in the ministry in charge of energy, in particular concerning fulfilling security of supply obligations. The adoption of gas security of supply rules are pending.

Concerning the **internal energy market**, Georgia aligned with the third energy package primarily through the law on energy and water supply, as well as through a set of implementing legislation including electricity and gas market concept designs, market rules etc. The transmission system operators (TSOs) in electricity and gas are not unbundled. The unbundling of TSOs requires their restructuring and the allocation of control to different public bodies. The electricity distribution system operators are legally and functionally unbundled. The gas distribution system operator, the State Oil Company of Azerbaijan, is not unbundled. The Georgian National Energy and Water Supply Regulatory Commission (GNERC) is competent to maintain balance in the energy and water supply sectors between the interests of regulated companies and customers, ensure development of the regulatory framework, and promote competition.

In the *electricity* sector, the launch of day-ahead, balancing and ancillary services markets was postponed to 31 March 2023 – and intraday to 30 June 2023. The deregulation of production and large customers follows the market opening scheme of the electricity market concept design and is expected to be finalised by 2026-2027. Households and small enterprises will remain subject to the historical electricity incumbent. There is a high number of renewable energy producers under power purchase agreements.

In the *gas* sector, supply contracts are concluded bilaterally for the long term. The natural gas market concept includes the establishment of a natural gas exchange and an over the counter auction platform by December 2022. The Georgian gas exchange was established but does not operate yet. The level of concentration in the gas market is high. Gas-fired thermal power plants operate with subsidised gas. Georgia already aligned its legislation with the REMIT Regulation.

Georgia is not directly interconnected with EU Member States. The electricity network is synchronised with Azerbaijan and Russia electricity grids. Depending on the season, electricity is either exported or imported from its neighbours, including Türkiye. The country hosts important gas and oil pipelines for the Southern Corridor. It is dependent on gas imports from Azerbaijan (dominantly) and Russia (marginally). Georgia does not have sufficient gas infrastructure (cross-border interconnections are nearing their technical limit, no gas storage).

In the area of **renewable energy**, Georgia should adopt the amendments to the renewables law to transpose and implement the Renewable Energy Directive²⁴. The feed-in premium scheme, which was previously limited to hydropower, was amended in January 2021 to cover all renewable power plants with an installed capacity higher than five megawatts. A new support scheme is currently being considered. Rules for the issuance of guarantees of origin were adopted in December 2021 by the regulatory authority. Provisions related to the sustainability of biofuels are pending. In 2020, Georgia had installed RES capacity of 3 357 MW, most of it from large hydropower.

Regarding **energy efficiency**, Georgia is aligned with the energy efficiency Directive, the energy labelling and the energy performance in buildings Directives. Minimum energy performance requirements for buildings and the calculation methodology for buildings performance were adopted by the Government in 2021. The remainder of implementing legislation is still to be adopted. On energy labelling, the adoption of nine product regulations is pending.

On **nuclear energy, nuclear safety and radiation protection**, Georgia has no nuclear power sites on its territory. Georgia is a party to international conventions concluded under the auspices of the IAEA, with the exception of Convention on Nuclear Safety, and has used IAEA services to have its regulatory arrangements reviewed (IRRS in 2018). Georgia has developed a national strategy for radioactive waste management taking into account the radioactive waste Directive. Georgia is currently updating its legal framework relating to nuclear safety, security and safeguards, amongst other things, to bring it fully in line with relevant EU legislation. Georgia still has to proceed to full alignment and implementation of the Euratom Directives on nuclear safety, the management of spent fuel and nuclear waste as well as basic safety standards and drinking water and to consider accession to the Convention on Nuclear Safety.

Summary

Georgia has **some level of preparation** in the energy area. The country needs to reinforce inter-institutional cooperation and coordination in view of improving its fragmented, inconsistent legislative framework. Overall, Georgia needs to step up its efforts towards the establishment of functional internal markets and its integration into the regional market. Unbundling of its energy utilities remains an important priority for Georgia, as does the establishment of oil stocks.

Chapter 21: Trans-European networks

The EU promotes trans-European networks in the areas of transport, telecommunications and energy to strengthen the internal market and contribute to growth and employment.

Trans-European energy networks cover gas transport and storage facilities and electricity transmission and make a significant contribution to the electricity and gas market. The Trans-European energy networks are a response to the growing importance of securing and diversifying the EU's energy supplies, integrating the energy networks of the Member States, candidate countries and potential candidates, thus ensuring the coordinated operation of the energy networks in the EU and in neighbouring countries.

²⁴ Directive (EU) 2018/2001

State policy for the development, management, maintenance of road infrastructure is governed by the Ministry of Regional Development and Infrastructure and by the Roads Department of Georgia. Local municipalities are responsible for the development, management and maintenance of local/municipal roads.

On Trans-European **Transport Networks** (TEN-T) a high-level agreement between the EU and Georgia entered into force in November 2018. An Indicative Trans-European Networks Transport Investment Action Plan for the Eastern Partnership was jointly prepared by the World Bank and the Commission in January 2019. The Plan identifies key priority investments supporting EUR 3.4 billion for Georgia for all transport modes on the extended core network with a completion deadline of 2030. The EaP Economic and Investment Plan contributes developing transport networks with the development of Black Sea ferry/feeder services and investments in port energy efficiency.

An amendment to the TEN-T map was negotiated between the Commission and Georgia in 2019. The agreement is pending approval by the Georgian side. The Georgian indicative network consists of 751 km of railways (out of which 599 km on the core network), 856 km motorways (out of which 795 km on the core network), three ports (one of which is core) and one core airport.

