



The European Union  
for Georgia  
EU4Business



Georgia on European Way: Creation of Effective  
Model for DCFTA and SME Strategy Implementation

## **Georgia's DCFTA Communication Toolkit**

**What is the DCFTA and how can Georgian SMEs  
access the EU single market?**

TRAINING MATERIAL

[www.GeorgiaDCFTA.ge](http://www.GeorgiaDCFTA.ge)

This publication is an integral part of the European Union-funded project “Georgia on the European Way: Creation of Effective Model for DCFTA and SME Strategy Implementation” launched in April 2017 and scheduled to be implemented by spring 2019. The project addresses the lack of awareness about the opportunities provided by the Deep and Comprehensive Free Trade Area (DCFTA) Agreement between Georgia and the EU. It seeks to increase the role of Georgian civil society organizations (CSOs) in a nation-wide DCFTA/SME communication campaign, while strengthening their capacities to assist local small and medium-sized enterprises (SMEs) in their preparations to access the EU single market.

***Georgia’s DCFTA Communication Toolkit*** will be used as training material for Georgian CSOs in sessions to be held in every region of the country—sessions that are intended to increase the involvement of local CSOs in communication efforts on the DCFTA, especially in terms of assistance to SMEs interested in access to the single market.

The Project is implemented by an international consortium of non-governmental organizations and think tanks under the leadership of the Eastern Europe Studies Centre (EESC, Lithuania) together with the Association of Business Consulting Organizations (ABCO, Georgia), the Georgian Institute of Politics (GIP, Georgia), the GLOBSEC Policy Institute (GPI, Slovakia), the Intellect Young Scientists Union (Georgia), ATINATI (Georgia) and Association Caucasus Genetics (Georgia).

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## Abbreviations

<b>AA</b>	Association Agreement
<b>APMA</b>	Agricultural Projects Management Agency
<b>BRC Certification</b>	Food Safety Certification of the British Retail Consortium
<b>B2B</b>	Business-to-Business
<b>BSO</b>	Business Support Organization
<b>CSO</b>	Civil Society Organization
<b>DCFTA</b>	Deep and Comprehensive Free Trade Area
<b>EU</b>	European Union
<b>EC</b>	European Commission
<b>EaP</b>	Eastern Partnership
<b>EEAS</b>	European External Action Service
<b>EEN</b>	Enterprise Europe Network
<b>EBRD</b>	European Bank for Reconstruction and Development
<b>EE</b>	energy efficiency
<b>FTA</b>	Free Trade Agreement
<b>GATT</b>	General Agreement on Tariffs and Trade of 1994
<b>GCCI</b>	Georgian Chamber of Commerce and Industry
<b>GCI</b>	Global Competitiveness Index
<b>GITA</b>	Georgia's Innovation and Technology Agency
<b>GMO</b>	Genetically Modified Organisms
<b>HACCP</b>	Hazard Analysis and Critical Control Points
<b>ISO</b>	International Organization for Standardization
<b>NATO</b>	North Atlantic Treaty Organization
<b>NFA</b>	National Food Agency of Georgia
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>RCDA</b>	Rural Communities Development Agency
<b>SPS</b>	Sanitary and phytosanitary standards
<b>SMEs</b>	Small and medium-sized enterprises
<b>TA</b>	technical assistance

<b>VAT</b>	value added tax
<b>WTO</b>	World Trade Organization

## Part I. DCFTA Implementation in Georgia

### 1.1. What is the DCFTA?

The Deep and Comprehensive Free Trade Area (DCFTA) is part of the Association Agreement (AA) between the European Union and Georgia<sup>1</sup>. Signed on 27 June 2014, it entered into force on 1 July 2016 after it was ratified as required by all 28 EU member states. In addition to the DCFTA, which constitutes Title IV of the AA, the Association Agreement also includes parts on political (Titles I-III as well as the preamble) and sectoral (Titles V-VII) cooperation. The overall objective of the Agreement is to strengthen political association and economic integration. In addition to Georgia, two other Eastern Partnership (EaP) countries<sup>2</sup> – Moldova and Ukraine – have signed AAs with the EU that also include DCFTAs.

Aimed at establishing trade relations based on the principles of mutual benefit, the DCFTA grants trading partners more favourable conditions for access to markets. To this end, it introduces a preferential trade regime to increase market access between the two entities based on the closer alignment of regulations. In short, the DCFTA enables Georgian entrepreneurs to sell their products and services on one of the largest global markets—that of the EU—without tariff or other barriers.

A significant portion—gradually increasing in volume as well as quality—of Georgia’s foreign trade (import as well as export) is with EU member countries. According to available statistical information, the EU was the main trading partner of Georgia in 2016, accounting for 31% of the latter’s total volume of trade. (Here, it should be noted that prior to introduction of the DCFTA, this figure amounted to only 27%.)<sup>3</sup>The next-largest trade partners included such countries as Canada (15%), Turkey (nearly 13%), Russia (about 7%), China (6%) and Azerbaijan (with more than 5%). Conversely, however, Georgia’s share of the EU’s total trade volume is just 0.1 %, with Bulgaria, Italy, and Germany importing the most Georgian products.

As its name indicates, the free trade area established between the EU and Georgia by the agreement is comprehensive, that is, wider in scope than traditional trade agreements. The DCFTA regulates a wide range of trade-related issues, from food and product safety regulations to competition policy, the protection of intellectual property rights, and public procurement. Unlike other trade agreements, the DCFTA entails the gradual approximation of the relevant Georgian legislation to the laws,

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<sup>1</sup>“Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part” can be accessed in Georgian via the website of Legislative Herald of Georgia, <<https://matsne.gov.ge/ka/document/view/2496959>> and in English via EUR-Lex <[http://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830\(02\)](http://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830(02))>

<sup>2</sup>The Eastern Partnership (EaP) initiative was established in 2009 and includes 6 countries: Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine. The initiative is a special platform intended to foster cooperation among the EU, its member states, and the partner countries.

<sup>3</sup>EU - Georgia relations, fact sheet, European External Action Service, October 11, 2017

<[https://eeas.europa.eu/headquarters/headquarters-homepage\\_en/23634/EU-Georgia%20relations,%20factsheet](https://eeas.europa.eu/headquarters/headquarters-homepage_en/23634/EU-Georgia%20relations,%20factsheet)>

<[http://www.europarl.europa.eu/RegData/etudes/STUD/2017/603836/EXPO\\_STU\(2017\)603836\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/STUD/2017/603836/EXPO_STU(2017)603836_EN.pdf)>

regulations, and administrative mechanisms of the EU.<sup>4</sup> In addition to its uniquely comprehensive nature, the DCFTA is also distinguished by provisions aimed at improving relations in other ways.

For the EU, Georgia is a valued participant in its Eastern Partnership initiative<sup>5</sup>, under which the partner countries receive support in pursuing a wide range of reforms aimed at bringing them closer to the EU while improving the quality of life for their citizens. As part of this broader initiative, the DCFTA accordingly includes provisions aimed at harmonizing Georgia's legislation with that of the EU.<sup>6</sup> This makes the business environment more predictable, thereby enabling the further modernization of the Georgian economy while facilitating the increased flow of European investment into the country.

## **1.2. How is the DCFTA being implemented in Georgia?**

The Ministry of Economy and Sustainable Development of Georgia has been tasked with coordinating and monitoring the implementation of the DCFTA—tasks that it carries out in close cooperation with other state agencies and institutions, for example Enterprise Georgia, the Chamber of Commerce and Industry, and Georgia's Innovation and Technology Agency. The Ministry maintains an official website ([www.dcfta.gov.ge](http://www.dcfta.gov.ge)) providing up-to-date practical and legal information about the DCFTA.

From the EU side, the European Commission (EC) and the European External Action Service (EEAS) are responsible for assessing Georgia's success in implementing its commitments under the DCFTA in particular and the Association Agenda more generally, which they do by preparing and releasing Joint Association Implementation Reports. The second and most recent report, released in November 2017, confirmed the country's commitment to deepening its political association and economic integration with the EU, judging the process to be successful thus far.<sup>7</sup>

Nearly four years after signing the AA/DCFTA, Georgia is indeed making significant steps towards becoming a full-fledged European country. During that time, the government has made important reforms in terms of the economy, trade, civil society, human rights, and fundamental freedoms, among other areas, while also enhancing cooperation with the EU and other Eastern Partnership countries. The progress that Georgia has managed to achieve is clearly visible when looking at public statistical data and comparative international rankings. While by some measures Georgia is still presented as a developing country, the progress it has managed to achieve after concluding the AA/DCFTA is clear. Nonetheless, it is important to review some of these international indices and evaluations in more detail.

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<sup>4</sup> Manana Kveliashvili, "Who and How Export Goods to EU Markets – Success Stories", Batumelebi, March 24, 2018, <<http://batumelebi.netgazeti.ge/news/122774/>>

<sup>5</sup> The Eastern Partnership (EaP) is a joint initiative involving the EU, its member states, and six partner countries: Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova, and Ukraine. It is a specific dimension of the European Neighbourhood Policy. For more about the initiative, see: <[https://eeas.europa.eu/headquarters/headquarters-homepage/419/eastern-partnership\\_en](https://eeas.europa.eu/headquarters/headquarters-homepage/419/eastern-partnership_en)>

<sup>6</sup> Giorgi Abashishvili, "New Opportunity Against Noone", Forbes, July 15, 2014. <<http://forbes.ge/news/352/axali-SesaZlebloba-aravis-winaaRmdeg>>

<sup>7</sup> Association Implementation Report on Georgia, Joint Staff Working Document, European Commission, SWD(2017) 371 final, Brussels, 9.11.2017. <[https://eeas.europa.eu/sites/eeas/files/association\\_implementation\\_report\\_on\\_georgia.pdf](https://eeas.europa.eu/sites/eeas/files/association_implementation_report_on_georgia.pdf)>

According to the Eastern Partnership Index 2015-2016<sup>8</sup>, Georgia is still only moving towards European standards in terms of trade, civil society, democracy, human rights, and other spheres. However, the Index describes Georgia as the front-runner among EaP countries when it comes to contract enforcement, payment of taxes, and customs procedures. In particular, Georgia stands out for having immediately dropped all tariffs on imports from the EU upon the launch of the DCFTA, thereby fully liberalizing its trade policy. While Moldova and Ukraine put anti-dumping legislation and institutions in place, Georgia enacted no anti-dumping policies at all.

However, the Index's authors assess the Georgian government's engagement with civil society as uneven. In particular, it observed that the level of cooperation with CSOs supported by international donors was notably higher than with those that enjoy no such sponsorship; dialogue with the latter group was described as weak, sporadic, or even non-existent. In general, there was no progress in terms of increasing engagement with CSOs by the government in 2015-2016—in contrast to the situation in the previous two years, according to Freedom House<sup>9</sup>.

In addition, as the Index suggests, Georgia has fallen behind in other fields. Even though the country's democratic development was rated positively on the whole, a number of administrative irregularities were observed, including cases of fraud or abuse of power within the public service. The Index also identified media freedom as an issue of both international and domestic concern, even leaving aside Georgia's susceptibility to Kremlin propaganda.

In the World Economic Forum's Global Competitiveness Index (GCI), Georgia moved up 7 positions from 2015-16 to 2016-17, and now ranks 59<sup>th</sup> of 138 countries.<sup>10</sup> It has also showed steady improvement in Transparency International's Corruption Perceptions Index, going from 50<sup>th</sup> (out of 176) in 2014 to 48<sup>th</sup> in 2015 and 44<sup>th</sup> in 2016; it is also the highest-ranked of the Eastern Partnership states.<sup>11</sup> Even more notable is Georgia's 9<sup>th</sup>-place ranking among the 190 states compared in the 2017 Ease of Doing Business 2017 report.<sup>12</sup> These are only a few of Georgia's achievements since the beginning the AA/DCFTA implementation process.

Such progress would not be possible without laws<sup>13</sup>, amendments, and general reforms enacted by Georgia over the past few years. In terms of trade, as of 2017 Georgian legislation has been approximated with 55 EU legal acts in accordance with sanitary and phytosanitary

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<sup>8</sup> Eastern Partnership Index 2015-2016, Eastern Partnership Civil Society Forum, December 2017. <[http://www.eap-index.eu/sites/default/files/EaP\\_Index\\_2015-16\\_0.pdf](http://www.eap-index.eu/sites/default/files/EaP_Index_2015-16_0.pdf)>

<sup>9</sup> Freedom House, Georgia Report, Nations in Transit 2016, 2016. <<https://freedomhouse.org/report/nations-transit/2016/georgia>>

<sup>10</sup> The Global Competitiveness Report 2016–2017. World Economic Forum. <[http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017\\_FINAL.pdf](http://www3.weforum.org/docs/GCR2016-2017/05FullReport/TheGlobalCompetitivenessReport2016-2017_FINAL.pdf)>

<sup>11</sup> Corruption Perception Index 2016, Transparency International. <[https://www.transparency.org/news/feature/corruption\\_perceptions\\_index\\_2016](https://www.transparency.org/news/feature/corruption_perceptions_index_2016)>

<sup>12</sup> Ease of Doing Business Rank, Economy Ranking, World Bank. <<http://www.doingbusiness.org/rankings>>

<sup>13</sup> The 2017 National Action Plan, part of the EU-Georgia 2017-2020 Association Agenda, obliges the Georgian Parliament to develop or approve 66 laws or legislative amendments. During the period of 2014-2017 Georgia adopted 70 legislative amendments, 24 by-laws and 6 new laws to bring its laws in accordance with the EU.

(SPS) measures. In addition, over 10,400 international and European product standards—as well as test methods, codes of practice, guideline standards, and management systems standards—have been recognized as standards in Georgia as well.

As a result, Georgia has been added to the list of third countries from which the EU permits the import of honey, wool, Black Sea fish, and fish products for human consumption. As a result, not only did Georgia see significant increases in its overall exports of these products, but obtained increased revenues as well. For example, the United Kingdom, the first EU country to receive Georgian wool, paid the highest price (\$773/ton)<sup>14</sup> of all Georgian wool customers. Important legislative amendments concerning DCFTA obligations in the sphere of intellectual property rights were submitted to the Parliament of Georgia in 2017. In the same year, an important agreement between the EU and Georgia was signed concerning the international harmonization of evaluation documents (certificates, laboratory testing protocols, and so on).<sup>15</sup> Such legal reforms have spurred the creation of better conditions for business development.

In the same way, significant progress was made in enhancing tax cooperation with the EU. In 2015 Georgia's Tax Code was amended to approximate EU regulations concerning interdependent persons<sup>16</sup>, reverse charges, temporary imports, and the application of the principle of market prices according to European Council Directive 2006/112/EC on the common value added tax (VAT) system. Also completed that year were amendments to the Code concerning the approximation of Georgian legislation with Council Directive 2011/64/EU on the structure and rates of tobacco excise duty applied to manufactured tobacco were executed.<sup>17</sup> As a result, at the Global Forum of Transparency and Exchange of Information for Tax Purposes of the OECD in 2016, Georgia's tax system was evaluated as "largely compliant," meaning that Georgia's tax legislation and practice are in line with international standards.<sup>18</sup>

While implementing the DCFTA agenda, the Georgian government actively cooperated with civil society. Georgia was the first Eastern Partnership country to include civil society in the process of developing and monitoring its National Action Plan for implementing the Association Agreement and the Association Agenda. In 2015-2017 six sectoral meetings were held between the Georgian government and the Georgian national platform of the Eastern Partnership Civil Society Forum—ensuring the close involvement of civil society in the negotiation process on the Association Agenda for 2017-2020. Civil society representatives

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<sup>14</sup> Rati Kochlamazashvili, Phati Mamardashvili, "Georgian Wool: Can It Become the "Golden Fleece" Again?" ENPARD, July 3, 2017. <<http://enpard.ge/en/georgian-wool-can-become-golden-fleece/>>

<sup>15</sup> Implementation of the EU-Georgia Association Agreement and Association Agenda 2014-2017, July 2017. <[http://www.eu-nato.gov.ge/sites/default/files/presentations/400%20CALI\\_New\\_Action%20Plan%20ENG%202107%20axali.pdf](http://www.eu-nato.gov.ge/sites/default/files/presentations/400%20CALI_New_Action%20Plan%20ENG%202107%20axali.pdf)>

<sup>16</sup> Family members and other people, who are financially interdependent due to their relations.

