



April 2019

Georgian Institute of Politics

EXPERT COMMENT

Issue #6

Russian-Georgian WTO agreement and its implications for Georgian-Russian relations

In 2011, Russia and Georgia signed an agreement on the Basic Principles for a Mechanism of Customs Administration and Monitoring of Trade in Goods. The agreement facilitated Russia's entry into the World Trade Organization. Based on the agreement, Georgia and Russia, in [2017](#) and [2018](#) respectively, signed separate contracts with a neutral private company (SGS). The contracts [established the groundwork](#) for the practical implementation of the agreement.

At the request of the Georgian Institute of Politics, experts from the United Kingdom, Armenia, Azerbaijan, and Georgia commented on the implications that the practical implementation of the agreement would have for Georgian-Russian relations and the wider region. In particular, the experts responded to the following questions:

- What are the implications for Georgian-Russian relations?
- What will be the implication for the wider region?
- What possible obstacles that could impede the implementation of the agreement?
- How would the stakeholders benefit if the agreement is implemented?

PROF. STEFAN WOLFF, *Department of Political Science and International Studies, University of Birmingham, UK*

More than seven years have passed since Georgia and Russia signed the “Agreement on the Basic Principles for a Mechanism of Customs Administration and Monitoring of Trade in Goods” on 9 November 2011. This agreement paved the way for Russian membership in the World Trade Organization, but the full, practical implementation of the agreement has yet to be accomplished. As provided under the agreement, a neutral private sector company has been appointed (Société Générale de Surveillance SA or SGS) to monitor the movement of goods through three agreed trade corridors and both Georgia and Russia have individually signed separate contracts with SGS. However, as two of the corridors run through the regions of South Ossetia and Abkhazia, authorities there apparently continue to block the full implementation of the agreement.

This is a significant setback for economic connectivity in the Caucasus region and beyond. Opening all three trade corridors would provide a major boost to intra-regional and inter-regional trade, especially by offering more dependable overland connections between Armenia, Georgia and Russia, as well as the possibility of their further extension south to Iran and the Persian Gulf. In addition, it would also open the possibility of a sustainable overland connection between Russia, Georgia, and Turkey, as well as a Russian connection through the Caucasus to China’s Belt and Road Initiative. The economic and social benefits of such trade connections are well-established, as are the detrimental effects of economic isolation where such transport corridors are missing or seasonally unavailable.

Beyond the positive economic and social aspects of the full implementation of the agreement, the political fallout of both implementation and non-implementation should not be underestimated. While it would be wrong to expect a complete normalization of relations between Georgia and Russia, the implementation of the agreement would nonetheless mark a significant achievement in the process of managing the

damaging fallout of the 2008 war and Russia’s subsequent recognition of Abkhazia’s and South Ossetia’s unilateral declarations of independence. As neither region is a party to the agreement, the agreement is not simply status-neutral but confirms Georgia’s competence to conclude treaties applicable to the whole of its internationally recognized territory and Russia’s, at least implicit, recognition thereof. At the same time, the practical difficulties associated with the implementation of the agreement highlight that the facts on the ground give Abkhazia and South Ossetia significant and undue leverage that they may use as bargaining power to chip away at their largely unrecognized status.

The fundamental challenge for the international community, including Georgia and Russia, thus remains: how to change the incentive structure of the leaderships in these two entities to stop them from preventing the implementation of an agreement that has significant potential to enable the entire Caucasus region to achieve higher levels of economic connectivity and the social, economic, and political benefits associated with this.

DR. VUGAR BAYRAMOV, *Chairman of Board, Center for Economic and Social Development (CESD), Baku, Azerbaijan*

The likelihood that this agreement will improve relations between Georgia and Russia is minimal. While the agreement will have a positive effect on trade between the two, Russia is unlikely to change its position on the two breakaway territories due to security concerns and its geopolitical interests in the region.

The main implication for the wider region would be that of trade generation. Two additional transit corridors will facilitate and increase the trade flow from north to south and vice versa. This includes not only trade between the countries of the South Caucasus and Russia, but also for bigger markets such as Turkey and Iran.

The opposing stance of Georgia and Russia translates to a problem of logistics on the ground. As Russia recognizes both Abkhazia and South Ossetia, it views the opening of customs points at the borders between the two breakaway regions and Georgia as a natural constitutive part of the agreement. For Georgia, this would amount to de jure recognition of the occupied territories. Moreover, Abkhazia and South Ossetia have rejected any deal that does not include them. Yet, their unilateral dependency on Russia means that neither can obstruct the process should Russia finally solve its differences with Georgia.