The indicative Trans-European **transport network** (TEN-T) was extended to the Eastern Partnership, including Georgia, in 2018. The extension to Georgia provides for the identification of core and comprehensive networks. The indicative TEN-T for Georgia presently includes all transport modes.

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Development of transport infrastructure is one of the priorities for Georgia and is listed in key strategic documents, such as the For Building European State 2021-2024 official programme. The country has a database on infrastructure standards but only contain qualitative information. Georgia has yet to inform if transport infrastructure meets TEN-T infrastructure requirements.

The main bottlenecks reducing the performance of the core motorway network are the limited capacity of existing international state roads. The road infrastructure is mainly of poor standard, in terms of quality, capacity and safety.

Concerning railways, authorities have identified bottleneck on the core network, which is being addressed since 2011 through the implementation of the Railway Modernisation Project. The works should be finalised by 2023. The rail network infrastructure and rolling stock are often obsolete with respect to quality, capacity and safety standards. In addition, Georgian rail network is equipped with the 1 520 mm rail track gauge, whereas the EU

standard gauge is 1 435 mm. Another major railway project is the Baku-Tbilisi-Kars railway line project launched in 2007 which is 85% completed. It will ensure the capacity of 5 million tons of freight and 1 million passengers per year with a prospect of 15 million tons capacity of freight annually and will become part of the Europe-Caucasus-Asia railway corridor and the main route for Europe-China freight transportation.

Georgia needs to align with the Regulation on guidelines for trans-European energy infrastructure (TEN-E Regulation)²⁵, as adapted and adopted by the Ministerial Council of the Energy Community. The adoption of the TEN-E Regulation would potentially accelerate the realization of the Black Sea submarine cable project which aims to connect the South Caucasus region directly to South-East Europe via a sub-marine cable crossing the Black Sea. The project application was selected in the list of projects to be potentially included in the ENTSO-E Ten Year Electricity Network Development Plan 2022. The Ten Year Natural Gas Transmission Network Development Plan 2021-2030 foresees to replace the dead-end gas supply system with a highly secure circular-type system of loops and interconnectors.

Challenges to the gas transmission network include non-backed-up cross-border pipelines, the difficulty or even impossibility of the existing transmission system or contractual limitations to balance hourly consumption disparity, and suspended construction of natural gas storage. Challenges for the electricity transmission network include the non-back up of interconnection lines, the radial/inadequately backed-up network of western Georgia, the dead end (mainly 220 Kilovolt) transmission lines both in the west and east part of the power transmission system, and exploring alternative solutions to ease the impacts of cross border infrastructure constraints.

Until Georgia has a physical interconnection with the EU or the Energy Community electricity markets, a derogation from cross-border cooperation rules applies. At this stage, there is no coordinated capacity allocation of cross-border capacities with neighbouring countries, except bilateral cross-border capacity allocation on the interconnectors with Türkiye. Nevertheless, rules for management of cross-border electricity flows and capacity allocation were drafted as part of the transmission grid code. Agreements with neighbouring transmission system operators and development of the framework for market-based mechanisms for cross-border exchange are still to be signed by 31 March 2023.

Summary

Georgia has **some level of preparation** in the area of trans-European networks. The legislative framework needs to be aligned with the Trans-European Networks for Transport and Trans-European Networks for Energy regulations for implementing transport and energy projects. Transport and energy infrastructures are insufficiently developed. The implementation of connectivity reform measures in Georgia is slow.

Chapter 27: Environment and climate change

EU environment and climate policies are based on preventive action, the 'polluter pays' principle, fighting environmental damage at source, shared responsibility and the integration of environmental and climate change considerations into other EU policies. Chapter 27 of the EU acquis comprises over 200 major legal acts covering both horizontal and sectoral

²⁵ Regulation (EU) 347/2013

legislation (air quality, waste management, water management, nature protection, industrial pollution control and risk management, chemicals, noise, civil protection and climate change).

Environment and climate change is covered by Chapters 3 (environment), 4 (climate action), 13 (trade and sustainable development) and 22 (civil protection) of the AA/DCFTA.

Cross-cutting environment issues

Georgia has some level of alignment with EU **horizontal legislation**. Implementation and enforcement represent a challenge, notably due to limited administrative capacity. Georgia implemented the Aarhus Convention including provisions on access to environmental information. It implemented some of the Aarhus transparency rights and on access to justice. Georgia adopted a framework legislation on environmental impact assessments but main principles need to be effectively implemented.

On **air quality**, the level of legislative alignment with the EU *acquis* is partial. Air quality standards were set for all pollutants covered by the Air Ambient Quality Directives. Exceedances are however recorded, notably concerning particulate matter in major cities. The air quality monitoring system is partially aligned with EU requirements and an air quality index website is available. The alignment with the National Emission reduction Commitments Directive still shows significant gaps, but progress is made notably on emission inventories and projections. Georgia is party to the UNECE Air Convention but not yet to any of the latest three protocols.

Georgia's alignment with the EU **waste management** legislation is at an early stage. Alignment with the revised Waste Framework Directive, and all relevant waste streams legislation needs to be further consolidated, including by adopting national legislation in line with the EU sewage sludge and ship recycling rules. Significant investments are needed to modernise the waste management system and put in place waste collection and treatment infrastructure.