<sup>17</sup> Ibid

<sup>18</sup> Tax Transparency 2016: Report on Progress, Global Forum on Transparency and Exchange of Information for Tax purposes, OECD. <<http://www.oecd.org/tax/transparency/GF-annual-report-2016.pdf>>



also cooperated closely in developing the government's communication strategy on EU and NATO membership.<sup>19</sup>

Finally, significant results were reached in the sphere of human rights and fundamental freedoms. For example, Protocols No. 15 and No. 16 of the European Convention on Human Rights and Fundamental Freedoms have been ratified, while the 2015-2016 Action Plan on the Fight against Torture, Inhuman, Cruel, and Humiliating Treatment or Punishment was successfully implemented. Furthermore, in 2017 Parliament ratified the Istanbul Convention concerning violence against women and domestic violence prevention.<sup>20</sup> These and other measures taken to ensure respect for human rights have undoubtedly improved Georgia's international prestige.

Trade, economy, civil society, human rights are, however, only a few of the areas in which Georgia managed to achieve significant progress after signing the AA/DCFTA in 2014. In addition to these above-mentioned achievements, in this period Georgia has also managed to obtain full visa freedom within the Schengen area and implement important reforms in the judiciary, law enforcement, public administration, foreign and security policy cooperation, border management, energy security, environmental protection, and other policies.

### **1.3. What does the DCFTA mean for Georgian SMEs – and what support does the EU provide?**

A Georgian SME survey completing in summer 2017<sup>21</sup> found relatively low numbers of SMEs are engaged in export activities—and even lower levels of engagement in the EU single market. Of the 559 interviewed regional SMEs, only 23% export any of their products. Of those, 15% export solely to EU countries and 27% export to EU and non-EU countries. However, a majority-- 58% --export their production exclusively to non-EU countries. The top three trade destinations for Georgian SMEs are Russia, Turkey, and Ukraine. Only three EU member states make it into the top 10: Germany (4<sup>th</sup>), Italy (7<sup>th</sup>) and France (10<sup>th</sup>) (see Table 1).

**Table 1.** Top 20 export destinations for Georgian SME products

Export Country	Number of SMEs exporting to country (out of a sample of 559)
Russian Federation	38
Turkey	36
Ukraine	28
Germany	22
Armenia	17
Azerbaijan	16
Italy	14

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<sup>19</sup> Implementation of the EU-Georgia Association Agreement and Association Agenda 2014-2017, July 2017

<sup>20</sup> Ibid

<sup>21</sup> Survey - Awareness and Involvement of Georgian Small and Medium Enterprises and Civil Society into Implementation of the Deep and Comprehensive Free Trade Area with the EU

Iran	12
United States of America	12
France	10
Czech Republic	10
Poland	10
Israel	9
United Kingdom	9
Japan	7
Kazakhstan	6
Australia	6
Switzerland	6
Qatar	5
Kuwait	5

Source: Awareness and Involvement of Georgian Small and Medium Enterprises and Civil Society in Implementation of the Deep and Comprehensive Free Trade Area with the EU, Survey Results, Summer 2017.

**DCFTA implementation in Georgia affects all businesses, not only those interested in exporting to the EU. The same applies to Georgian SMEs.** For example, the implementation of the DCFTA requires that Georgia bring its sanitary and phytosanitary legislation in line with the EU, meaning that all Georgian producers from the selected sectors will have to follow new requirements.<sup>22</sup> This will not only improve the quality of local production and its safety for consumers, but will also allow broader world exports.

Meeting new production standards will not be easy for local producers. It will require time, additional skills, know-how, and financial investments. In Georgia, access to financing is incredibly difficult for SMEs. Interest rates on loans are approximately 23% for individual entrepreneurs and 15.5% for corporations. The government has tried to address this issue by subsidizing the interest rate for beneficiaries, but not many SMEs have used the opportunity—primarily because they are not able to meet high bank collateral requirements from banks (often about 220% of the value of the loan).<sup>23</sup>

The EU channels the majority of its support for Georgian SMEs through the EU4Business initiative, which covers all Eastern Partnership countries. The initiative includes almost 40 projects in the Eastern Partnership region, implemented on both a regional and bilateral level. The overall active portfolio amounts to over €300 million of EU support under EU4Business, and has triggered a total of more than €1.5 billion of loans granted by partner banks to SMEs in the region.<sup>24</sup> EU4Business provides local companies with (1) funding, (2) training, and (3) export support to new markets. Since 2009, 63,000 Georgian companies received 2.1 billion lari (€711 million) of support to realize their full potential and boost economic growth, generating 2,450 new jobs (see image below).

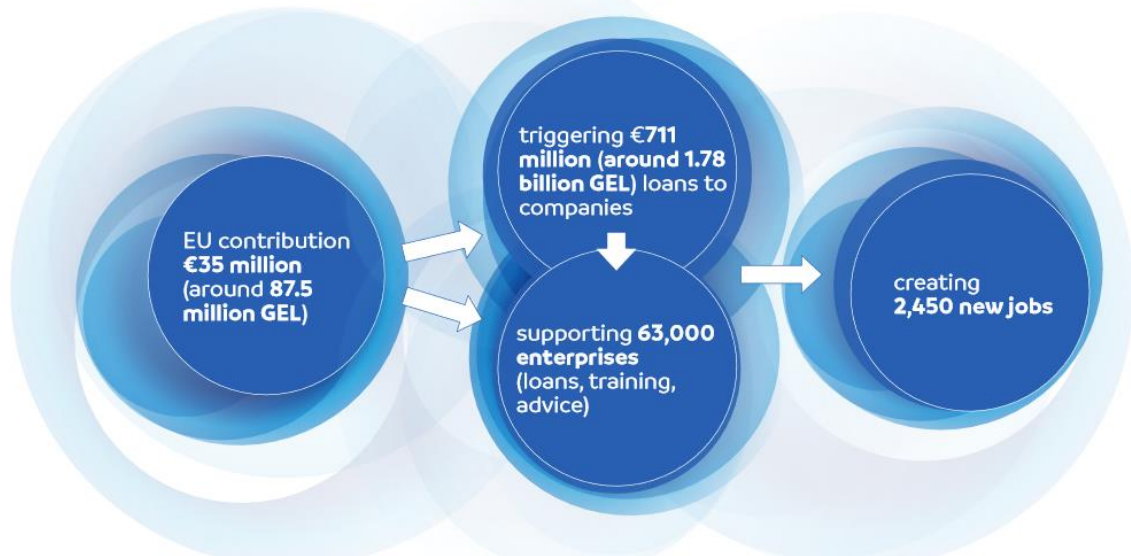
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<sup>22</sup> EU-Georgia Deep and Comprehensive Free-Trade Area, European Commission. <[http://eeas.europa.eu/archives/delegations/georgia/documents/eap\\_aa/dcfta\\_guide\\_2014\\_en.pdf](http://eeas.europa.eu/archives/delegations/georgia/documents/eap_aa/dcfta_guide_2014_en.pdf)>

<sup>23</sup> Country Report Georgia. Investing in SMEs in the Eastern Partnership, EU4Business, May 2017. P 27 <[http://www.eu4business.eu/files/community/pdf/country\\_report\\_georgia.pdf](http://www.eu4business.eu/files/community/pdf/country_report_georgia.pdf)>

<sup>24</sup> About EU4Business, EU4Business. <<http://www.eu4business.eu/about>>

## EU4BUSINESS IN FIGURES (2009-2016):



Source: EU4Business in Georgia <<http://www.eu4business.eu/georgia>>

The May 2017 EU4Business country report lists 20 initiatives currently being implemented in Georgia. They include 2 bilateral projects with a total contribution of €9.5 million and 14 regional programs with total financing of €187.5 million<sup>25</sup>. Three more projects are planned to start in the future; summaries of all these projects are available in the country report<sup>26</sup>.

### 1.4. What can Georgian producers offer the EU single market?

The European single market is a huge territory of over 522 million potential customers, incorporating many of the world's most developed and wealthiest nations. It is natural that the economies that form part of this single market not only produce a lot for export, but also have considerable import demand as well. Among other things, the DCFTA offers Georgian producers easier access to this market.

The table below provides data both on EU imports and Georgia's exports—including to the EU—in various product categories:

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<sup>25</sup> Country Report Georgia. Investing in SMEs in the Eastern Partnership, EU4Business, May 2017, page 11. <[http://www.eu4business.eu/files/community/pdf/country\\_report\\_georgia.pdf](http://www.eu4business.eu/files/community/pdf/country_report_georgia.pdf)>

<sup>26</sup> Ibid, page 11-20.

**Table 2. Export-Import Dynamics in Year 2015<sup>27</sup>**

Export Goods		Value of Georgian Exports (in millions of US\$)		World Exports to the European Union (in millions of US\$)		
Code	Name	Total	EU	FTA	Non-FTA	Top countries of origin
0709	Vegetables - fresh or frozen	5.9	1.2	545.7	394.7	India (6.5%); Belarus (6.0%); Thailand (5.7%); China (2.3%); Uganda (2.1%);
0802	Walnuts and other nuts - fresh or dry	176.4	149.0	1427.3	3348.9	China (4.1%); India (0.5%); Argentina (0.4%); Morocco (0.3%); Afghanistan (0.3%);
0805	Citrus fruit	13.4	0.0	1411.2	568.6	Argentina (41.7%); Morocco (28.9%); Brazil (21.2%); China (11.4%); Vietnam (0.6%);
0808	Apple, Pear, Quince -fresh	0.8	0.0	572.3	459.5	New Zealand (49%); Argentina (36%); Brazil (8%); Australia (0.1%); China (2%)
0809	Apricot, Cherry, Peach, Plum	1.7	0.0	225.0	168.2	Morocco (10.9%); Argentina (2.8%); Russia (0.7%); New Zealand (0.6%); Belarus (0.1%)
0810	Strawberries, Kiwi fruit, Persimmon	2.9	0.1	682.2	464.2	New Zealand 51.4%); Morocco (25.1%); Argentina (12.7%); Vietnam(4%) India (0.6%)
0813	Dried fruits	0.7	0.5	338.3	220.4	China (43%); Uzbekistan (3%); Thailand (3%); India (2%); Iran (1%)
0902	Tea	1.9	0.1	247.9	580.8	Kenya (27%); India (25%); Sri-Lanka (23%); China (22%); Russia (1%);
0910	Ginger, Saffron, other spices	8.0	0.1	48.4	329.3	China (48%); Iran (16%); India(14%); Brazil (3%); Indonesia (0.3%)
2201	Mineral and fresh waters	82.2	10.7	65.7	13.9	Brazil (17%); China (7%); Russia (4%); Saudi Arabia 2%);
2202	Non-alcoholic carbonated drinks	18.8	0.5	881.3	199.8	Thailand (13%); China (6%); Singapore (5%); Indonesia (3%); Russia (2%);

<sup>27</sup> Information provided by the WTO Section of the Ministry of Economy and Sustainable Development of Georgia

2204	Wine	95.8	12.5	1465.1	1796.6	Australia (32%); New Zealand (23%); Argentina (1%); Morocco (0.5%);
2205	Vermouth and similar beverages	1.0	0.6	4.5	3.0	United Arab Emirates (10%); Australia (1%); Japan (0.6%)
2208	Spirits and liqueurs	64.9	13.7	359.7	1495.1	Russia (8%); Cuba (4%); Japan (2%); Venezuela (2%);
2301	Meal and Pellets of Meat and Fish	10.7	0.0	503.8	82.7	Morocco (47%); Faroe Islands (21%); New Zealand (11%); Australia (1%);
3102	Fertilizers – Mineral or Chemical, Nitrogenous	109.8	65.9	1241.0	1148.0	Russia (63%); Belarus (9%); Iran (9%); Oman (3%); United Arab Emirates (3%)
3901	Polymers – from Ethylene of primary forms	1.6	0.0	1195.0	3508.0	Saudi Arabia (52%); Qatar (12%); Brazil (6%); Thailand(3%); Kuwait (2%);
3923	Plastic Items – for transportation of goods	3.5	0.1	1604.0	3233.0	China (43%); Vietnam (12%); Malaysia (8%); Thailand (4%); India (4%);
4104	Tanned Leather or Crust Leather – of Cattle or Horses	3.8	3.1	338.0	1640.0	Brazil (24%); Argentina (10%); New Zealand (8%); Russia (7%); Paraguay (7%);
4410	Particle board	4.0	0.0	219.0	47.0	Belarus (58%); Russia (16%); China (9%); Thailand (2%); Malaysia(1%);
6809	Items produced of Gypsum or based on it	3.3	0.0	48.0	22.0	China (43%); Morocco (3%); Thailand (2%); Malaysia (0.9%); Singapore (0.8%);
7010	Glass vessels/containers and bottles – of various sizes and shapes	5.8	2.6	184.0	298.0	China (44%); United Arab Emirates (18%); India (13%); Russia (2%); Belarus(2%)
7108	Gold – non processed or semi-processed	62.1	0.0	12947.0	15058.0	Brazil(5%); Australia (5%); Russia (5%); Japan (2%); Saudi Arabia (1%)
7112	Production Waste and Scrap – of Precious Metals	6.5	5.0	1223.0	2949.0	Japan (6%); Singapore (3%); Austria (2%); United Arab Emirates (2%); Saudi Arabia (1%);
7202	Ferro-alloys	194.5	21.0	2581.0	3221.0	Brazil (25%); India (7%); Russia (5%); Indonesia (4%); China (4%);

7204	Production Waste and Scrap – of Ferrous metals	1.4	0.9	887.0	974.0	Russia (61%); Brazil (4%); Morocco (3%); Kazakhstan (2%); Belarus (1%); India (1%);
7207	Semi-Finished Products of Iron or Non-Alloy Steel	20.1	0.1	1843.0	1790.0	Russia (78%); Brazil (16%); Belarus (2%); China (1%); India (0.4%);
7214	Bars and Rods of Iron or Non-Alloy Steel	20.6	0.0	612.0	529.0	China (44%); Belarus (35%); Russia (18%); Brazil (1%); India (0.6%);
7304	Tubes, Pipes, and Hollow Profiles, Seamless, of Iron and Steel	5.8	0.5	503.0	1061.0	Japan (20%); China (19%); Argentina (7%); Brazil (6%); Belarus (4%);
7404	Copper Waste and Scrap	20.7	2.9	1234.0	1253.0	United Arab Emirates (8%); Belarus (6%); Morocco (5%); Pakistan (4%); Kyrgyzstan (3%);
7601	Aluminium – non-processed	7.4	3.3	5774.0	6490.0	Russia (46%); United Arab Emirates (18%); Mozambique (18%); Bahrain (3%); New Zealand (1%);
7602	Production Waste and Scrap – of Aluminum	5.9	0.5	423.0	146.0	United Arab Emirates (17%); Saudi Arabia (12%); Morocco (11%); Cuba (7%); Australia (7%);
8516	Electrical Water heaters	3.3	0.1	1378.0	5977.0	China (88%); Indonesia (2%); Malaysia (2%); Thailand (2%); Japan (0.5%)

As the chart above suggests, EU countries import many different types of products from partner countries, including fish products, nitrogen fertilizers, plastic and glass products, ferro-alloys, scrap metal, copper concentrate, gold, and mineral & spring water. In Georgia, these products are mainly produced by medium and large-sized companies. Additionally, EU countries importing such products as vegetables, nuts, citrus, apples, pears, plum, corn (maize), cherry, peach, persimmon, kiwi and other fruits, along with berries, dry fruits, tea, spices, non-alcoholic drinks, wine and spirits, honey, fish and fish products, and herbs—all of which can easily be produced by small enterprises in Georgia as well.