Taking into consideration the fact that Georgia currently trades heavily with Russia, the agreement will boost trade and provide additional revenue for the country. For Russia, increasing trade with Georgia, potentially at the expense of Georgia's trade with the EU, would exert more political and economic leverage over its neighbor. Armenia is set to benefit from two additional transit corridors to its main trading partner.

RICHARD GIRAGOSIAN, *Director, the Regional Studies Center (RSC), Yerevan, Armenia*

The 2011 agreement, which facilitated Russia's entry into the World Trade Organization (WTO), was a significant development for two reasons. First, it was one of the few cases where Russia wanted and needed Georgian help, in this case as a prerequisite to entering the WTO.

Second, the implementation of the agreement, based on subsequent contracts signed with neutral private company (SGS), presents an important avenue to measure Russian compliance with expectations. Clearly, the continued Russian occupation of Abkhazia and South Ossetia, and their related aggression against Georgia, constitute flagrant violations of both the terms of the agreement and the implementation contracts and, more importantly, violate the rules of the WTO.

The latter fact of Russian violation of WTO rules is also applicable to the wider region, for example, as Turkey's closure of its border with Armenia is also in violation of WTO rules.

But in terms of the more specific implications for Georgia, the initial Basic Principles agreement offers an important incentive for Russia to meet expectations, although under the Putin government, this is highly unlikely.

Yet in the broader context, the agreement does demonstrate Georgia's willingness to expand the economic incentives for an improvement in relations with Russia, and as a more serious incentive for Abkhazia and South Ossetia, which are each disappointed with Russia's failure to meet its promises of investment and development.

DR. TORNIKE TURMANIDZE, *Professor, Department of International Relations, Ivane Javakishvili Tbilisi State University, Tbilisi, Georgia*

The 2011 Russia-Georgia Agreement on the Basic Principles for a Mechanism of Customs Administration and Monitoring of Trade in Goods was an important diplomatic success for Georgia in the short-lived era of the "Reset" in US-Russia relations - when the Obama Administration pushed for Russia's entry into the World Trade Organization and Georgia was the only remaining obstacle to this.

In my view, the greatest achievement of the 2011 agreement for Georgia is that under its terms, Russia has an obligation to report to a neutral third party (in this case to the Swiss company SGS, which both parties signed contracts with in 2017-2018) information regarding all cargo/goods entering or exiting the three trade corridors which are to be set up between the two countries, including through the Russian-occupied Georgian territories of Abkhazia and the Tskhinvali region/"South Ossetia." Consequently, Georgia is entitled to have access

to data regarding the shipments that cross all sections of its border with Russia.

This is, probably, one of the main reasons why Russia has been delaying the practical implementation of this agreement for the last six years and, unfortunately, the current Georgian government has not been active enough in demanding the timely fulfillment of obligations from the Russian side in the Geneva International Discussions format. Instead it agreed to move this topic to the bilateral Abashidze-Karasin format, which does not involve any neutral third party and makes Georgia vulnerable to Moscow's pressure.

Now that both sides have finalized all the procedures for the 2011 agreement to be put into practice, I suppose that Russia will use its traditional, centuries-old diplomatic ploy of misinterpreting the terms of the agreement, effectively violating them and asserting that it is in full compliance with the text of the document. In particular, Russia will probably refuse to provide the Swiss company (and, hence, the Georgian side) with data regarding some or most of its cargo/goods sent to Abkhazia and the Tskhinvali region/"South Ossetia" – especially to

the Russian military bases illegally located on these territories – claiming either that these are not "trade goods" or that they are not transported to Georgia, but to other "independent states" and, therefore, are not covered by the agreement.

If this expectation turns out to be true, the Georgian government will need to engage in a new diplomatic struggle with the Russian government in all possible formats, including in the Joint Committee envisaged by the 2011 agreement.

Since this agreement does not stipulate that the three trade corridors will automatically serve as transit passages to a third country (for example, for cargo/goods moving from Russia via Georgia to Armenia), although the existing trade regime can be used as groundwork for negotiating such a deal, I believe that Tbilisi should only agree to discuss this new possibility with Moscow if, and when, Russia fully meets its obligations under the 2011 agreement.

Georgian Institute of Politics (GIP) is a Tbilisi-based non-profit, non-partisan, research and analysis organization. GIP works to strengthen the organizational backbone of democratic institutions and promote good governance and development through policy research and advocacy in Georgia.

The views and opinions expressed in this article are the authors' alone and do not necessarily reflect the views of the Georgian Institute of Politics.

HOW TO QUOTE THIS DOCUMENT:

"Russian-Georgian WTO agreement and its implications for Georgian-Russian relations", Expert Comment #6, Georgian Institute of Politics, April 2019.

© Georgian Institute of Politics, 2019

Tel: +995 599 99 02 12

Email: info@gip.ge

www.gip.ge