In the area of **water quality**, the level of alignment is limited. New legislation is under development to ensure further alignment with the EU Water Framework Drinking Water, Urban Waste Water Treatment and Nitrates Directives, including an integrated water resources management system, which implies the introduction of a river basin management mechanism. A Water Information System of Georgia has been developed. –Georgia made good efforts towards an adequate legal and administrative framework for alignment with EU marine protection legislation. Notably, the legal framework for the protection of marine environment is being finalised within the draft 4th National Environmental Action Programme, and the country conducts hydrobiological monitoring of coastal waters of the Black Sea. A registry of protected areas of Georgia, including marine protected areas, is in place. There is good alignment on **nature protection**, notably through compliance with some of the obligations under the Bern Convention. Despite the relatively constant progress, Georgia's current Emerald Network presents a sufficiency rate to achieve the Network objectives of only 30%. Georgia needs to update its National Biodiversity Strategy and Action Plan. A dedicated biological diversity law is being developed. A biodiversity monitoring system and a strategy for invasive alien species are to be developed. Strengthening of administrative capacities and dedicated financial resources are needed.

As concerns the EU *acquis* on **industrial pollution control and risk management**, significant legislative work and investments are needed for industrial and livestock rearing

activities falling under EU's industrial emissions legislation. Further legislative alignment is therefore necessary, including as concerns the industrial accidents *acquis*.

The level of transposition of the **chemicals** *acquis* is limited and important provisions such as on animal testing, are missing. Alignment with the EU REACH and Classification, Labelling and Packaging Regulations is under preparation. Significant efforts will need to be invested in enforcement and implementation of the chemicals legislation considering the complex tasks under this sector.

Georgia is at an early stage of alignment with EU **noise** legislation. Preparation of the strategic noise maps and action plans needs to start.

Civil protection

In the area of **civil protection and disaster risk management**, Georgia has a 24/7 operational duty service, which cooperates with the EU's Emergency Response Coordination Centre. Georgia prepares and regularly updates a national risk assessment, which outlines all threats and risks identified at national level. The early warning systems of Georgia could be further strengthened. Roles and responsibilities of different actors are clearly defined.

Climate change

Georgia has a low to moderate preparedness level on the climate change *acquis*, including its obligations under the Energy Community Treaty. It is a Party to the Paris Agreement and provides regular reports. In its updated Nationally Determined Contribution Georgia committed to an unconditional domestic greenhouse gas emissions emission reduction target of 35% below 1990 level of its domestic total greenhouse gas emissions by 2030, and a conditional target of 50-57%, dependent on receiving international support.

The country's unconditional target appears to be unambitious, leading to a likely significant increase in the country's emissions by 2030 as compared to the current emission reduction levels. Georgia neither adopted a long-term low emission development strategy nor set a binding climate-neutrality date, as required both under the Governance Regulation and the Paris Agreement. Georgia joined the Global Methane Pledge at COP26. Georgia established a Climate Change Council at ministerial level to ensure better coordination. Georgia has no climate change law yet.

Georgia does not belong to Annex I parties of the United Nation Framework Convention on Climate Change (UNFCCC). Hence, Georgia has currently only a basic national system for monitoring and reporting of GHG emissions, and prepares its GHG inventory biennially. Considerable efforts are needed to align with relevant EU legislation in that respect.

An Integrated National Energy and Climate Plan as required by the Governance Regulation²⁶, is not yet adopted. Georgia adopted however a 2030 Climate Change Strategy and 2021-2023 Action Plan, which it started to implement.

Georgia did not align with the Directive establishing a scheme for greenhouse gas emission allowance trading (EU Emission Trading System). Neither did it align with the Effort-Sharing Regulation or the Regulation on Land Use, Land Use Change and Forestry, as it does not have any carbon pricing policy yet, but some provisions are expected to be incorporated

²⁶ Regulation (EU) 1999/2018

into national law through the Energy Community. Regarding emission from transport Georgia has not implemented CO₂ performance standards for new vehicles, nor has it enacted measures to promote monitoring and availability of consumer information on fuel economy and CO₂ emissions in respect of the marketing of new cars. Concerning fuel quality, Georgia does not have in place specific legislation to address fuel quality and greenhouse gases emission reductions of petrol, diesel and gas oil fuels. The country participates in the European Civil Aviation Conference and volunteered to participate in the global Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

Georgia is a party to the Montreal Protocol on substances that deplete the ozone layer, but has not ratified the Kigali amendment yet. Under the Montreal Protocol, Georgia plans to phase out hydrochlorofluorocarbons by 2030 while the EU has already phased out all ozone depleting substances. Georgia has not fully aligned with the current versions of the Regulation on ozone depleting substances or the Regulation on fluorinated greenhouse gasses, but the country has made some efforts to approximate with the basic elements of previous versions of those Regulations.

Georgia has not developed relevant national legislation in line with the Directive on carbon capture and storage²⁷.

Georgia does not have a National Adaptation Plan on adaptation to climate change; the only sector covered in policy documents is 2030 National Adaptation Plan for Agriculture.

Summary

Georgia is at an **early stage of preparation** in the field of environment and climate change. Implementation and enforcement represent a challenge. The challenges relate mainly to administrative and financial aspects but also to overall capacity to assume obligations associated with EU membership in the sectors covered under Chapter 27. In addition, the gaps in the level of legislative alignment have widened with the expansion and deepening of EU *acquis* following the European Green Deal. Considerable efforts are still needed to strengthen institutions in terms of administrative, financial and organisational capacity. Additional expertise and further capacity-building activities are needed, as well as equipment to fully implement the requirements of the legislation. Environmental protection and green transition would benefit from increased political attention and a whole-of-government and whole-of-the-economy approach.