## Part II. Exporting to the EU Single Market

### 2.1. What are the existing barriers for accessing the EU single market for Georgian SMEs?

Despite the progress they have made, Georgian SMEs still encounter obstacles that hinder their access to the EU single market. In the 2017 SME survey, respondents identified five main issues that make starting (or expanding) exports more difficult:

- Lack of commercial partners in EU countries;
- Absence of information about the procedures of exports to the EU;
- Production quantities that are too small to make exports viable;
- Insufficient resources to produce sufficient volumes for exporting; and
- Failure to obtain the relevant quality certification required for export to the EU.

In addition, other main barriers to export include: a) companies' small size, b) incompatible production standards, and c) the lack targeted market research.

A majority of Georgian companies are relatively small, as the SME survey also confirmed; 28% of those enterprises responding employed less than 5 people; 46% had from 6 to 15 employees, 12% had between 16 and 30 staff members, and 14% had more than 30 workers.<sup>28</sup> In general, enterprises that are this small cannot produce goods in the quantities that EU retailers or producers require. Accordingly, the main way that very small businesses can gain access to the EU market is to work with large EU wholesalers that import similar products from many different suppliers around the world. If Georgian small producers form cooperatives, they have a better chance of selling to processing companies or retail chains in the EU; however, in this case it is more difficult to maintain consistent standards across the many Georgian small businesses participating in the cooperative.

Indeed, standards represent a major problem for the country's SMEs, a majority of which lack the necessary quality control, certification, and standardization systems. According to the 2017 SME survey, 73% of respondents do not have any kind of certification whatsoever.<sup>29</sup> 9% possess certificates of conformity, 8% hold Hazard Analysis and Critical Control Point (HACCP) certification, 5% are certified as meeting ISO (International Organization for Standardization) standards, 3% have certified their products as organic, and 2% hold various other certificates (including organic and halal certificates, among others).

In addition, a large majority of SMEs have not researched potential target markets, prepared logistics plans or—for those already sending goods to the EU—even conducted any analysis of their current exports. They also generally lack information about newly-available technologies, tailor-made approaches to gaining support for internationalization, and other factors that could potentially boost exports.

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<sup>28</sup> "Results of the DCFTA Related Mappings of Georgian SMEs and CSOs", Survey Results, 2017

<<http://www.eesc.lt/uploads/news/id1043/Initial%20Study%20ENG.pdf>>

<sup>29</sup> Ibid.

Ultimately, however, the main lesson from the survey is clear: Georgian enterprises need to be sure that their products demonstrably meet the standards required by potential EU customers.

## **2.2. What are the general standards and quality requirements for exporting to the EU single market?**

Georgia's Agreement on DCFTA with the EU provides clear rules according to which products produced in Georgia can be exported to the EU single market. Therefore, among the first steps taken by SMEs interested in taking advantage of the opportunities provided by the DCFTA should be:

- a) learning whether its product(s) fall(s) under the provisions of the DCFTA;
- b) checking whether its product(s) meet(s) all EU quality requirements, and
- c) finding a specific way to access the EU market, for example, by identifying local partners in one or more EU member states.

It is also important to bear in mind that in addition to the EU's own standards and procedures (as described in more detail below), each individual EU importer or partner may require its own specific conditions, from further certification to certain social standards. Accordingly, exporters should first identify these buyer requirements before then carefully considering whether (and how) to meet them. Exporting companies should also decide whether it is necessary to improve their current products, quality standards, or production cycles to meet the needs of potential EU buyers.

### Rules of Origin:

Rules of origin are used to determine the legal country of origin of a given product for the purposes of international trade. They are divided into two categories:

1) Non-preferential Rules of Origin are applied to define the country of origin for specific purposes that may include quotas, anti-dumping, anti-circumvention, statistics, or origin-labelling issues. According to non-preferential rules of origin, a product is considered to have its origin in a country if it is completely produced in or wholly obtained or from that state. Non-preferential rules of origin are regulated through the General Agreement on Tariffs and Trade (GATT) of 1994—which also created the World Trade Organization (WTO)—and by the International Convention on the Simplification and Harmonization of Customs Procedures reached at Kyoto in 1974.

2) Preferential Rules of Origin are used to determine preferential tariffs for exports made under trade regimes. Instruments for applying preferential rules of origin include bilateral and multilateral agreements on free trade, as well as national legislation.<sup>30</sup>

When importing goods into the EU market, customs (that is, import) duties are calculated according to three main factors: a product's price, type (as specified by its commodity code), and country of origin; other special limitations and requirements are also considered as applicable. The DCFTA provides for the possible abrogation of import duty if concrete

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<sup>30</sup> Ibid



prerequisites are met—among the most important of which are clearly demonstrating that the goods qualify as Georgian via preferential rules of origin.<sup>31</sup> The first protocol of the AA specifies the following conditions that must be met for goods to be considered of Georgian origin: they must be wholly obtained from Georgia, fully produced in Georgia or—if the latter condition cannot be met—if the materials used in production have undergone sufficient processing in Georgia.<sup>32</sup>

Goods are considered wholly obtained in Georgia if they are:

- “(a) mineral products extracted from its soil or from its seabed;
- (b) vegetable products harvested there;
- (c) live animals born and raised there;
- (d) products from live animals raised there;
- (e) products obtained by hunting or fishing conducted there;
- (f) products of sea fishing and other products taken from the sea outside the territorial waters of the exporting Party by its vessels;
- (g) products made aboard its factory ships exclusively from products referred to in point (f);
- (h) used articles collected there fit only for the recovery of raw materials, including used tyres fit only for retreading or for use as waste;
- (i) waste and scrap resulting from manufacturing operations conducted there;
- (j) products extracted from marine soil or subsoil outside its territorial waters, provided that it has sole rights to work that soil or subsoil;
- (k) goods produced there exclusively from the products specified in points (a) to (j).”<sup>33</sup>

Any other goods that are *not* considered wholly obtained in Georgia, but that can still meet the requirements described in the second annex of the first protocol of the AA, can be eligible for preference if considered sufficiently processed in Georgia.<sup>34</sup> Moreover, raw materials from outside Georgia that do not meet the requirements thus described can still be used to produce goods of legal Georgian origin, provided that:

- Their total price does not exceed the “ex-works” (that is, at the factory gate) price of the final product
- Any of the percentages given in the DCFTA’s list of maximum value of non-originating materials are not exceeded.

The following relatively minor forms of processing are considered insufficient for the purposes of conferring the status of Georgian origin:

- “(a) preserving operations to ensure that the products remain in good condition during transport and storage;
- (b) breaking-up and assembly of packages;

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<sup>31</sup> DCFTA.gov.ge Free Trade with EU, Rules of Origin. <<http://www.dcfta.gov.ge/en/dcfta-for-business/Rules-of-Origin->>

<sup>32</sup> Ibid

<sup>33</sup> “Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part”. <[https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830\(02\)>](https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830(02)>)

<sup>34</sup> DCFTA.gov.ge Free Trade with EU, „Concerning the Definition of the Concept of "Originating Products" and Methods of Administrative Cooperation“. <<http://www.dcfta.gov.ge/public/filemanager/agreement/trade/Protocol.pdf>>

- (c) washing, cleaning; removal of dust, oxide, oil, paint or other coverings;
- (d) ironing or pressing of textiles;
- (e) simple painting and polishing operations;
- (f) husking, partial or total bleaching, polishing, and glazing of cereals and rice;
- (g) operations to colour sugar or form sugar lumps;
- (h) peeling, stoning and shelling, of fruits, nuts and vegetables;
- (i) sharpening, simple grinding, or simple cutting;
- (j) sifting, screening, sorting, classifying, grading, matching; (including the making-up of sets of articles);
- (k) simple placing in bottles, cans, flasks, bags, cases, boxes, fixing on cards or boards, and all other simple packaging operations;
- (l) affixing or printing marks, labels, logos and other like distinguishing signs on products or their packaging;
- (m) simple mixing of products, whether or not of different kinds;
- (n) mixing of sugar with any material;
- (o) simple assembly of parts of articles to constitute a complete article or disassembly of products into parts;
- (p) a combination of two or more operations specified in points (a) to (o);
- (q) slaughter of animals.”<sup>35</sup>

The following two documents must be included with export shipments in order to prove status of origin to the importing country: first, an EUR.1 movement certificate (issued by the Georgian Revenue Service), and second, a Declaration of Origin (of the format prescribed to annex IV of the first protocol of the DCFTA)<sup>36</sup>, both of which must be attached to an invoice, delivery notification, or other commercial document included in the shipment, and which describes the relevant details of the product. The latter document may only be issued by authorized exporters (as approved by the Revenue Service) , except when a shipment includes goods with a total price no higher than €6,000—in which case any exporter may do so.<sup>37</sup>

Declarations of Origin are valid for 4 months from the day of issue and must be submitted to the customs authorities in the importing country within this timeframe. Even after completing a Declaration of Origin, exporters must be prepared to submit evidence—upon request of the customs authorities in the countries of import—that the goods are indeed of Georgian origin.

All agricultural and food products must meet Sanitary and Phytosanitary Standards (SPS). SPS are enacted by countries to protect the lives and health of humans, plants, and animals—including from the risks from imported goods.

How can Georgian entrepreneurs produce agricultural products that meet the quality requirements and standards of the EU market? As a first step, producers should in any case

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<sup>35</sup> “Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part”. <[<https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830\(02\)>](https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830(02))>

<sup>36</sup> Revenue Service, “Starting September 1 Certificate Origin – EUR.1 is issued by the Revenue Service of the Ministry of Finance”, 2014. <[http://rs.ge/default.aspx?sec\\_id=4846&lang=2&newsid=3104](http://rs.ge/default.aspx?sec_id=4846&lang=2&newsid=3104)>

<sup>37</sup> Decree of 29 December 2010 #420 of the Government of Georgia. <[http://www.economy.ge/uploads/files/sagareo\\_vachroba/dadgenileba-420.pdf](http://www.economy.ge/uploads/files/sagareo_vachroba/dadgenileba-420.pdf)>

ensure that they follow the standards defined by the Georgian National Food Agency (NFA).<sup>38</sup> Next, given that European supermarket chains increasingly demand that their suppliers be certified according to private food safety standards such as GLOBALG.A.P.—which bills itself as the “worldwide standard for good agricultural practices,”<sup>39</sup>—primary agricultural producers can ensure that they meet the quality requirements of European buyers by obtaining certification.

There is currently substantial demand in the EU for organic food products—defined as the result of farming that avoids the use of man-made fertilizers, pesticides, growth regulators and livestock feeding additives. In addition, genetically modified organisms (GMOs)—as well as goods produced with or from them—are generally prohibited by organic farming standards.<sup>40</sup>

Georgian food processors should implement Hazard Analysis and Critical Control Points (HACCP), the internationally-recognized system for reducing the risk of safety hazards in food. HACCP is a systematic, preventive approach to food safety that identifies biological, chemical, and physical hazards in production processes that can cause the final product to be unsafe, while also encompassing measures to reduce these risks to a safe level. The HACCP system can be used at all stages of production, from preparation to packaging and distribution.<sup>41</sup>

The International Organization for Standardization (ISO) is an international standard-setting body composed of representatives from various national standards organizations.<sup>42</sup> ISO issues many different types of standards in various areas of production, such as ISO 9001 (quality management) ISO 14001 (environmental management), ISO 22000 (food safety management), etc. Food processing businesses should implement ISO 22000 in order to meet the EU’s required food safety standards.

### **2.3. What are potential strategies for success in the EU single market?**

As Georgian SMEs continue to familiarize themselves with the requirements and opportunities related to the DCFTA, they should consider utilizing the following strategies to gain access to the EU single market, in view of their limited size and output:

- **Become a supplier to large EU-based companies**

For example, Georgian agricultural companies grow hazelnuts for Ferrero, while apparel firms make clothing for international giants such as Moncler, Zara, Puma, etc.

- **Identify a sector with little existing competition, whether because it:**

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<sup>38</sup> Official website of the National Food Agency. <<http://nfa.gov.ge>>

<sup>39</sup> GLOBALG.A.P. conditions for Producers. <[http://www.globalgap.org/uk\\_en/for-producers/buyer-requirements/costco/index.html](http://www.globalgap.org/uk_en/for-producers/buyer-requirements/costco/index.html)>

<sup>40</sup> Help-guide, “Organic Foods: What You Need to Know”. <<https://www.helpguide.org/articles/healthy-eating/organic-foods.htm>>

<sup>41</sup> Wikipedia, Hazard analysis and critical control points. <[https://en.wikipedia.org/wiki/Hazard\\_analysis\\_and\\_critical\\_control\\_points](https://en.wikipedia.org/wiki/Hazard_analysis_and_critical_control_points)>

<sup>42</sup> International Organization for Standardization. <[www.iso.org](http://www.iso.org)>

**a) *is not interesting for big companies***

Such sectors include Georgian souvenirs and other folk items (such as traditional Georgian national costumes) may include small enterprises manufacturing Georgian souvenirs and other items of folklore like national Georgian apparel.

**b) *is too small a niche for other producers***

One example of success in this type of sector is pet furniture/accessories, which is too small and technically complex to be viable for mainstream furniture manufacturers, but which has been lucrative for manufacturer Georgian Products—which exports almost all its output to EU countries. Another is in high-value-added but small-volume agricultural products such as unique varieties of Georgian cheese (e.g. Guda, made in the mountainous east of the country and now exported to the United States)

**- Produce under EU brand names**

Several Georgian companies manufacture products using the technologies and brand names of well-known European companies such as Knauf (construction/renovation materials), HeidelbergCement, Caparol (paint), and Schirnhöfer (food products).

**- Attract EU investment**

Many Georgian companies have succeeded in attracting EU investors to develop and equip their production facilities with modern technologies and management practices—as with Frego Bus, which soon plans to start production of electric buses.

## **2.4. How to find EU business partners**

In order for Georgian businesses to begin trading most effectively with the EU, they require EU-based partners (such as buyers, distributors, processors, and trading agents) that can provide advice on how best to do business within the targeted EU country or countries. The input of such partner(s) is essential in areas ranging from analysing the targeted market (such as local consumption patterns), tailoring or adjusting Georgian products to the needs and expectations of the local market, and preparing necessary documentation.

The Internet offers the easiest means of finding potential business partners. Among the many sources and platforms offering to connect businesses, the most trustworthy is the **Enterprise Europe Network (EEN)**,<sup>43</sup> the world's largest SME support network, launched by the European Commission in 2008. EEN is active in more than 60 countries around the world and brings together 3,000 experts from more than 600 member organizations—all renowned for their excellence in business support.

The Network helps businesses identify international partners to, for example, manufacture or distribute products, access new markets, supply necessary production technology, or cooperate in research and development projects.<sup>44</sup> EEN has established local network contact

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<sup>43</sup> More about the Enterprise Europe Network: <<https://een.ec.europa.eu/about/about>>

<sup>44</sup> “International Partnerships”, Enterprise Europe Network. <<http://een.ec.europa.eu/content/international-partnerships-0>>

points in every country in which it operates. In Georgia, there are three such contact points:<sup>45</sup> Enterprise Georgia,<sup>46</sup> Georgia’s Innovation and Technology Agency (GITA),<sup>47</sup> and the Georgian Chamber of Commerce and Industry (GCCl).<sup>48</sup> Georgian entrepreneurs in need of advice, support, or assistance in establishing international partnerships can reach out to any of the three organizations.

**The Enterprise Europe Network provides the following 3 steps as guidance for businesses seeking international partners:**<sup>49</sup>

**Step 1:** Entrepreneurs or company representatives should contact one of the 3 network contact points, where experts will look at companies’ needs and goals, assess if they are ready for international partnerships, advise on how best to prepare for internationalization, and identify the best means of finding partners that match companies’ needs. They also complete EEN’s Partnering Opportunity form.

**Step 2:** Network experts send the forms to their counterparts in other EEN countries, while also making use of the Network’s online database to search for partners; they then arrange participation for Georgian companies in international matchmaking events and trade missions.

**Step 3:** after companies find suitable partners, EEN brings them together, advising and supporting them throughout the partnership negotiation process.

During Step 2, profiles of Georgian companies, based on the data provided in the Partnership Opportunity form, are posted on the EEN website—which all potential EU partners and buyers can access.<sup>50</sup> One such profile is provided below:

Title	<b>Manufacturer of natural Georgian traditional sweets, dried fruit, and vegetables is looking for distributors and commercial agents in Europe</b>
POD Reference	BOGE20170427001
Summary	Georgian manufacturer of national sweets, dried fruits/vegetables and traditional sweets is looking for new markets in Europe. The company is looking for distribution partners and commercial agents to introduce the company’s products on new markets, especially in Baltic countries, Poland, UK, Germany, France, Belgium and Czech Republic.

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<sup>45</sup> Contacts of 3 Tbilisi based contact points available at the Enterprise Europe Network website: <<https://een.ec.europa.eu/about/branches/ge/tbilisi>>

<sup>46</sup> Official website of the Enterprise Georgia: <<http://enterprisegeorgia.gov.ge/>>

<sup>47</sup> Official website of the Georgia’s Innovation and Technology Agency: <<http://www.gita.gov.ge/>>

<sup>48</sup> Official website of the Georgian Chamber of Commerce and Industry: <<http://www.gcci.ge/>>

<sup>49</sup> “International partnerships”, Enterprise Europe Network. <<https://een.ec.europa.eu/content/international-partnerships-0>>

<sup>50</sup> ENN Profile database can be accessed here:

<<http://een.ec.europa.eu/tools/services/SearchCenter/Search/ProfileSimpleSearch?shid=32db25cb-726f-43b0-8b5f-7742d0935799>>. The database allows to search for partners in different countries, also sorts out according following to profile types: Business Offer, Business Request, Research & Development Request, Technology Offer, Technology Request

Description	<p>Georgian company was established in 2016. It is a family business based on the special knowledge and experience.</p> <p>This Georgian company produces 15 varieties of dried fruits and 10 varieties of dried vegetables using advanced drying technology.</p> <p>The assortment covers:</p> <p>Fruits: pineapples, melons, prunes, figs, apples, pears, quinces, oranges, bananas, kiwi, lemons, persimmons, strawberry, cherry, grape.</p> <p>Vegetables: pumpkins, carrots, beetroot, eggplant, tomato, zucchini, lettuce, bell pepper, mushrooms, greens.</p> <p>Also, in production there is "Tkłapi" which is a traditional Georgian puréed fruit roll-up leather. It is spread thinly onto a sheet and sun-dried on a clothesline. It can be sour or sweet. The sour version is made of "Tkemali" plums, sweet "Tkłapi" is made of apricots or peaches.</p> <p>The company expects to find partners in the EU countries where Georgian traditional food is more popular. That is the main reason why company is looking for distribution partners and commercial agents.</p>
Advantages and Innovations	Thanks to the optimal climate and soil conditions in Georgia for fruits and vegetables the company is able to offer products not only 100 % natural but also with very high quality, vitamin and mineral content. The company uses modern technologies to produce national sweets.
Stage of Development	Already on the market
IPR status:	Copyright

Source: EEN database, <<http://een.ec.europa.eu/tools/services/PRO/Profile/Detail/c5c2c882-a9ed-4d75-9ce8-7ef70451a193?shid=32db25cb-726f-43b0-8b5f-7742d0935799>>

In addition to the EEN, Georgian businesses can use **EUROPAGES**,<sup>51</sup> which since 1982 has specialized in helping small businesses to find—and be found by—potential partners in the European market. Currently it is the largest business-to-business (B2B) directory in Europe, consisting of a network of partners in more than 20 European countries. Over 3 million companies are registered on EUROPAGES, through which one can get contact details of potential partner companies—whether in the EU or other countries—and get in touch with them directly. The directory's search engine, which can be used in 26 different languages, allows one to search for and identify potential partners, filtering results according to product type or by targeted country/region.

Moreover, Georgian producers can contact individual **chambers of commerce**—present in all EU members—as well as local **SME, farmers, and producers associations** in the relevant economic sector. Chambers of commerce are able to connect Georgian companies with relevant counterparts in their countries. For many Georgian SMEs it is probably more convenient to seek establishment of contacts with potential foreign counterparts through the help of the relevant chamber of commerce and of Enterprise Georgia—which for the past

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<sup>51</sup> Official website of EUROPAGES: <<https://www.europages.com/>>

several years been the facilitating instrument for export-oriented trade. However, it is important to bear in mind that chambers of commerce most often focus primarily on representing large corporations; accordingly, they may not be “a match” for Georgian SMEs. Accordingly, it is also worth investigating whether there is an SME association in the targeted country—which its chamber of commerce can be of help in contacting (see the interview with Lithuanian entrepreneurs in Part III below for more detail).

Furthermore, business ties with the European partners can be developed through taking part in **trade fairs and international exhibitions**. As presented more fully in Part III, the example of Lithuanian herbal tea demonstrates the relative ease and considerable advantages of this opportunity physically to introduce one’s products and establish immediate personal connections with potential foreign partners. Enterprise Georgia maintains an fair and exhibitions calendar—available on its website—and can subsidize firms’ participation in such events.<sup>52</sup>

## **2.5. Investment and funding sources for improving and upgrading production facilities**

Many Georgian SMEs require outside investment in order to improve and upgrade their production—whether through applying modern technology or implementing EU sanitary norms—in order to make their products suitable for export to the EU.

To this end, there are currently several active programs that provide investment opportunities for Georgian farmers and enterprises and help them to improve production technologies and facilities, as listed below:

**Agricultural Projects' Management Agency (APMA).** This state program was established in 2012 by the Ministry of Agriculture to promote rural development in Georgia. APMA’s mission is to implement and manage a variety of projects, whether initiated by the Ministry itself or by its subordinate enterprises. These projects focus on promoting and stimulating development of production-orientated industries in rural parts of Georgia.<sup>53</sup> Examples of projects already implemented include Plant the Future, the Georgian Tea Plantation Rehabilitation Program, the Agro-Production Promotion Program, the Preferential Agro Credit Project, and various co-financing endeavours directed towards agro-processing and storage enterprises as well as agro-insurance.

**Enterprise Georgia** (Entrepreneurship Development Agency).<sup>54</sup> The Agency was established in March 2014 as part of the Ministry of Economy and Sustainable Development. Enterprise Georgia is the first governmental institution in the country tasked with facilitating private sector development and export-orientated production (especially that of SMEs) through various financial and technical support mechanisms. At the same time, the Agency is an

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<sup>52</sup> Official website of Enterprise Georgia: <<http://tradewithgeorgia.com/>>

<sup>53</sup> Agricultural Projects' Management Agency, „About Agency”. <<http://apma.ge/page/read/agency/>>

<sup>54</sup> Enterprise Georgia, „Mission & Vision”. <[www.enterprisegeorgia.gov.ge](http://www.enterprisegeorgia.gov.ge)>

integral part of the new governmental program **Produce in Georgia**, which promotes domestic production and supports increased productivity and competitiveness for SMEs.<sup>55</sup>

The **European Bank for Reconstruction and Development (EBRD)**<sup>56</sup> supports private sector competitiveness through promoting innovation, enhancing value-added, and encouraging convergence with DCFTA standards and obligations. The EBRD supports Georgian businesses in general and SMEs in particular via the already well-developed banking sector in the country; its focus is on high-potential areas such as agriculture, hospitality, and technology; it also plans to increase efforts at workforce training, notably by targeting regional inclusion as well as women and young people. The EBRD also provides business advice to SMEs directly.

**The European Neighbourhood Programme for Agriculture and Rural Development (ENPARD)** has been active in Georgia since 2013.<sup>57</sup> The programme aims to reinvigorate Georgia's rural economy, especially the agricultural sector, in close cooperation with government, civil society, and rural communities themselves. ENPARD's total budget in Georgia for the years 2013-2022 is €179.5 million (Phase I (2014-2017)– € 52 million, Phase II (2016-2019) – € 50 million; Phase III (2018-2022)– € 77.5 million, 2018-2022).<sup>58</sup> The EU is also currently supporting implementation of the active program ENPARD II, which uses the LEADER<sup>59</sup> approach to promote rural development. It is active in the following municipalities: Borjomi, Lagodekhi, Dusheti, Dedoplistskaro, Keda, and Khulo. Its Local Action Group provides sub-grants to community development projects—including economic and business support activities.

## 2.6. Necessary practical steps for exporting to the EU

Georgian SMEs should be aware that the process of exporting to the European Union is not an easy one; often, lots of time is required before concrete results are apparent. Below are the eight steps that a Georgian company must complete to begin exporting goods and services successfully to the EU market:

1. Evaluate whether the company's products comply with the overall requirements and quality standards set out in Georgian national legislation as well as the terms of the AA/DCFTA. It is especially important to conduct a preliminary assessment of whether the company's type of product is included in the DCFTA's list of product categories that can freely enter the EU market.

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<sup>55</sup> Enterprise Georgia, „Access to Finance”. <<http://enterprisegeorgia.gov.ge/en/whatwedo/Access-to-finance?v=75>>

<sup>56</sup> The EBRD in Georgia, European Bank for Reconstruction and Development. <[www.ebrd.com/georgia.html](http://www.ebrd.com/georgia.html)>

<sup>57</sup> Official website of ENPARD in Georgia: <<http://enpard.ge>>

<sup>58</sup> What is ENPARD?, ENPARD. <<http://enpard.ge/en/about-us/>>

<sup>59</sup> “LEADER (Liaison Entre Actions pour le Developpement de l'Economie Rurale) is an approach which engages the energy and other resources of people as development actors rather than beneficiaries, empowering them to contribute to the future development of their rural areas by forming area based Local Action Group (LAG) partnerships between the public, private and civil sectors.” Description is taken from the Ministry of Agriculture of Georgia, “ENPARD conference to discuss LEADER approaches in Georgia”, November 24, 2016.

<<http://www.moa.gov.ge/En/News/1237>>



2. Carry out market research and assess the potential competitiveness of the company's products in the targeted EU countries.
3. Identify a potential partner (buyer, dealer, distributor, processor, etc.) that is active on the EU single market, and adjust production to that partner's needs.
4. Send product samples to the potential partner in order to ensure that the product meets all partner quality requirements; make further adjustments as needed.
5. Agree on price, quantity, and date of delivery.
6. Clarify legal requirements and prepare all necessary documentation for export.
7. Find a reliable and efficient delivery method that will ensure that the partner receives the export shipment(s) in due time, and at the best price.
8. Sign a contract with the partner and begin business operations.

## **2.7. How exporting to the EU works in practice: the example of kiwi fruit**

Successfully exporting Georgian products to the EU market requires extensive preparation work—as outlined in the 8 steps presented in the previous section. To illustrate how this process works in practice, one can consider the example of a specific agricultural sector: the kiwi fruit market. Here too, as with other agricultural sectors, here one must begin by looking at the general market for a commodity, identify the key players, learn more about the main market trends, and—using this information—make an informed decision about whether one's products are suitable for the EU market.

### **A. Overview of the global kiwi fruit market**

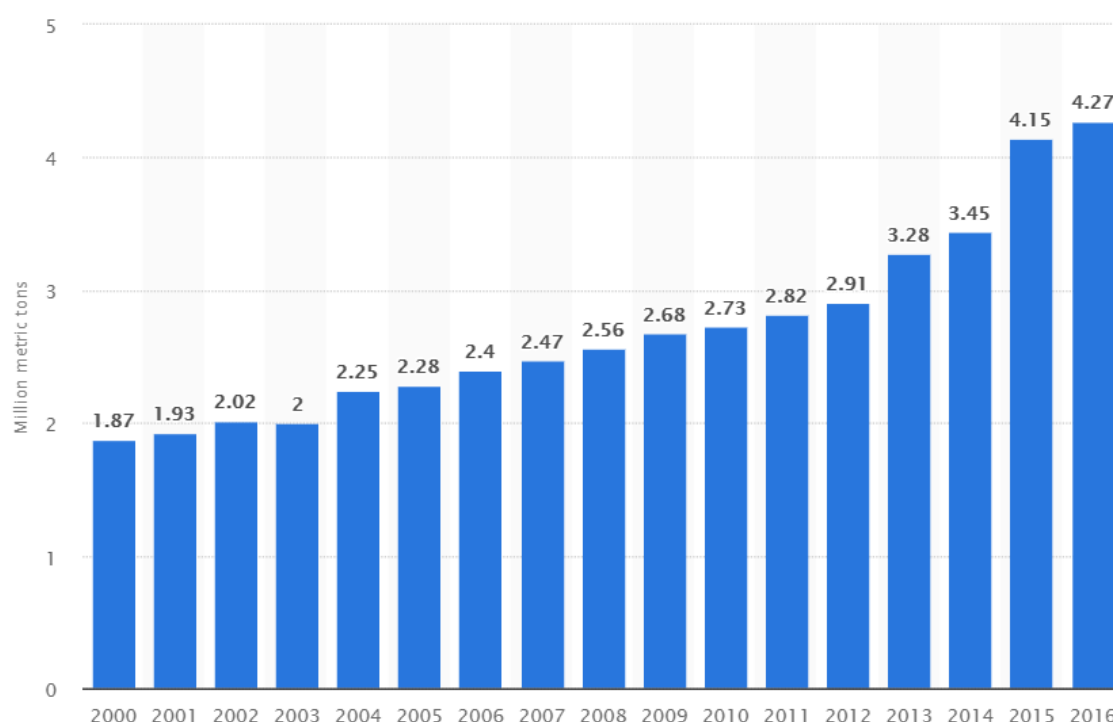
Kiwi fruit has been exported since 1966, when the United States first imported it from New Zealand. The fruit's taste and nutritional/health characteristics have driven continuously high worldwide demand, as consumers tend to eat it during both breakfast and lunch. Sliced kiwi has also long been used in desserts.