CLUSTER 5: RESOURCES, AGRICULTURE AND COHESION

This cluster covers: agriculture and rural development (Chapter 11); food safety, veterinary and phytosanitary policy (Chapter 12); fisheries (Chapter 13); regional policy and coordination of structural instruments (Chapter 22); and financial and budgetary provisions (Chapter 33).

Chapter 11: Agriculture and rural development

²⁷ Directive (EC) 2009/31

The common agricultural policy supports farmers and ensures Europe's food security. It helps to tackle climate change and the sustainable management of natural resources; maintains rural areas and landscapes across the EU; and keeps the rural economy alive by promoting jobs in farming, agri-food industries and associated sectors. This requires strong management and control systems. There are also common EU rules for marketing standards, quality policy, and organic farming.

EU-Georgia cooperation in agriculture and rural development is covered under Chapter 10 of the AA (as well as some provisions on trade and food safety). There are no specific legal approximations planned for that sector. The agreement provides for the recognition of geographical indications and for gradual trade liberalisation. It identifies mutually beneficial areas of common interest in the agriculture and rural development sector and for cooperation.

For Georgia, agriculture remains an important sector in terms of GDP contribution (7%). The sector also provides an important safety net for the rural population, considering that over 40% of Georgia's population lives in rural areas. Georgia has a wide variety of ecological and climatic zones favourable for the growth of different crops, including cereals, early and late vegetables and fruits.

The Ministry of Environmental Protection and Agriculture (MoEPA) is the competent authority on the national level for agriculture and rural development policy formulation. The Rural Development Agency (RDA) is in charge of the financial management of the agriculture and rural development policy.

Concerning **horizontal issues**, Georgia's policy in this area is governed by the Strategy for Agriculture and Rural Development 2021-2027 and an action plan for its implementation. As of 2021, Georgia plans to transform the RDA into an EU-like paying agency, but substantial additional efforts will be required to establish an integrated administration and control system, improve data quality of registry and set up a Land Parcel Identification. There is no Farm Accountancy Data Network or similar system monitoring farm income activities.

The agriculture budget provides support to the sector in three categories: (1) competitive agricultural and non-agricultural sectors, (2) sustainable usage of natural resources and adaptation to climate change, (3) effective systems of food/feed safety, veterinary and plant protection. On State aid, Georgia applies a number of subsidies and additional measures such as on agricultural mechanisation, subsidies to agricultural insurances, wheat flour and wheat import subsidies in 2020/2021 to cope with COVID-19 challenges, and measures to develop private land ownership.

Common market organisation (CMO) alignment is very limited in Georgia, mostly relating to certain marketing standards. A number of support measures apply to varying product categories.

In 2013, Georgia adopted a Law on agricultural cooperatives which defined the rules and regulations for the activities of agricultural cooperatives. Areas of activity of agricultural cooperatives are production, processing, packing, packaging, storage, transportation, and marketing of agricultural products. This law is currently under review by the Parliament's Agrarian Committee with the ambition to modernise and align it with the EU acquis.

Regarding the wine sector, a vineyard register is in place since 2014 with more than 80% of the vineyards registered to date, based on orthophotomaps design by global positioning System technology and declaration of grape growers. The Vineyard Cadastre System of

Georgia aims to be the information system for the management and control of vineyards and wine production.

On **rural development**, Georgia's framework policy document is the Agriculture and Rural Development Strategy 2021-2027 with its Action Plan 2021-2023. Its implementation is coordinated and closely monitored by the Inter-Agency Coordination Council including relevant stakeholders using an electronic monitoring and evaluation system. Funding is provided through the agriculture budget.

As regards **quality policy**, the Law on designation of origin of goods and geographical indications which regulates registration, protection and use of designations of origin and geographical indications of goods, is considered to be in line with EU Regulation²⁸ on quality schemes. **Organic farming** is regulated through the Resolution on organic production, which is harmonised with Council Regulation²⁹ on organic production.

Summary

Georgia is at an **early stage of preparation** in the area of agriculture and rural development. The AA/DCFTA did not foresee any approximation. Georgia will need to fully align with the EU's *acquis* in the area of agriculture and rural development and establish the structures, systems and the administrative capacity to be able to implement and enforce it effectively.

Chapter 12: Food safety, veterinary and phytosanitary policy

EU hygiene rules for foodstuff production ensure a high level of food safety. Animal health and welfare and the safety of food of animal origin are safeguarded together with quality of seeds, plant protection material, protection against harmful organisms and animal nutrition.

Food safety, veterinary and phytosanitary policy is covered in the AA chapter 4 (articles 50 to 65) and annexes IV-A, IV-B, XI-A & XI-B.

In the area of sanitary and phytosanitary (SPS) measures, Georgia has partly aligned its legislation with the EU *acquis*, implementing the ambitious legal approximation plan of the AA's annex XI-B for full approximation by 2027. 144 acts have been aligned with by the end of 2021. Most livestock production regulations are now aligned with EU rules.

The competent authorities are the Ministry of Environmental Protection and Agriculture and the National Food Agency (LEPL). Successful implementation of sanitary and phytosanitary measures has opened EU markets for a limited number of Georgian products. Monitoring/surveillance and enforcement in areas as animal health and welfare, biosecurity, food safety and product traceability require improvement.

Legislation and organisation of the Georgian control system is partially in line with EU *acquis*. National legislation and implementing rules for export to the EU are generally in line with EU requirements but the competent authorities cannot yet deliver the full necessary level of assurances due to ineffectiveness of the surveillance system and lack of diagnostic resources.