According to available statistical data, worldwide kiwi fruit production has been growing over last decades, increasing from 1,870,000 tons in 2000 to 4,270,000 tons in 2016 (see figure 1 below).<sup>60</sup>

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<sup>60</sup> The Statistics Portal Statista, "Kiwi production worldwide from 2000 to 2016 (in million metric tons)" <https://www.statista.com/statistics/577896/world-kiwi-production/>

**Figure 1.** Worldwide kiwi production, 2000-2016 (in million metric tons)



Source: Statista, “Kiwi production worldwide from 2000 to 2016 (in million metric tons)”  
<<https://www.statista.com/statistics/577896/world-kiwi-production/>>

New Zealand has long occupied a dominant place in the world kiwi trade, with its export volume—valued at \$1.2 billion (€1 billion), or 47.3% of the global total. The second biggest is Italy, with 18.9% of the market or \$476 million (€405 million) in value; it also produces 65% of all kiwi grown in the Northern Hemisphere. Other large kiwi exporters in Europe include Greece—which exports 80% of its production—and Belgium.<sup>61</sup> Meanwhile, the world’s major importing countries are Japan, Germany, Belgium, China, and Spain, which together account for 45% of global kiwi imports.<sup>62</sup>

Notwithstanding the Russian ban on EU fruit imports, sales of kiwi fruit on European markets have continued to grow, with notable increases in countries such as Greece. Due to the damage caused by poor Southern Hemisphere weather conditions, Chile and New Zealand will continue to produce below full capacity for some time. When combined with the growing availability of high-quality kiwi grown in the northern hemisphere, European producers now enjoy a better position in the global market. Supply shortages do continue to bring growers good prices; however, exchange rate swings and increased inflation often have a negative impact on growers’ income. Among the current major challenges for the kiwi industry include

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<sup>61</sup> World’s Top Exports, “Kiwifruit Exports by Country”, 2017, <<http://www.worldstopexports.com/kiwifruit-exports-by-country/>>

<sup>62</sup> Mordor Intelligence, “Global Kiwi Fruit Market – Growth, Trends and Forecasts (2017 - 2022)”  
<<https://www.mordorintelligence.com/industry-reports/kiwi-fruit-market>>

the continuing impact of trade restrictions, future production increases and decreasing unit costs, demands from retailers, difficulties with finding added value, and others.<sup>63</sup>

On the whole, between 2012 (when world exports totalled \$2.1 billion [€1.8 billion]) and 2016, the value of world kiwi exports increased by an average 20.1% year-on-year; for the most recent year available (2015-2016), the annual increase was 8.7%.<sup>64</sup>

The following list shows the top 15 kiwi exporters (by value of exports in US\$) during the year 2016:<sup>65</sup>

1. New Zealand: US\$1.2 billion (€1 billion) (47.3% of the global total)
2. Italy: \$476 million (€405 million) (18.9%)
3. Belgium: \$280 million (€238 million) (11.1%)
4. Chile: \$180 million (€151 million) (7.1%)
5. Greece: \$95 million (€80 million) (3.8%)
6. Iran: \$56 million (€48 million) (2.2%)
7. Netherlands: \$40 million (€34 million) (1.6%)
8. France: \$33 million (€28 million) (1.3%)
9. Spain: \$26 million (€22 million) (1%)
10. Hong Kong: \$26 million (€22 million) (1%)
11. United States: \$24 million (€20 million) (0.9%)
12. Germany: \$20 million (€17 million) (0.8%)
13. Portugal: \$15 million (€12 million) (0.6%)
14. China: \$13 million (€11 million) (0.5%)
15. Lithuania: \$8 million (€6 million) (0.3%)

Combined, these 15 countries accounted for all but 1.6% of the total value of global kiwi exports in 2016. Of the states listed, those posting the most dramatic total increases between 2012-2016 were China (712.3%), Hong Kong (123.2%), Iran (99.2%), and New Zealand (41%).<sup>66</sup>

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<sup>63</sup> Mordor Intelligence, "Global Kiwi Fruit Market – Growth, Trends and Forecasts (2017 - 2022)".  
<<https://www.mordorintelligence.com/industry-reports/kiwi-fruit-market>>

<sup>64</sup> World's Top Exports, "Kiwifruit Exports by Country", 2017. <<http://www.worldstopexports.com/kiwifruit-exports-by-country/>>

<sup>65</sup> World's Top Exports, "Kiwifruit Exports by Country", 2017. <<http://www.worldstopexports.com/kiwifruit-exports-by-country/>>

<sup>66</sup> World's Top Exports, "Kiwifruit Exports by Country", 2017. <<http://www.worldstopexports.com/kiwifruit-exports-by-country/>>

<sup>67</sup> Ibid

As already noted above, certain EU member states—notably Belgium, France, Greece, Portugal, and Spain—have themselves become large kiwi producers and exporters (and have even themselves exported to non-EU countries such as Georgia). Accordingly, Georgian producers are better off not targeting these states with their own kiwi exports.

## **B. Deciding which EU country to target**

After gathering general information about the world market for a product, one should next decide which EU country to target as a destination for Georgian exports. In the case of kiwi, the ideal EU destination should be in northern Europe, where for climate reasons kiwi fruit cannot be grown. It should also have high domestic consumption of kiwi fruits as well as good transport and business links to Georgia. When these factors are taken into consideration, it is clear that Germany is the most appropriate EU market for Georgian kiwi exports.

German kiwi imports, 2012-2016 (in thousand metric tons)<sup>68</sup>

Year	Volume
2012	108.8
2013	101.7
2014	98.7
2015	112.3
2016	124.3

As the above table shows, import volumes increased over the total period in question—a clearly positive trend.

Next, one should prepare detailed production and shipping calculations to determine whether one's prices could be competitive on the German market. According to market research, the price of pre-sorted kiwi fruit with a minimum weight of 80 grams in the Guria and Samegrelo regions of Georgia is 1.30 lari (€0.43) per kilogram (€0.43). Further sorting and packaging costs 1.30 lari/kg (€0.10).

Packing costs fluctuate considerably based on the cost of the underlying material, and depend on which type of boxes are used. Plastic and cardboard are the best options; although it is possible to use wooden boxes as well, they are not recommended due to their heavier weight and to the need to obtain phytosanitary certificates for the wood itself.

Below are examples of cardboard and plastic packaging used in the kiwi trade, with the former courtesy of Georgian kiwi exporter Negreta Ltd:<sup>69</sup>

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<sup>68</sup> Import volumes of kiwi fruits to Germany from 2012 to 2016 (in 1,000 tons), Statista.  
<<https://www.statista.com/statistics/507670/tropical-fruits-import-volume-by-type-germany/>>

<sup>69</sup> Official Facebook page of Negreta Ltd:  
<<https://www.facebook.com/226716731583/photos/a.10155192917491584.1073741836.226716731583/10155192922366584/?type=3&theater>> and  
<<https://www.facebook.com/226716731583/photos/a.10153927900681584.1073741833.226716731583/10153927901036584/?type=3&theater>>



Cardboard boxes are more expensive, costing up to €0.10/kg; plastic is cheaper and costs up to €0.05/kg. Accordingly, the total price at the farm gate (or the “ex-works” price, as it is known in European trading circles) for a kilogram of kiwi fruit packed in cardboard is around €0.63. After adding €0.10 for warehousing and additional packing (palleting and loading), and factoring in the costs of transport (one can fit 24 tons of kiwi in a standard 40-foot [12.2 m] refrigerated/insulated shipping container, which costs around €3000 to send from Georgia to central Europe), and the preparation of export documents ( €0.14/kg), the total price per kilogram of kiwi fruit delivered to ports in Central Europe (more technically, on CIF—cost, insurance, and freight—terms) should not exceed €0.87-0.90. Given that the minimum retail price in Germany is €1.49/kg, it is clear in this example that Georgian kiwi fruit can be competitive in the German market.

**Table 4.** Kiwi prices per country<sup>70</sup>

Product	Country	Unit	Min	Max	Change
kiwi	Greece / Italy / Chile	kg	€1.49	€2.64	0.0%

Source: Fresh Market, “Prices on-line”, Quotation: 16.02.2018 <[https://www.fresh-market.pl/en/prices\\_online/prices\\_online](https://www.fresh-market.pl/en/prices_online/prices_online)>

<sup>70</sup> Fresh Market, “Prices on-line”. <[https://www.fresh-market.pl/en/prices\\_online/prices\\_online](https://www.fresh-market.pl/en/prices_online/prices_online)>

As outlined in earlier sections of this document, it is essential when preparing to export to ensure that all appropriate standards (whether norms of quality or phytosanitary requirements) are met.

Market standards for kiwi fruit in the EU have been set by Commission Implementing Regulation No 543/2011.<sup>71</sup> This regulation sets forth all of the necessary requirements and legal standards to sell kiwi fruit to EU customers, ranging from a precise definition of what is a kiwi for the purposes of retail trade; provisions related to quality (e.g., minimum requirements for product maturity and categories of classification), and specifications for fruit size (and acceptable tolerances for deviating from such sizes), presentation, and marking/labelling.

In order to meet product quality standards and efficiently consolidate kiwi fruit for shipment, producers should either own or rent sorting and cooling facilities that satisfy HACCP standards and possess other appropriate certification.

After harvest, kiwi fruit should be prepared for shipment by the following steps:

1. Removal of leftover leaves, petioles, and other material;
2. Sorting by maturity and size;
3. Grading;
4. Packaging;
5. Palletizing;
6. Pre-cooling;
7. Cooling



Image sources: Postharvest

<[http://www.postharvest.biz/\\_images/newscompany/77010/6148\\_modal.jpg](http://www.postharvest.biz/_images/newscompany/77010/6148_modal.jpg)>, Cal-Harvest

Marketing <<http://www.calharvest.com/kiwitour3.html>>

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<sup>71</sup> Gov.uk, “COMMISSION IMPLEMENTING REGULATION (EU) No 543/2011 of 7 June 2011 laying down detailed rules for the application of Council Regulation (EC) No 1234/2007 in respect of the fruit and vegetables and processed fruit and vegetables sectors”, 2011.  
<[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/299242/Kiwifruit.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/299242/Kiwifruit.pdf)>



### **C. Searching for target country partners**

Before beginning the search for partners in the target country—in this case, Germany—one should develop good-quality promotional materials. Without these, it is virtually impossible to introduce or develop a positive image of one's company to potential partners. The first step is usually to prepare a company profile: below is a (fictional) example of what such a profile should look like:

#### **COMPANY PROFILE**

Name: **Georgian Kiwi agricultural cooperative**

Type of activity: **Kiwi production, consolidation, sorting, warehousing, sales, and distribution.**

Website: **[www.georgiankiwi.ge](http://www.georgiankiwi.ge)**

Address: 123 Sakartvelo St, Ozurgeti, Georgia

Contact person: Giorgi Georgiashvili – Director General

Telephone: +995 496 5555

E-mail: [info@georgiankiwi.ge](mailto:info@georgiankiwi.ge)

#### **History**

In 2012, Georgian Kiwi (GK) was founded in the town of Ozurgeti—located in the Guria region, one of the largest kiwi production areas in the country—as an agricultural cooperative. Originally consisting of just 5 farmers, the cooperative has expanded considerably in recent years; it now consists of 25 full and 53 associate members.

#### **Key Financial Data**

In 2016, GK's annual sales revenue was 360,000 lari—a figure that more than doubled in 2017 (742,000 lari). Its total fixed assets as of 31 December 2017 have a value of 985,000 lari.

The company has 21 employees in total:

- Management - 3
- Administration - 2
- Controllers – 1
- Supervisors – 1
- Other employees – 15

Average wage: 9,000 lari per year (gross)

#### **Description of products and services**

GK currently produces the Hayward variety of kiwifruit on 7 hectares of its own orchards. Its 78 members jointly own 52 hectares; moreover, in 2014 the cooperative planted new orchards on 58 additional hectares, from which it expects a good first harvest in 2018.

Moreover, GK also receives kiwi fruit from 150 small farmers who grow products on their own plots, primarily applying natural fertilizers and using minimum chemicals. As a result, their fruit has unique taste and flavour. The company owns all necessary infrastructure, equipment, and facilities for sorting/packing/cooling kiwi fruits.

#### **Production capacity and actual production**

In 2016, GK received (whether from its own orchards or from small farmers) 109 tons of kiwi fruit. After sorting and packing, 103 tons were sold either to retail chains or hotels. In 2017, 223 tons were received, and 212 tons delivered; 72 tons were exported to Armenia and Azerbaijan as well.

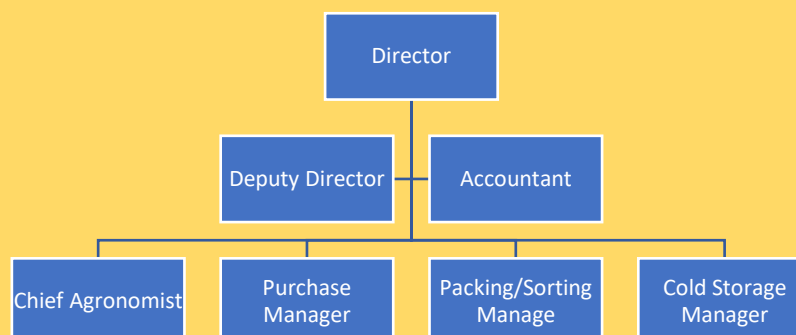
#### **Equipment and Supplies**

The cooperative owns a 7000-sq.m. building with 3 kiwi sorting lines. Its equipment—which has a CE certificate and is in full compliance with HACCP standards—was purchased in 2017 from the Chinese firm AgroABC. GK also owns a modern cold storage facility with a total capacity of 300 tons, as well as two 2016 Suzuki minivans for product distribution. It receives cardboard packing materials from two local suppliers—both among the biggest manufacturers of boxes and related products in Georgia.

### Major markets

Currently, the cooperative concentrates on selling kiwi fruit to the Georgian market. It supplies 2 nationwide supermarket chains, 11 large hotels, and 25 independent grocery stores around the country. In 2017, it began trialling exports to Armenia and Azerbaijan, sending 48 and 24 tons to the two countries respectively.

### Organization and Management



- 1) The *director* is responsible for the overall management of the company, including strategic planning and searching for trading partners/customers;
- 2) The *deputy director* is responsible for the day-to-day management of the company, including supervision of operations, production, sales, and distribution;
- 3) The *accountant* is responsible for the proper management of the company's financial and accounting system, including making timely financial transactions and maintaining relations with the tax authorities;
- 4) The *chief agronomist* is responsible for the proper management of orchards, including irrigation, pest control, pre- and post-harvest management processes, etc.
- 5) The *purchase manager* is responsible for organization of the kiwi purchase process from farmers outside the cooperative, purchasing and receiving packing and other necessary materials, and reaching sales contracts with clients;
- 6) The *packing/ sorting manager* is responsible for all aspects of the kiwi fruit sorting, grading, and packing processes;
- 7) The *cold storage manager* is responsible for the management of cold storage facilities at an appropriate temperature and with well-functioning ventilation systems to ensure better preservation of kiwi fruit.

### Financial Situation

GK's current financial situation is stable. The cooperative has a positive cash-flow, pays its salaries and fulfils other financial obligations in a timely manner, actively invests in upgrading its fixed assets, and finances ongoing certification procedures

### Primary challenges

In order successfully to export kiwi fruit to the EU market, it is highly recommended that GK introduce the GLOBALG.A.P. system at its own orchards.

GK also needs to find a reliable partner that will help company to promote its kiwi fruit in the EU market.

### Short-term objectives

Ensure ideal yields from new orchards beginning production this year; introduce a modern logistics system; begin the GLOBALG.A.P. certification process, and begin exports to the EU market.

### Long-term objectives

Acquire or plant more kiwi orchards; purchase and install automatic sorting and packing lines; expand sales markets.

### Potential areas of assistance



Create an up-to-date, contemporary website; fulfil all the requirements of the GLOBALG.A.P. system, find partners in EU countries, and establish a partnership with Georgian state funding programs.

In addition to reports such as the above, companies should also produce advertising leaflets that describe the company's product and its production facilities, as in the example below.<sup>72</sup>

### GEORGIAN KIWI

Georgian Kiwi (GK) was founded in the town of Ozurgeti—located in the Guria region, one of the largest kiwi production areas in the country—as an agricultural cooperative. Originally consisting of just 5 farmers, the cooperative has expanded considerably in recent years; it now consists of 25 full and 53 associate members.

Due to the unique sub-tropical climate of the region, GK can grow Europe's sweetest green kiwifruit variety (Hayward), which is renowned for its taste and colour as well as its sweetness and other factors.

#### Product

The specific characteristics of GK's Hayward kiwis are as follows: B Below are given general characteristics of our product: Brix (a measure of the sucrose content): 14.5%; hardness: usually 1-2 kgf/cm<sup>2</sup>; no visual defects. GK receives fruit from 150 small farmers who grow products on their own plots, primarily applying natural fertilizers and using minimum chemicals. As a result, the fruit has unique taste and flavour



#### Major markets

Currently, the cooperative concentrates on selling kiwi fruit to the Georgian market. It supplies 2 nationwide supermarket chains, 11 large hotels, and 25 independent grocery stores around the country. In 2017, it began trialling exports to Armenia and Azerbaijan, sending 48 and 24 tons to the two countries respectively.

#### Sorting and cooling facilities

The company owns all necessary infrastructure, equipment, and facilities for sorting/packing/cooling kiwi fruits.



#### Quality

Thanks to the application of modern quality and safety standards—including its HACCP certification—GK enjoys a high degree of success and customer satisfaction.

#### Contact:

Address: 123 Sakartvelo St, Ozurgeti, Georgia

Contact person: Giorgi Georgiashvili – Director General

<sup>72</sup> Pictures are taken from the Negreta Ltd official Facebook website:

<<https://www.facebook.com/226716731583/photos/a.406294196583.200287.226716731583/406294481583/?type=3&theater>> and

<<https://www.facebook.com/226716731583/photos/a.10153534193406584.1073741832.226716731583/10153534193916584/?type=3&theater>>

Telephone: +995 496 5555  
 E-mail: [info@georgiankiwi.ge](mailto:info@georgiankiwi.ge),  
 Website: [www.georgiankiwi.ge](http://www.georgiankiwi.ge)

Companies should create and actively maintain a well-developed, well-designed website. This is very important for the image of the organization; if such a website does not exist, neither international buyers nor potential commercial partners will consider it to be a serious organization. A modern website is one of the most important and necessary tools for marketing and promoting a company and its product. At the very least, it should be bilingual (available in both Georgian and English); if one is targeting market in which English is not the main language, one should also ensure that one's website is in the language(s) of those markets as well.

As discussed in section 2.4. companies can turn to the Enterprise Europe Network (EEN) to find assistance for searching for partners—in this case, in the German market. As outlined above, companies can contact any of the three Network contact points: Enterprise Georgia,<sup>73</sup> Georgia's Innovation and Technology Agency (GITA),<sup>74</sup> or the Georgian Chamber of Commerce and Industry (GCCCI).<sup>75</sup> After the first contact, the company will receive a Partnering Opportunity form to be filled out and sent back to the appropriate agency. An example of the form is provided below:

PARTNERING OPPORTUNITY	
PROJECT DETAILS	
<b>Project Type</b>	Business Offer
<b>Project Title</b>	Seeking Distribution or Joint Venture Partners in Germany for Georgian Kiwi—distribution or joint venture partners sought in Germany
<i>Internal Ref:</i>	EGGITAGCCI01234
<b>Summary</b>	The Georgian Kiwi cooperative, located in the town of Ozurgeti in the Guria region, and currently grows green Hayward kiwi fruit. It is looking for a partnership—whether on a distribution or joint venture agreement basis—with German companies already involved in the kiwi trade.
<b>Stage of Development (SoD)</b>	Already on the market
<i>Comments on SoD:</i>	Primarily on the local market; some trial exports to AM and AZ
<b>Description</b>	Established in 2012, the Georgian Kiwi agricultural cooperative grows Europe's sweetest green kiwifruit variety (Hayward) in the region of Guria, one of Georgia's biggest kiwi production areas due to its suitable subtropical climate. GK's kiwis are renowned for their taste and colour as well as sweetness and other factors. The cooperative is looking for partners in Germany to establish a long-term distribution and/or joint venture partnership.

<sup>73</sup> Official website of the Enterprise Georgia: <<http://enterprisegeorgia.gov.ge/>>

<sup>74</sup> Official website of the Georgia's Innovation and Technology Agency: <<http://www.gita.gov.ge/>>

<sup>75</sup> Official website of the Georgian Chamber of Commerce and Industry: <<http://www.gcci.ge/>>

<b>Advantages and Innovation</b>	The cooperative owns a 7000-sq.m. building with 3 kiwi sorting lines. Its equipment—which has a CE certificate and is in full compliance with HACCP standards—was purchased in 2017 from the Chinese firm AgroABC. GK also owns a modern cold storage facility with a total capacity of 300 tons.
<b>Technical Specification or Expertise Sought</b>	
<b>IPR Status</b>	
<input type="checkbox"/>	Copyright
<input type="checkbox"/>	Design rights
<input type="checkbox"/>	Exclusive rights
<input type="checkbox"/>	Granted patent or patent application essential
<input type="checkbox"/>	Patent(s) required but not yet granted
<input type="checkbox"/>	Patents granted
<input type="checkbox"/>	Trade secrets
<input checked="" type="checkbox"/>	Trademarks
<i>Comments regarding IPR:</i>	
<b>Profile Origin</b>	- Select -
<b>Profile expiration days</b>	365 days
<b>DISSEMINATION</b>	
<b>Technology Keywords</b>	Kiwi, Kiwifruit, Hayward, fresh fruits
<b>Market Keywords</b>	Kiwi, Kiwifruit, Hayward, fresh fruits
<b>Issuing Partner</b>	Enterprise Georgia
<b>Responsible</b>	Bondo Tabatadze
<b>Contact Person e-mail</b>	<a href="mailto:btabatadze@enterprise.gov.ge">btabatadze@enterprise.gov.ge</a>
<b>Sector Group</b>	Agrofood
<b>Restrict Dissemination to Specific Countries</b>	Germany
<b>CLIENT</b>	
<b>Type and Size of Client</b>	Industry SME 11-50
<b>Year Established</b>	2012
<b>NACE Keywords</b>	NAEK Code: 0810 50 000 00; HS Code 0810 Fresh Fruits
<b>Turnover (EUR)</b>	<1M
<i>Additional Comments</i>	€241.00
<b>Certification, Standards</b>	HACCP
<b>Languages Spoken</b>	English, Russian
<b>Client Country</b>	Georgia
<b>PARTNER SOUGHT</b>	
<b>Type and Role of Partner Sought</b>	Potential partners in Germany to establish a distribution partnership or a joint venture agreement; partners ideally would be firms already established in kiwi wholesale and retail trading, but can also be trading companies specialized in importing produce from Eastern European markets
<b>Profile is opened for Expression of Interest</b>	<input checked="" type="checkbox"/>
<b>Type and Size of Partner Sought</b>	
<input type="checkbox"/>	Inventor
<input type="checkbox"/>	R&D Institution
<input type="checkbox"/>	University
<input type="checkbox"/>	SME <10

<input checked="" type="checkbox"/>	SME 11 – 50
<input type="checkbox"/>	SME 51 – 250
<input type="checkbox"/>	SME 251 – 500
<input type="checkbox"/>	>500
<input type="checkbox"/>	>500 MNE
<b>Type of Partnership Considered</b>	
<input type="checkbox"/>	Acquisition agreement
<input type="checkbox"/>	Commercial agency agreement
<input checked="" type="checkbox"/>	Distribution services agreement
<input type="checkbox"/>	Financial agreement
<input type="checkbox"/>	Franchise agency agreement
<input checked="" type="checkbox"/>	Joint venture agreement
<input type="checkbox"/>	License agreement
<input type="checkbox"/>	Manufacturing agreement
<input type="checkbox"/>	Outsourcing agreement
<input type="checkbox"/>	Reciprocal production
<input type="checkbox"/>	Services agreement
<input checked="" type="checkbox"/>	Subcontracting
	• Attachments

After the company submits the form to its Network contact point, it is then sent on either to the country coordinator or other appropriate foreign expert—who will then reach out to relevant companies in the target countries (in the present example, Germany). Information about German companies interested in cooperation will then be sent back to the contact point, which in turn passes on the results to the company. If company representatives are capable of communicating with the potential partner, they then proceed on their own; if not, experts from Enterprise Georgia, GITA, GCCI, and elsewhere are able to assist Georgian firms in conducting negotiations and attaining the desired results.

Georgian companies can also use EUROPAGES (as mentioned in section 2.4) to find and communicate with potential partners themselves.<sup>76</sup>

#### **D. Negotiation with potential partners**

During the negotiation process, Georgian companies should be prepared to send potential partners product samples, quality certificates, and other documents. In the event that the potential partner finds the samples unacceptable, Georgian firms can offer to adjust their products to the preferred specifications, ensuring that all lots sent to the foreign partner comply fully with the quality requested once an agreement is reached. It is also important to reach a formal written and signed agreement regarding price, quantity and delivery timeframe with the partner.

Georgian firms also have the responsibility to familiarize themselves with the appropriate legislation and complete all required documentation for exporting goods to EU countries so that if negotiations are successful, they can then be ready to begin exports without delay. One very important issue related to timely delivery of exports concerns shipment: a potential

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<sup>76</sup> Official website of EUROPAGES: <<https://www.europages.com/>>

partner might offer to accept delivery on any of the following contract terms: ex works (EXW),<sup>77</sup>, free carrier (FCA)<sup>78</sup>, or cost, insurance, & freight (CIF).<sup>79</sup>

The Georgian company should carefully consider the offered terms and clarify the price and delivery time of transportation options—especially if the contract is requested on CIF terms (in which case shipment is its, not the buyer's, responsibility). Identifying the most reliable and efficient method and route is another issue with shipping; if this choice is made wisely, Georgian companies can preserve their big advantage over producers from China, New Zealand, or South America, which require more time to deliver their exports to EU destinations.

Another issue is payment terms; while a full discussion of terms and methods of payment are beyond the scope of this present document, at the beginning it is best to use an irrevocable letter of credit. While this is slightly more expensive, it also insures both parties from payment-related risks.

Once all terms and conditions are agreed clearly and appropriately reflected in the written contract, the Georgian company can then conclude the contract.

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<sup>77</sup> Mantissa E-learning, "Ex Works (EXW)" <<https://www.incotermsexplained.com/the-incoterms-rules/the-eleven-rules-in-brief/ex-works/>>

<sup>78</sup> Mantissa E-learning, "Free Carrier (FCA)" <<https://www.incotermsexplained.com/the-incoterms-rules/the-eleven-rules-in-brief/free-carrier/>>

<sup>79</sup> Mantissa E-learning, "Cost Insurance and Freight (CIF)" <<https://www.incotermsexplained.com/the-incoterms-rules/the-eleven-rules-in-brief/cost-insurance-freight/>>

## Part III. Success stories from Georgia, Lithuania, and Slovakia

### *Georgian Stories*

#### **From Sharakhevi to the EU market: unique Georgian forest products**

*“Finding your niche,”* answered Lia Bodzashvili—chairman of the board of the Sharakhevi-1 Cooperative—when asked what is most important for success in the European market.

The compelling story of this Georgian woman entrepreneur began in August 2014, when she established a the Sharakhevi-1 cooperative in the Dusheti Municipality village of the same name. After the death of her parents, Bodzashvili moved into their home in order to keep the family tradition going: collecting non-timber products from local forests. She took the initiative to start the cooperative just two months after Georgia signed the Association Agreement with the EU.

The prospect of closer economic integration to the EU single market has led to the creation/expansion of numerous initiatives supporting SMEs in Georgia. Given that 41% of the country’s land area is covered in forests—a wealthy source of diverse natural resources—the forest product sector is a natural fit for SMEs located in rural areas. This is certainly true of the Mtskheta-Mtianeti region, whose forests contain many non-timber products, including herbs with medicinal properties. In this context, establishing a cooperative was an important and timely step: today, Sharakhevi-1’s foodstuffs (both processed and unprocessed) are now sold on the EU market.

The cooperative’s first steps on its successful path towards the European market included the signature of a cooperation agreement with the Rural Communities Development Agency (RCDA) in December 2015 on the construction of a processing facility for its products—which now has both solar power and an electric dryer. Sharakhevi-1 has also received support from the BRIDGE Innovation and Development project and the Forest Fruits: Markets for Women initiative of the BIG Lottery Fund. The latter project aims at improving the living conditions of vulnerable groups in rural areas by helping them to establish agricultural cooperatives, thereby supporting women’s economic leadership and developing their advocacy skills.

The cooperative is comprised of 15 members—notably including 9 women, thereby making a substantial contribution to their employment in the village. The main activities of this women-run business include:

- ✓ Collecting and processing forest products, wild fruits and berries, and medicinal herbs;
- ✓ Processing *tklapi* (Georgian traditional fruit leather);
- ✓ Marketing and selling forest products, both processed and unprocessed.

## Getting closer to EU standards

Obtaining certification demonstrating compliance with EU standards is often cited among the biggest difficulties associated with entering the European market. In her case, Bodzashvili benefited from attending training programs organized by the RCDA for regional cooperatives to raise awareness about the main requirements and rules concerning the collection of forest products. This knowledge helped Sharakhevi-1 to receive an organic certificate in gathering and producing wild plants from Caucascert on its first try. This certificate applies to the following species (up to the maximum quantities specified) as gathered from 200 hectares of the cooperative's forest: rose hips (*Rosa canina*), 5,000 kg; crabapple (*Malus orientalis*), 5,000 kg; wild pear (*Pyrus caucasica*), 500 kg; common yarrow (*Achillea millefolium*), 50 kg; and perforate St John's wort (*Hypericum perforatum*), 50 kg.

According to Bodzashvili, interest from EU member states, namely Germany and the Czech Republic, is high—but the main challenge is ensuring continuous supply. Even though around 200kg of products can be dried every cycle at the cooperative's facility, storing products can be difficult. With these limitations in mind, Bodzashvili uses two strategies to enter the EU market: first, the cooperative sells both dried products and raw material to European dealers on site, using the ex-works (EXW) terms of trade—meaning that the buyer bears all costs and risks associated with transporting the goods from the seller's premises to the buyer's chosen destination. Second, Sharakhevi-1 has an active partnership with organic-production company Kakheti Bio, which buys its raw materials and brands them for export. Kakheti Bio is the Georgian intermediary of the German firm Rose Office, which this year has imported primrose flowers collected by Georgian cooperatives—with the support of the RCDA. The intermediary is continuing to develop its strategic partnerships with Sharakhevi-1 and other cooperatives.

## Lia Bodzashvili's five essential tips for success in EU markets

1. Find an appropriate niche, such as unique Georgian plants with medicinal properties;
2. Obtain organic certification, keeping in mind the importance of geographic location;
3. Utilize the tax benefits offered for high-altitude regions in Georgia's so-called Mountain Law, which reduce product cost and increase competitiveness;
4. Invest in quality assurance;
5. Take advantage of the funding opportunities from both government and international bodies that offer support to SMEs.

## **Give us this day our daily...honey! A honey production success story in Georgia**

Thanks to its floral diversity and bee-friendly alpine meadows, Georgia has a long tradition of apiculture. Along with wine and nuts, honey is considered a leading candidate for eventual large-scale exports to European markets. However, even though EU has placed Georgia on the safe list of countries of origin for honey, Georgian beekeepers still must take several costly steps in order to meet EU quality standards. Despite the support offered by both the Georgian government and international organizations, challenges remain in the honey industry—as evidenced by the fact that no Georgian honey producer has yet been able to place its products on the EU market

According to official statistics, Georgia produces about 4,000 tons of honey annually. Only 10% of this total is exported abroad, primarily to Libya, the United Arab Emirates, Saudi Arabia, and Lebanon; recently, exports have begun to China and South Korea as well. The price of natural honey on the Georgian domestic market is quite high and equals to 20-30 lari/kg (about €6-9), compared to only €2-3 in the EU. Therefore, Georgia cannot compete on cost with EU-produced honey; however, since EU demand has been increasing by 6% annually, some Georgian beekeepers remain optimistic that their honey can appeal to discriminating European consumers.