²⁸ Regulation (EU) 1151/2012

²⁹ Regulation (EC) 834/2007

In the area of **general food safety, food safety rules and specific rules for feed**, Georgian producers obtained authorisation for the export to the EU of snails, petfood, certain fishery products, honey and animal by-products for non-food and non-feed purposes. Efforts are being undertaken for other products such as queen bees and fishery products from aquaculture. However, budgetary allocations have not increased over the past three years (2020-2022) and are insufficient to allow for an effective implementation of some elements of the new legislative framework or to provide the necessary support to Food Business Operators. Georgia has difficulties to meet the EU requirements for hazelnuts, reason why the EU maintains a high level of regulated imports controls in order to detect contaminations with aflatoxins.

The regulatory framework for **veterinary policy** is covered through the national code on food and feed safety, veterinary and plant protection and implementing legislation. This includes animal welfare, to be updated. Alignment remains to be completed on animal welfare during transport and slaughter. Georgia carries out activities to control, prevent and eradicate communicable animal diseases. The Electronic Integrated Disease Surveillance System (EIDSS) strengthens and supports monitoring and prevention of dangerous diseases in line with the “One Health” concept. National legislation to align with the EU *acquis* on crisis management remains to be completed. The National Animal Identification, Registration and Traceability System (NAITS) includes a Central holding (farm and other) register, where all details related to the different types of holdings keeping animals are entered and recorded. Import Control procedures of live animals is regulated and veterinary border control procedures for live animals include documentary check, identity check and clinical examination of live animals. The State Laboratory of Agriculture is in charge of control activities of food safety veterinary and phytosanitary and main responsibilities are laboratory testing. The Laboratory has been accredited by National Accreditation according to ISO IEC 17025. The Laboratory network operates countrywide. Residue monitoring is being carried out. Georgia has established the Rapid Alert System for Food and Feed (RASFF) and has a national contact point of communication with the European Union’s RASFF team.

With regard to the **placing on the market of food, feed and animal by-products**, legislation includes the national code on food and feed safety, veterinary and plant protection and implementing legislation e.g. to align with the EU *acquis* on food stuff and feed hygiene. Official controls are carried out by the National Food Agency. Business operators producing, processing and distributing food of animal origin shall be registered in the Registry of Economic Activities. Risk assessment is carried out by National Food Agency - Scientific Research Center. Georgia is kept informed about animal disease outbreaks in the EU and subsequent regionalisation measures and respects these as regards imports of animal products from affected EU Member States. Laboratory testing of samples taken within the scope of official controls is performed at laboratories accredited in accordance with ISO 17025 standard. However, Georgia’s in-country laboratory testing capacity is not yet commensurate to the needs of the approximated SPS and Food Safety legislation. By authorised accounts in to the EU’s Trade Control and Expert System TRACES, Georgia is able to add new establishments, as well as to apply for amendments through the system. However, TRACES systems is not fully operational in regards of issuing electronic certificates. The work for the full integration into the TRACES system started. Georgia is an active and enthusiastic participant to better training for safer-food-events and to gatherings under the umbrella of the Eastern Partnership programme.

The legal framework regulating the **phytosanitary policy** consists of the provisions in the food and feed safety, veterinary and plant protection code, while the main piece of legislation

for plant protection products (PPP) is the Law on pesticides and agrochemicals. Considerable implementing legislation to align with the EU *acquis* is in place. Economic operators with relevance in the field of plant health shall be registered in the Register of Economic Activities. National legislation on maximum residue levels of Pesticides in or on food and feed of plant and animal origin is aimed to be aligned with the EU *acquis*.

As regards **genetically modified organisms** (GMOs), legislation is in place to regulate the use of GMOs in closed systems, cross-border movement, traceability and labelling, marketing as well as safety and packaging. Georgia aims to be a GMO-free zone and to ban the introduction of genetically modified organisms into the environment, their placement on the market, as well as their re-exportation and import, except where they are imported to be used in a closed system. Considerations are ongoing as to whether this policy reconciles with the EU rules on GMOs. The Ministry of Environmental Protection and Agriculture of Georgia fulfills the functions of a state coordinating center and a competent state agency. The Ministry also carries out state control and supervision activities in the area of genetically modified organisms.

Summary

Georgia has **some level of preparation** in the area of food safety, veterinary and phytosanitary policy. There is a risk of a widening gap between legal approximation and effective implementation. A comprehensive food safety implementing strategy, review of policy and institutional reforms needs to be carried out. There are significant delays in effective implementation of new legislation, weakening some of them and leading to reduction in controls.

Chapter 13: Fisheries

The common fisheries policy lays down rules on fisheries management, protects living resources of the sea and limits the environmental impact of fisheries. This includes setting catch quotas, managing fleet capacity, rules on control and inspection, rules on markets and aquaculture and support for fisheries and coastal communities. Further, it promotes a sustainable aquaculture.

Fisheries cooperation is defined in the AA. Chapter 11 identifies mutually beneficial areas of common interest in the maritime fisheries sector and cooperation related to the EU *acquis*, including the management and conservation of fishery resources and the cooperation with regional fisheries organisations. EU-Georgia fisheries cooperation mainly takes place in the framework of the Common Maritime Agenda for the Black Sea and through the General Fisheries Commission for the Mediterranean. There is active and constructive cooperation in the framework of the bilateral EU-Georgia dialogue in the fight against illegal, unreported and unregulated (IUU) fishing.