Accordingly, some enterprises have remained positive and continued their efforts towards full implementation of EU standards. To do so, and to further develop their businesses, they have taken advantage of the support programs run by the Georgian government and by international organizations.

One example is the Tapli [honey] Sachino cooperative, which began with an idea by Mindia Kavtaradze—founder of the smaller Vashlara cooperative in Vani Municipality, located in the central Imereti region. Kavtaradze had earlier benefitted personally from EU grants that had helped him to obtain modern technology for his enterprises and improve his managerial skills through various training programs. After completing these programs, he was inspired to share his experience with like-minded people from the region in order to develop the honey business further while meeting market needs.

Accordingly, he approached Father Petre, the dean of the Vani Orthodox Gymnasium [secondary school] and owner of a family beekeeping business. Father Petre recalls that he was at first sceptical of the initiative—especially after hearing the word “cooperative,” which has a negative connotation in Georgian society given its experience under Communism. Nevertheless, Kavtaradze managed to bring him on board, arguing that combining their efforts could significantly increase profits as well as productivity.

Even though he had been producing honey for 15 years, Father Petre was never able to maintain more than 30 bee colonies at most. He soon realized that the business could no longer support the needs of a growing family that had just welcomed its 11<sup>th</sup> member. Taking Kavtaradze’s advice, he established the Pray and Work cooperative along with nine other like-minded partners. Later, both Kavtaradze and Father Petre visited the nearby municipalities of



Samtredia, Baghdati, and Tskaltubo to convince local beekeepers to form cooperatives. At first, the two wanted to encourage honey producers in these communities to establish cooperatives of their own, and then only later unite them in a larger enterprise. However, they encountered considerable resistance, which Father Petre attributes to deeply-rooted social problems in the region such as low access to information and general mistrust of international organizations. Nevertheless, the two persisted; Father Petre explained that EU grants could help farmers overcome existing challenges. In response to scepticism about Brussels' motives, he argued that the EU is ultimately interested in ensuring the safety of the products that reach its citizens.

Thanks to the technical and information support of the international NGO Mercy Corps, they eventually were able first to encourage the creation of five small cooperatives, and then established Tapli Sachino—a second-level cooperative that now unites approximately 70 members. Two years ago, Tapli Sachino could only produce 2.5 tons of honey per year. However, with the technical support of the EU's ENPARD program, it has been able to increase its productivity to 16 tons annually. To date, the cooperative has received about 200,000 lari (€70,000) in technology investment assistance.

Ultimately, both Kavtaradze and Father Petre are convinced that the cooperative must continue growing if it is to be able to ensure a stable supply of honey to the European market. They continue to stress the advantages of joining the cooperative to local beekeepers—for example, free use of its processing technology. Ultimately, their aim is to become the first Georgian honey manufacturer to meet EU standards fully, producing high-quality products suitable for both the domestic and European markets.

Nevertheless, the cooperative faces additional challenges that hinder the eventual export of Georgian honey to the EU market. In particular, Kavtaradze notes that in order to reach a commercial agreement with EU buyers, Tapli Sachino needs to be able to produce at least 100 tons of honey per year. As of now, that figure is simply not yet possible to reach—which is why the cooperative needs to continue growing.

Father Petre remains optimistic, arguing that due to its unique characteristics, Georgian honey has the potential to become a world-renowned brand. Yet, since its price is higher than competing products from China, Ukraine, and EU member states, Georgian honey needs to build a strong reputation so that it can attract discriminating consumers who are willing to spend more for quality goods. He also believes that the EU can do more to help Georgian beekeepers promote their products. Currently, the cost of production in Georgia is high, while productivity is relatively lower. Technological support from the European Union can enable increased production with lower costs, especially for labour. He is also convinced that the cooperative model remains best for this sector, as individual beekeepers cannot cope with the relevant bureaucratic procedures on their own, while membership in the cooperative allows for the sharing of these and other duties & responsibilities—while reducing expenses and facilitating knowledge-sharing.

For his part, Kavtaradze adds that the ecological situation in Imereti continues to threaten Georgian bee species. For example, chestnut trees have been affected by climate change and

insect infestation—while also subject to massive illegal cutting. To help save the industry, Kavtaradze and Father Petre have started a voluntary tree-planting campaign in the region, believing that if each household plants just two or three seedlings, both nature—and the Georgian beekeeping tradition—can be saved. They are now looking for partners willing to contribute to the initiative in its initial phase.

Even though Georgian honey has not yet been exported to the EU, Tapli Sachino has still set an example worthy of following—especially in the way its founders have taken advantage of all the opportunities offered by the Georgian government and by international donors to ensure that it meets EU standards. Ultimately, the story of this cooperative demonstrates how, working together, small producers can significantly raise quality—and profits; moreover, with continued effort, entry into the EU market may be just around the corner.

## Nergeta exports kiwis worldwide

Kiwi grower Nergeta Ltd was established by Konstantin Vekua and Romeo Japava (of Georgia) and Hans-Friedrich Guttbrod of Germany in June 2009.<sup>80</sup> From the beginning, its founders intended to export Georgian kiwi fruit abroad—including to EU markets.



At the outset, however, Nergeta's activities were limited to the Georgian market. As a first step, the company began producing kiwi from Georgian small farmers, sorting them according to size and majority, and labelling each single fruit with a sticker bearing its logo. The fruit was then packed into cartons specially designed and manufactured for the company.

In 2010, Nergeta purchased 24 hectares of agricultural land in the Samegrelo region, planting it with kiwi orchards—arranged in compliance with international standards—over the next two years. The company has already implemented the GlobalG.A.P. standard in its kiwi production, which is overseen by a kiwi expert from New Zealand. These orchards will begin delivering their full yield in 2019.

Nergeta already has its own facility—featuring modern, EU-manufactured sorting, packing and cooling/refrigerating equipment—with a storage capacity of 160 tons.



In 2015-16, the company began exporting its labelled produce to Germany, where it was sold at the outlets of the Lidl supermarket chain. In 2017, it started shipping kiwi to Japan, a market that has proven to be more profitable for the company despite longer shipping times.

Meanwhile, Nergeta continues to sell kiwi on the Georgian market, for example to Carrefour stores.



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<sup>80</sup> The images used to illustrate this section are taken from Nergeta's Facebook page: <https://www.facebook.com/NERGETA-226716731583/>

## **Lithuanian herbal tea finds its way to European homes**

Two Lithuanian companies focusing on plant products—Švenčionių vaistažolės [Švenčionys Herbs], one of the oldest herb-processing enterprises in the Baltic region with a history dating back to 1883, and Acorus Calamus—founded over fifteen years ago and already a leader in the herbal product industry—are notably outstanding examples of successful adaptation to both EU regulations and market needs.

The two firms now operate under the same leadership, after a merger that—as Director of both companies Elmantas Pocevičius explains—was based on the realization that size and production capacity matters in securing and maintaining a share of the EU herbal products market. Currently, a majority of the companies’ output—notably of herbal tea—is sold in other EU states. While in 2008 most of Švenčionių vaistažolės’ production went to Latvia, Estonia, Ireland, the United Kingdom, and France, its goods are now also sold in the Netherlands and Spain, as well as outside the EU (e.g., in Algeria, Japan, and the United States.)

When asked about the time when—after Lithuania’s accession to the EU—the companies had to adjust to European standards and fight for a place in the EU single market, Pocevičius does not mince words, noting that it was not an easy process. Both companies did use EU financial support to buy new production equipment; initially, 50% of the cost was covered by Brussels, with the rest being the responsibility of the recipients. Later on, however the EU’s share decreased and then vanished entirely—underscoring, in Pocevičius’ view, the need for companies to avoid undue hesitation and to take advantage of existing support opportunities: “the bus does not wait for those who are late,” as the Lithuanian proverb holds. Unfortunately, neither both “Švenčionių vaistažolės” nor “Acorus Calamus” were able to avoid such a fate, and ended up missing the chance to use EU support to upgrade their production facilities.

However, both companies have continued to use EU funding to attend international trade fairs and expositions, which according to Pocevičius are among the most successful ways to find international business partners. Even though in this case Brussels’ financial contribution is also limited to 50%, this is nevertheless a significant help to the firms—given that the minimum cost of participation in such events is €10,000. This funding is also available for use at events outside the EU; as a result, for example, “Švenčionių vaistažolės” took part in a 2015 exposition in Dubai.

Both companies have obtained high-level ISO certification, with Pocevičius advising those firms just preparing to apply to the ISO to aim for a standard not lower than ISO 22000. In his view, producers should also consider obtaining BRC certificates. Since the latter are globally recognized, the necessary time and investment to acquire them is the time and investment required can be recouped via access to markets beyond only those of the EU.

For small- and medium-size producers seeking to access the EU single market, Pocevičius offers the following broader recommendations:

First, **have an exclusive new product**. Since it is generally more difficult for SMEs to compete with big market players, they need to offer something different to attract consumers' attention.

Next, since small companies that enjoy some success are likely to attract attention—and competition—from larger firms, they can **merge with other small producers**, or **join forces with bigger European companies** to ensure greater competitiveness.

Additionally, companies should **invest in promoting their products** in the target market. This does require significant upfront outlays of cash, but if successfully implemented will pay off in the long run. According to Pocevičius, a 3-year public relations campaign might secure steady sales for a further 10 years.

The last option is to become **a local producer for European companies**. For example, if a company has expertise in producing and selling something, it can continue doing so—but under a European company's brand. Conversely, however, based on the Lithuanian experience in offering an exclusive herbal tea to German consumers, the latter prefer those labelled “Made in Germany” over German-branded Lithuanian products.

Ultimately, Pocevičius argues, knowing one's target market is the key to success. In the beginning, Lithuanian manufactures had high hopes of selling to Scandinavian markets, but soon learned that local consumers are simply not that fond of herbal tea. Another reason why it was difficult to sell in Germany is that the country is number 2 in herbal tea production—with neighbouring Poland being number 1. It is important to ensure that one can offer better prices than local producers—which in Poland is nearly impossible, given the local firms' advantages of scale. Pocevičius also notes that Lithuanian producers' attempts to sell tea in Georgia failed for the same reason. Ultimately, the only way for Lithuanian producers to continue growing is to join forces with firms in the other two Baltic countries—Latvia and Estonia.

Finally, as far as specific tactics for finding a place within EU markets, Pocevičius identified the following as having worked well at the companies he leads:

First, **participate in international expositions**, where it is easy to present one's product and make business connections with possible business partners.

Second, make sure to walk around European supermarkets to **understand local consumption habits**. During these visits, one can not only see if people consume herbal tea, but also how much they are ready to spend.

Third, Pocevičius is not very enthusiastic about market research surveys offered by various consulting companies. For him, statistical data only reveals information about the size of the local market and the main players but does not provide much else of value to firms not already active on the local market. He does speak more highly of the **analysis done by the Nielsen Corporation, which provides information about the most popular products in a given market**, broken down by brand and accompanied by quantities consumed—in other words, it enables one to assess what (and at which prices) local consumers are buying. While this analysis is expensive, EU support can help firms to obtain it.

Fourth, the Lithuanian executive is similarly sceptical about the value of various Internet portals that purport to be effective spaces for introducing and promoting products, noting that in his experience, **the best advertisement is a prominent position in Google search results.**

Finally, Pocevičius suggests that companies truly interested in a specific local market should have the ability to converse and negotiate in the local language. This can best be done via a local representative who is not only a native speaker, but is also closely familiar with the specific characteristics of the local business culture.

The below images depict the production, packaging, and marketing of Švenčionių vaistažolės's ETNO herbal tea brand:







## Lithuanian mushrooms: a European success story <sup>81</sup>

Grybai LT, a cooperative business located in the small Lithuanian town of Širvintos, is the most modern mushroom producer in the entire Baltic region. Not only does the company grow mushrooms, but it also processes them and prepares for immediate consumption in contemporary, environmentally-friendly packaging—itsself produced using the minimum CO<sub>2</sub> emissions possible. Moreover, in addition to mushrooms, Grybai LT also makes a range of organic vegetable and legume prepared products, including several kinds of organic soup.



What is now a nationally and regionally prominent business began with one simple idea by a single Lithuanian businessman—Kęstutis Jusčius. Since at the time the Russian Federation banned the import of raw Lithuanian mushrooms, he realized that the only way the unsold products could be used was to completely reorient the market from raw to processed/packed production. At the time, however, there were no factories in Lithuania large or effective enough to process mushrooms in such volumes. This is how an ordinary agricultural company in a semi-rural area with only modest wealth began its transformation into the most modern and innovative factory in the entire region, with exports reaching throughout the EU market and beyond.



In about six years, from 2011 to 2017, Grybai LT grew from a simple mushroom growing farm to an innovative market leader—exporting 90% of its products outside Lithuania, whether to nearby EU markets or to countries as far away as South Korea—with its own automated processing and canning factory. This facility—the most advanced in the Baltics—opened in spring 2017. Not only has the new factory boosted

the economy of the Širvintos municipality and the Vilnius region as a whole, but by creating 20 jobs—with a further 20 to come as the facility is further developed—it has attracted Lithuanians from other parts of the country as well as returning Lithuanian emigrants. Its

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<sup>81</sup> The article is based on an interview with a Grybai LT representative, on the information presented on the company's website, and on the following 2017 Lithuanian media article: "Į robotizuotą Širvintų gamyklą lietuviai sugrįžta iš emigracijos" [Lithuanians Return from Emigration to Work at Automated Factory in Širvintos], *15min.lt*, 2017-05-04, <[https://www.15min.lt/verslas/naujiena/bendroves/i-robotizuota-sirvintu-gamykla-lietuviai-sugrizta-is-emigracijos-663-792644#\\_https://www.15min.lt/verslas/naujiena/bendroves/i-robotizuota-sirvintu-gamykla-lietuviai-sugrizta-is-emigracijos-663-792644#>](https://www.15min.lt/verslas/naujiena/bendroves/i-robotizuota-sirvintu-gamykla-lietuviai-sugrizta-is-emigracijos-663-792644#_https://www.15min.lt/verslas/naujiena/bendroves/i-robotizuota-sirvintu-gamykla-lietuviai-sugrizta-is-emigracijos-663-792644#>)>. The illustrations are drawn both from the above article and from "Parodė, kaip gaminama „Auga group“ produkcija" [Auga Group's Production Demonstrated], *Verslo žinios*, 2017-05-04, <<https://www.vz.lt/agroverslas/2017/05/04/parode-kaip-gaminama-auga-group-produkcija>>



owner underscores, however, that such a successful project would not have been possible without support from the EU; a significant part of the €6 million investment to launch the facility came from Brussels.

Today, the facility has two main production lines: a mushroom processing line (fully automated and with minimal risk of microbiological contamination) and an innovative, environmentally-friendly plastic packaging line. At first, company used jar-canning technology, but later it realized that plastic packaging is much easier to transport while also being better for the planet. Currently, the whole process—from production to packaging and storage—is carried out by factory robots, allowing the human workforce to concentrate on activities requiring knowledge and skills.



According to Jusčius, the facility provides Grybai LT with more commercial stability and more flexibility during crisis periods—such as when there is a surplus of raw mushroom production. Processed and packed mushrooms can be stored up to 12 months, but raw mushrooms remain consumable only for 7 days. Flexibility is especially important given that such a large percentage of the firm's production is exported. Grybai LT's largest

export destinations are Bulgaria, Finland, France, Latvia, Poland, Sweden, and the United Kingdom.