The Ministry of Environmental Protection and Agriculture is responsible for the development and implementation of state policy and programmes on fisheries and aquaculture. Georgia adopted legislation in order to manage fisheries and aquaculture in line with the principles of the common fisheries policy. The basic obligations such as the obligation of the flag state, coastal state and market state are effectively defined in Georgian legislation. Information available suggests that the alignment of their national legislation with the EU rules on the fight against IUU fishing has improved since 2019. However, a proper level of implementation should be ensured.

Georgia adopted an aquaculture law and implementing legislation for the regulation and implementation of its aquaculture (freshwater and mariculture) sector. The main document that regulates the aquaculture activities is the Law on Aquaculture of Georgia. The draft law was developed in close cooperation with the General Fisheries Commission for the Mediterranean (GFCM) to ensure the alignment with international and EU standards. The Law regulates aquaculture activities in specific areas of the Georgia's continental shelf of the Black Sea, territorial waters, exclusive economic zone, as well as internal waters (lakes, reservoirs, ponds, rivers, underground waters, brooks, canals, wetlands and other water reservoirs for breeding aquaculture objects).

Georgia is encouraged to adopt a multiannual national strategy dedicated to aquaculture, and to take into consideration the "Strategic guidelines for a more sustainable and competitive EU aquaculture for the period 2021 to 2030" in that process. There is no reference to alien species, so it is not clear if Georgia has measures in place for a safe introduction of alien and locally absent species in aquaculture. Georgia is listed since 2017 as a country eligible to export fishery products to the EU market.

Sea fishing production, recorded by the authorities, was 53.500 tonnes in 2021 (declined from 89.600 tonnes in 2019). The Food and Agriculture Organization (FAO) estimated aquaculture production at 700 tonnes in Georgia for 2017. The number of marine fishing vessels was indicated by Georgia as 32 in 2022, active only in domestic waters.

Georgia manages the **fisheries resources** based on scientific advice and the Data Collection Framework. A **fleet management system** is in place, while a fishing vessel register and regime are lacking.

Some element of an **inspection and control** system have been developed. Georgia has no specific **structural actions for fisheries**. A limited number of **State aid** measures exist applicable to fishing, including a specific credit programme with low interest rates.

Concerning **market policy**, general standards on hygiene for food and products of animal origin are in place and product information is provided to consumers, such as weight, ingredients and shelf life. Specific provisions on fishery and aquaculture products put on the market have to be aligned with EU Common Market Organisation Regulation. Producer or inter-branch organisations are not in place.

Regarding **international agreements**, Georgia cooperates on sea fisheries with the relevant regional fishery management organisation, namely, the GFCM. There is a bilateral agreement on fish farming with Ukraine.

Summary

Georgia has **some level of preparation** in the area of fisheries. Georgia lacks a harmonised fisheries policy and effective implementation across the country in line with the EU *acquis*. A fleet register needs to be established and the data collection framework needs to be strengthened. Fishery and Aquaculture market policy have to be developed. Administrative structures have to be improved, including to establish a managing authority and strengthening institutional capacities and the regulatory framework for management and control of fishing activities and (possibly) of imports in line with the EU's common fisheries policy.

Chapter 22: Regional policy and coordination of structural instruments

Regional policy is the EU's main tool for reducing regional disparities and investing in sustainable and inclusive socio-economic growth. It is operating through "shared

management” between the Commission and EU Member States. The implementation of cohesion policy programmes requires appropriate administrative capacity on programme and project level, the establishment of systems of sound financial management and control and also, the fulfilment of other EU acquis elements such as environmental and public procurement legislation.

Regional policy is covered by the AA/DCFTA Chapter 21 on regional development, cross-border and regional level cooperation. Current EU-Georgia cooperation aims to support and strengthen the involvement of local level authorities in regional (including cross-border) policy cooperation. This supports Georgia’s alignment with the following principles: strengthening multi-level governance, consolidating the partnership involved in regional development and co-financing through financial contribution.

Urban and rural disparities are noticeable in provision of basic services, education, and employment opportunities, as resources are concentrated in the capital and a few medium-sized cities.

Georgia has in place regional policy strategies and programmes that it sought to align with EU cohesion policy principles, including the 2021-2027 Agriculture and Rural Development Strategy of Georgia, the 2019-2023 Strategy for the Development of Georgia’s Mountain Settlements, and the 2015 Law on the development of High Mountainous Regions. However, the alignment of the **legal framework** in thematic areas relevant to the implementation of regional policy is incomplete.

Georgia does not have a legal **framework** that allows for budget flexibility in terms of carry-over to the next year’s budget. There are some examples of EU-funded programmes that involved co-funding, such as the 2020-2022 Pilot Integrated Regional Development Programme, in the framework of the Integrated Territorial Development financial assistance, with at least 1% of project value funded by each beneficiary municipality.

There is no Social Fund that would be equivalent or similar to the European Social Fund (+).

Georgia has a legal framework in place regulating internal audit as well as internal financial management and control. Central Harmonisation Unit (CHU)’s operational capacity and independence are ensured by legislation, but there are still issues with the level of resourcing and status/capacity. The internal audit units still conduct a significant amount of inspection activities as well as internal audits. Further developments are required in risk assessment, quality assurance systems and the internal auditor certification programme. .

There is a limited **financial management and control system** for EU funds in place. Georgia adopted a law on PIFC in 2011, establishing *inter alia* internal audit structures in: a) the Ministries, including those of the Autonomous Republics; b) legal entities under public law, funded by the state budget, and selected by the national government c) local administrations, based on a decision of the relevant municipal assembly. A SAO is in place, regulated by law. It audits municipalities every three years.

The Nomenclature of Territorial Units for Statistics (NUTS) methodology is not applied in Georgia. Some elements of managing mechanisms for regional development plans have been introduced since 2014.

As for the **institutional framework** the Ministry of Regional Development and Infrastructure (MoRDI) of Georgia is advancing its preparation to implement EU cohesion policy. The Ministry of Foreign Affairs and its department for EU Assistance Coordination and Sectorial

Integration is acting as the National Authority for the implementation of the EU cross-border cooperation programmes.

Georgia has experience in managing the European Neighbourhood Instrument Cross-border Cooperation (ENI CBC) 2014-2020 programme for the Black Sea Basin. It is also actively participating in the upcoming Interreg NEXT 2021-2027 Black Sea programme.

The MoRDI is preparing to be in the lead to coordinate the EU cohesion policy. At regional level, administrations are led by State Representatives appointed by the Government of Georgia.

Georgia has implemented multiannual programmes based on an integrated territorial development approach. Strategies for regional development, such as the Regional Development Programme for 2018-2021 and the Pilot Integrated Regional Development Programme for 2020-2022 (PIRDP) contain basic EU principles applied in cohesion policy. Georgia started piloting a smart specialisation (S3) with the support from the European Commission Joint Research Centre in Imereti region and is expected to start implementation in 2023.

The 2019 Public Administration Reform introduced the obligation of **monitoring and evaluating** the policy instruments implemented through public investment programmes.

Summary

Georgia is at an **early stage of preparation** in the area of regional policy. The legislative framework on regional policy needs to be further aligned with the EU *acquis* in order to implement this policy effectively. The country needs to strengthen its administrative capacity in terms of programming, implementing, monitoring and evaluating EU funds, while building on the experience from the ENI CBC and Interreg NEXT programmes. Regional development and cohesion remain important challenges. An efficient coordination is needed among the levels of government on preparing and implementing relevant sector strategic and planning documents. More capacities will be needed to prioritise planned interventions in the context of programming EU funds.

Chapter 33: Financial and budgetary provisions

This chapter covers the rules governing the funding of the EU budget ('own resources'). These resources mainly consist of: (i) contributions based on the gross national income of each Member State; (ii) customs duties; (iii) the non-recycled plastic resource and (iv) a resource based on value-added tax. EU Member States must have the appropriate administrative capacity to adequately coordinate and ensure the correct calculation, collection, payment and control of own resources.

There is no EU *acquis* to which candidate countries and potential candidates should conform in the area of national budgetary systems. Besides the correct application of the own resources rules and their conditions themselves, particular consideration should be given to the links between this chapter and the chapters having indirect effects on the correct application of the EU own resources system. The correct application of the own resources rules are to a large degree dependent on progress/alignment under other chapters such as *customs* (29), *taxation* (16), *statistics* (18) and *financial control* (32).

With regard to **traditional own resources the Customs Code, which entered into force in 2019**, it is broadly aligned with the Union Customs Code. However, Georgia needs to further align its 2019 Law on customs with the Union Customs Code. Customs duties are levied on

importation and enforced, when necessary. Also, the administrative and operational capacity needs to be improved and resources of the customs service increased. Strengthening of administrative capacity in the IT sector is of particular importance. Regarding the **VAT-based own resource**, Georgia has already partially aligned its VAT legislation with the EU *acquis*, but some provisions are still to be harmonised. The operational capacity and computerisation of the tax administration remains to be addressed for Gross National Income (GNI).

National accounts and the **Gross National Income (GNI)** are compiled, but they are currently based on the definitions and accounting rules of the United Nations System of National Accounts 2008 and not on the European System of Accounts 2010 standards. There has been no work on the changeover to the European System of Accounts 2010 or on national data collection and calculation of non-recycling plastic.

Georgia lacks capacity for the implementation of the own resources system. The relevant institutions involved in the own resources system are not yet in place, nor are the working arrangements and procedures for all the bodies involved. There is no own resources coordination body and implementing rules have not yet been established.

Summary

In the area of own resources Georgia is **at an early stage of preparation**. The basic principles and institutions for the underlying policy areas are in place and functioning but need further alignment with the EU *acquis*. The country should focus on the alignment with ESA 2010 accounting standards and the set-up of a coordinating body to implement the own resources' administrative conditions.

CLUSTER 6: EXTERNAL RELATIONS

There are two chapters in this cluster: external relations (Chapter 30); foreign, security & defence policy (Chapter 31).

Chapter 30: External relations

The EU has a common trade and commercial policy towards third countries, based on multilateral and bilateral agreements and autonomous measures. There are also EU rules in the field of humanitarian aid and development policy.

The AA requires Georgia to align its commercial policy with the EU *acquis*. The Ministry of Economy and Sustainable Development defines, implements and coordinates trade policy within the country.

Georgia has been a member of the World Trade Organization (WTO) since 2000. Georgia joined the plurilateral Agreement on Government Procurement as an observer in 1999 and has been an applicant since 2002. In 2016, it accepted the Protocol on the WTO Trade Facilitation Agreement and, in 2018, it also accepted the Protocol amending the Agreement on Trade-Related Aspects of Intellectual Property Rights.

Georgia benefits from the generalised system of preferences tariff system from Japan, Canada, Switzerland and Norway.

Concerning **dual-use items**, Georgia applies export controls on dual-use goods in accordance with its 2013 Law on the Control of Military and Dual-Use Goods. The country is not a member of multilateral export control regimes such as the Australia Group, the Wassenaar

arrangement, the Nuclear Suppliers Group, and the Missile Technology Control Regime)

Regarding **trade defence instruments**, Georgia has a law in place on anti-dumping measures, but no legislation on the application of countervailing and safeguard measures.

Georgia does not have a government-backed **export credit** scheme.

As regards **bilateral agreements with third countries**, Georgia is a party to 16 free trade agreements, including with the European Free Trade Association, China, Türkiye, and the United Kingdom. Georgia has preferential agreements with some countries with whom the EU does not have preferential agreements: Armenia, Azerbaijan, the Russian Federation, Turkmenistan and Uzbekistan.

Georgia has 34 Bilateral Investment Treaties (BITs) in force with other countries, including with 16 Member States, the United Kingdom and Belarus. These BITs do not contain Regional Economic Integration Organisation (REIO) clauses which would ensure that these BITs are without prejudice to rights and obligations deriving from EU membership, as well as all the necessary exceptions and safeguards ensuring compatibility with EU *acquis* clauses, whereas only a limited number of them provide for carve-outs to the obligations concerning most favoured nation and transfer clauses.

Georgia has no national framework in place to **control foreign direct investment** in strategically sensitive sectors, infrastructure, technologies or inputs.

Georgia does not have any specific legislation regarding **export controls** on goods that could be used for capital punishment, torture or other cruel, inhuman or degrading treatment. The country is a member of the Alliance for Torture-Free Trade. Georgia is not a member of the Kimberley Process and as such does not control trade in rough diamonds.

In terms of **administrative capacity**, Georgia has demonstrated good capacity in managing its commitments in external commercial relations in its function as a member of the WTO and in implementing the DCFTA. In terms of enforcement, the institutional capacity has been reinforced and modified in accordance with the country's regulatory approximation commitments under the DCFTA.

As regards **development policy and humanitarian aid**, Georgia is a recipient of aid programmes rather than a humanitarian aid donor. The country has provided only limited support to other countries. Georgia has no legislation in place on humanitarian aid and no dedicated budget line for this area. If ad-hoc humanitarian aid is approved by the government, it is paid out either from the Reserve Fund of the Prime Minister's Office or from the budget of the Ministry of Foreign Affairs. Dedicated administrative structures are not in place. Georgia has no legislation on development policy.

Summary

Georgia is **moderately prepared** in the area of external relations. It has good administrative capacity to manage commitments in external commercial relations, and as a WTO member is already following a large part of the main multilateral trade agreements that the EU also follows. More remains to be done on FDI, dual use export controls and export credits.

Chapter 31: Foreign, security and defence policy

EU Member States must be able to conduct political dialogue under the EU foreign, security and defence policy, align with EU statements, take part in EU actions, and apply agreed sanctions and restrictive measures.

The EU *acquis* consists of Council decisions, political declarations, joint actions, common positions and agreements. Applicant countries are required to progressively align with EU statements and apply restrictive measures when and where required.

Chapter 31 is partially covered by the AA/DCFTA. In the years of AA application, Georgia had a 43-61% alignment rate with **Common Foreign and Security Policy** (CFSP) declarations and restrictive measures, with a recent decrease in the alignment rate for declarations. Although there is no sanctions legislation in place to guide the implementation of restrictive measures other than those imposed by the United Nations, the Georgian administration can implement EU sanctions in case of alignment with those sanctions. Georgia has not aligned with sanctions on Russia, Belarus, Myanmar, nor with decisions taken under the EU Global Human Rights sanctions regime.

The EU and Georgia have engaged in a policy dialogue on CFSP in the framework of the EU-Georgia Association Council. In addition, an annual High-Level Political and Security Dialogue has been held since 2017, to complement regular exchanges and further promote gradual convergence.

EU Common Foreign and Security Policy related issues fall under the competences of the Ministry of Foreign Affairs of Georgia, which coordinates external activities of other Georgian institutions (including the Ministry of Defence).

Under the AA, Georgia has committed to intensify dialogue and cooperation, and promote gradual convergence in the area of foreign and security policy, including the **common security and defence policy** (CSDP). Security and defence cooperation improved in recent years, mainly in the framework of the European Peace Facility (EPF). Georgia has been an active contributor to EU CSDP missions and operations since 2014. It currently contributes to the EU Training Mission in the Central African Republic with 32 personnel ensuring force protection and to the EU Training Mission in Mali with one military officer. The EU Monitoring Mission is the only international monitoring mission on the ground, deployed in Georgia since 2008.

On *security measures*, in 2016 Georgia and the EU signed an Agreement on security procedures for the exchange and protection of classified information. It entered into force in 2017 and implementing arrangements were agreed in May 2020. The Agreement is not yet fully implemented and functioning. Georgia cooperates constructively in international fora and is a member of various *international organisations*, including the United Nations, the Council of Europe, the Organisation for Security and Cooperation in Europe and the Organisation of the Black Sea Economic Cooperation. Georgia ratified the Rome Statute of the International Criminal Court in 2003. Georgia aspires to North Atlantic Treaty Organisation membership (enshrined also in its Constitution) and actively contributes to NATO-led operations.

Georgia is actively engaged in supporting disarmament and non-proliferation issues at international, regional and bilateral levels. Georgia is fulfilling all its commitments to the International Atomic Energy Agency, the Organisation for the Prohibition of Chemical Weapons and the Biological Weapons Convention. Georgia signed the Arms Trade Treaty in 2014 and ratified it in 2016.

Summary

Georgia is **moderately prepared** in this area. Additional efforts are needed to increase the convergence in the area of foreign and security policy, in particular the alignment with EU statements and decisions as well as the application of restrictive measures when and where required.