Ultimately, the company's example shows that cooperation with large manufacturers and satisfying well-defined market segments with high demand are critical to export success. Jusčius also notes that after the factory expansion plans are complete, Grybai LT will be purchasing 3600 tons of raw mushrooms from other producers, and exporting a total of 4100 tons annually—thereby making it a very important player in the Lithuanian and European mushroom markets indeed.

## Success is 90 percent about finding the right partner

Arūnas Laurinaitis, Vice-President of Lithuanian Confederation of Industrialists—whose long and distinguished career even includes overseeing a Lithuanian investment project in Kakheti—has much experience-based advice to offer producers from small countries (whether Georgia or Lithuania) can compete in the European market. Above all, he stresses the importance of building credibility and trust among international partners, given the dangers that beginning exporters can face.

ARŪNAS LAURINAITIS  
(COPYRIGHTACHEMA GROUP)



### Experiences in Georgia

Over twenty years, Laurinaitis has held a variety of leading positions, including president of Achema Group (the second-largest privately-owned enterprise in the country), which brings together some 50 different companies and is best known for manufacturing fertilizer and other products for agricultural companies. It is also very active in the energy sector, the area that first brought Laurinaitis to Georgia.

In 2008, responding to the Lithuanian government's call to invest in Georgia and thereby strengthen bilateral relations, Achema purchased the electricity distribution network in the Kakheti region. While it aimed to increase network efficiency, it faced two main challenges: 1) the high prices charged by electricity producers, offering little room for profit; 2) the ineffective employment system in the sector: people were hired not due to business needs or even to individual competence, but because of family links with current employees. Laurinaitis regrets that due to high management costs and minimal return on investment, Achema eventually had to sell the network and withdraw from Georgia altogether.

### How can SMEs succeed in the European market?

In his current capacity, Laurinaitis focuses on building bridges to foreign markets in order for Lithuanian producers to gain a foothold. Asked about small and medium-sized businesses, he agrees that small producers face even greater challenges in preparing to export. However, there are also advantages; for example, SMEs can more easily work with business partners from the EU that can bring experience and know-how. According to Laurinaitis, for exporters, "success is 90 percent about finding the right partner," one that brings the best combination of experience and expertise while sharing profits equally. Through such partnerships, new export producers can establish trust, demonstrate excellence and reliability, and eventually be able to operate independently in the targeted market.

Before starting exports, however—as Laurinaitis stresses—one must first ensure that one's product fully meets all quality requirements. Since the European market is so far advanced technologically, and since its consumers' needs are so demanding, it is critical to make certain that one's product is suitable. If not, the possibility that it might be more profitable to produce

something else from existing materials should be investigated. Second, Laurinaitis advises SMEs to consider establishing cooperation agreements with larger companies at home—and only then, “like a small fish alongside a shark,” enter the European market. He bluntly acknowledges that for small producers, it is difficult to establish business relations and negotiate business deals, while advertising and participation in international trade fairs and expositions presents a financial burden.

Should new producers decide to go it alone, they should execute a thorough market analysis and identify the specific EU country in which there might be demand for its product. The next step, according to Laurinaitis, is to find ways to enter the targeted market. One option is reaching out to the SME association in the target country; in Laurinaitis’ view, this is more effective than contacting chambers of commerce, which concentrate on representing larger firms. While the latter will most likely forward inquiries to the appropriate company, there is still a risk that messages can get lost. Finally, producers can reach out to the local embassy of the target country. Embassies frequently host visits by business representatives from their country and can often bring potential partners directly to exporters’ farms or production facilities in order to evaluate products and even discuss cooperation prospects.

As previously mentioned, it is costly for small producers to attend international trade fairs, one of the best ways of developing business connections. The solution, in the case of Georgia, is to use the resources provided by the Georgian government, especially by institutions such as Enterprise Georgia that are charged with coordinating such events—while, of course, with promoting Georgian exports in general.

When asked about finding business partners on the Internet, Laurinaitis observes that in his experience, it is preferable—and more effective—to present one’s ideas in person. It is also easier then to ask for introductions to other appropriate people. In this way, people-to-people networks are formed based on trust; one also can learn about the competence and reliability of a potential partner before actually meeting.

### **Lessons from engaging with international business partners**

Reputation is of crucial importance in international business, since as soon as a country becomes more open, foreign firms of questionable ethics will inevitably appear and seek to profit from novice exporters’ lack of knowledge. Laurinaitis observes that from 1/5 to 2/3 of all those who express initial interest in establishing business relationships with local producers fall into this category. Accordingly, then, new exporters need to be cautious in order to avoid situations in which, for example, they receive only partial payment for an export shipment and—after inquiring about the balance—learn about the bankruptcy of their partners. In such cases, the cost of initiating legal proceedings in a foreign country is usually so high that compensation is rarely received. Another such situation is when foreign partners use various tactics to ensure that they get more than an equal share of the profits. For example, after contracts are signed, partners request more money for required certificates, insurance, and so on—while in fact these services are fictitious, and are “provided” by a partner subsidiary. Lithuanian producers had to deal with these kinds of business practices when they began exporting to the EU; as Laurinaitis observes, it took time for the business culture to adapt.

However, cooperation with larger European companies provides many advantages. In addition to the transfer of know-how, as mentioned above, these larger firms can help their partners obtain import certification. In addition to the general regulations that apply throughout the EU, individual Member States can issue technical requirements as well. Local partners can lead exporters through these processes while also assisting in improving the product or adjusting it for the local market. One possibility worth noting is that larger companies often seek exclusive rights to sell partners' products; according to Laurinaitis, entering into exclusive agreements for one to two (though no longer than three) years can be a very useful way of gaining experience, learning about the local market, and gaining the trust of local partners—thereby eventually leading to self-sustaining, independent market participation.

### **West or East?**

Many Lithuanian producers, much like their Georgian counterparts, maintain strong business relations with Eastern markets. For Laurinaitis, greater engagement with the West does not necessarily mean that existing links with the East must be eliminated; in his view, both should be targeted. Maintaining links with Eastern business partners ensures a continued source of income that can then be invested in accessing Western markets. In the end, while the latter require the investment of more time and resources to gain a foothold, eventually profits are as good as they are in the East. The difference is that Western markets are not only larger but also more predictable, stable, and standardized; there is less risk that one's product will be pushed out or placed under embargo, as often happens in the East. Once one enters Western markets, argues Laurinaitis, one's success is permanent!

## Building success, one chair at a time: the Baldeka Furniture Production Company<sup>82</sup>

Baldeka is a medium-sized furniture production business located in the southern Lithuanian district of Alytus. Established in 2002, the company has gradually expanded ever since, while continually investing in the development of new technologies and new export markets. While its main activity is the production of office furniture, Baldeka is broadening its focus to include shop interiors and subcontracting. Today, the company boasts a highly-qualified team, from management through the construction and purchasing departments to production management, encompassing every employee. Its advanced production planning and order management systems allow Baldeka to produce both standard and customized products efficiently in a variety of batch sizes, with a delivery ratio of 99 percent. In response to customer demand and to adapt to EU quality requirements, the company has obtained ISO 9001 and ISO 14001 certification.



Aprc.lt photo

According to Baldeka commercial manager Arūnas Visockas, today the firm exports more than 90 percent of its production, mostly to Scandinavian and German markets. "Our company's products meet the design and quality requirements of these markets—which is why they are a priority for us. [Exporting to these countries] allows us to ensure maximum sales and efficiency while lowering costs," Visockas says.

The company first had the opportunity to sell to the Swedish and Danish markets after receiving EU structural support for export development in the 2007-2013 New Opportunities program.

Before receiving EU structural funding, Baldeka had never exported to either the Swedish or Danish markets; at the time, almost all its exports were to Norway. Accordingly, the company's strategic goal was to capture some market share in other export markets as soon as possible. To get to know the other Scandinavian markets better, Baldeka signed a cooperation agreement with the well-known firm Hexacon Baltija. The latter's deep familiarity with Scandinavian markets allowed Baldeka to learn more about consumers' needs and demands while identifying the advantages and disadvantages of its product range. Based on this

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<sup>82</sup> The article has been prepared with reference to the following information sources: Official website of "Baldeka", section About Us <[www.baldeka.lt/about-us/](http://www.baldeka.lt/about-us/)> and press release "Lietuviški baldai – Skandinavijos rinkoms" (Lithuanian furniture for Scandinavian market), March 8, 2011, <<http://www.baldeka.lt/uploads/Lietuviski%20baldai%20Skandinavijos%20rinkoms.pdf>> ; Article "Verslo plėtra šiandien – rezultatai rytoj" (Business development today – results tomorrow), Alytaus naujienos, No. 75 (12559), July 3, 2014 m, <<http://www.baldeka.lt/uploads/Baldeka.pdf>>.

research, Baldeka created an export development strategy laying out appropriate targets for sales channels, export volumes, and company productivity.

EU funding also enabled Baldeka to participate in the renowned Stockholm Furniture Fair in 2011, at which it received a great deal of visitor interest—providing a clear initial indication that its strategy was sound and its goals achievable.

After successfully implementing an export development project funded by the European Regional Development Fund, by 2013 the company's annual export income had reached approximately €16.8 million—nearly six times the 2008 total. Visockas explains that the increased income allowed the company to make additional investments in modern production technology, job creation, and improved working conditions.

In pursuing its own development, Valdeka has also contributed to the overall prosperity of the city of Alytus. Not only has it improved the town's overall economic performance, but it has directly created—and will continue to create—a significant number of jobs for local residents. For example, during 2012-13, its workforce grew from 118 to 170 employees.



Rekvizitai.vz.lt photo



## **Healthy is trendy: the transition experience of a Slovak SME**

This is the story of Lunter, a small company that started in a basement of a family house in the mountainous central Slovakian city of Banská Bystrica in 1980—one that has successfully managed to grow into a successful medium-sized enterprise producing a wide range of healthy food products from legumes. Its speciality, and core product, remains the production of tofu (a lactose-free cheese-like product made from soya beans).

In 1980, the mother of future company founder **Jan Lunter** became seriously ill. She needed a lactose-free, strictly vegetarian diet—something that in socialist-era Czechoslovakia was nearly impossible to obtain. Accordingly, the newly married Lunter—by profession, an electronics/data technician (what one would today call an “IT guy”)—discovered an interest in healthy eating. Soon, while researching Asian cuisine, he came across the recipe for tofu.

Tofu – sometimes also called bean curd—most likely derives from the Japanese language, in which it literally means “fermented bean.” A white, cheese-like food produced from soya, it is well-known throughout East and South-East Asia and is found in a range of forms and consistencies. Thanks to its vegetable origin, it is very low in fat (with zero cholesterol), but rich in protein and in much-needed minerals such as iron, calcium and magnesium.

Lunter first began producing tofu in his own basement, initially only for family consumption. After the fall of the Czechoslovak communist regime in 1989 and the re-legalization of private enterprise, Lunter founded a company named Alfa Bio together with a few friends and family members. At that time there was exactly \*zero\* kg of tofu being produced anywhere in Czechoslovakia; Alfa Bio accordingly became the first mass manufacturer in the country.

Initially, Lunter recalls, the firm produced 30 tons of tofu each month—compared to 160 tons of tofu as well as 100 tons of related other food products per month in 2016. In 1994, it moved production from that initial basement to its first factory on the outskirts of Banská Bystrica. Since then, the company has grown significantly. Crucial for its development was a combination of East Asian recipes and Western technology; the company focused on learning from Japanese, American, and Canadian examples.

Since Tofu was a new product on the Czechoslovak (and later Slovak) markets, the company had to persuade customers to try it. In Lunter’s view, Slovaks are generally very traditional and conservative—especially in terms of food; nevertheless, the company gradually managed to attract more buyers. To do so, it organized tastings in major Slovak and Czech cities, participated in food and agricultural fairs, and began selling products to restaurants and school dining facilities—first in its home city, then throughout Slovakia, and then to neighbouring countries such as the Czech Republic, Hungary, and Poland.

Reaching the EU market proved much more complicated because of higher food quality standards. However, this motivated the company to increase quality checks and acquire modern production equipment to raise its quality standards—enabling it successfully to export to the huge German market before Slovakia even joined the EU.

Lunter recalls the worries he and other Slovak entrepreneurs had before the country's accession (which took place—together with 9 other countries—in May 2004); some painted a dark picture in which no one in “old Europe” would buy products from unknown countries, while large Western European producers would dominate markets in “new Europe,” pushing local producers into bankruptcy. However, looking back after years of adaptation, Lunter is clearly satisfied: not only did his family enterprise not be driven out of business or swallowed up by a large international conglomerate, but his products are now sold successfully in markets ranging from Austria and France to Ireland and the UK.

The company grew from approximately 60 employees in 2004 to its current 230 employees, with an annual revenue of approximately €8 million as of fiscal year 2015--making it one of the biggest medium-sized companies<sup>83</sup> in central Slovakia and a very important employer in a generally high-unemployment region. The company also was awarded €193,000 in 2014-15 to invest in new technologies and production equipment as part of a European Fund for Regional Development program.

In the year 2011 the company underwent major – generational – change. Company founder Jan Lunter stepped down as director and passed the leadership baton to his three sons, who each assumed executive positions. With young blood came new spirit and dynamism. The new leadership team refined the company's management system while further investing in new technologies and in expanding production capacity. The company obtained ISO 9000 and ISO 22000 certification (attesting to its high standards both in quality and in food safety) while also acquiring an IFS Food certificate.

In 2015, the company was renamed **Lunter**, because its original name of Alfa Bio was causing confusion; in many European languages, bio means “organic,” and the company does not have an organic product certificate. However, this is only because it purchases soya beans exclusively from Slovak growers, none of which are currently certified as organic. However, it is taking steps to obtain organic certification, recognizing that organic products are very popular in the health food market and sell quite well especially in Western Europe.

In addition to producing a wide range of forms and types of tofu, Lunter also produces fresh vegetable-based spreads. It does not use preservatives or other chemicals; everything in its products is of natural origin. Moreover, it uses only products from sustainable agriculture, avoiding GMOs (genetically modified organisms); the company does possess the appropriate GMO Free certification.

Moreover, Lunter also operates two vegetarian restaurants—one in Banská Bystrica and one in the Czech Republic—along with a retail shop. It also has deals with the biggest chain stores in Slovakia and in neighbouring countries. Its modern, contemporary image can be readily seen on its website, [www.lunter.com](http://www.lunter.com), which among other things features a food blog and section presenting healthy recipes and tips.

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<sup>83</sup> According to the Slovak legislation, SME is a company up to 250 employees and/or up to 50 mln. EUR of annual revenue.



What has the company's recipe for success been in reaching the EU market, according to founder Jan Lunter and his sons? They are:

- Finding a niche product that can quickly gain a local following due to quality;
- Quality is of crucial importance in any sector, but in the food industry it is twice as important. Nothing is easier than losing the trust of customers due to quality problems. Lunter has accordingly invested a lot in quality management and food safety as well as in ecological and sustainable production, as well as in supporting local growers of soya beans.
- Marketing is also of great importance; given that the company was introducing what was a brand-new product at the time, it had to persuade conservative consumers to try it. Hence, it has invested a lot in promoting its products through presentations in chain stores, restaurants, food and agriculture fairs, etc.
- Expanding logically; for Lunter, the first step in penetrating the larger markets of Western Europe even prior to joining the EU was expanding to the Czech market, helped due to their strong personal contacts and geographic proximity.
- Using EU funds effectively; Lunter carefully invested EU funds in order to develop the company by investing in new technologies and equipment that in turn gave it an edge in terms of quality as well as quantity. The latter is important to underline; if the company had not been able to produce in sufficient quantities, it would never have been able to supply big chains in Slovakia and Czech Republic, to say nothing of elsewhere in the EU.
- Taking advantage of trends; Western Europeans are crazy about healthy eating and healthy food, a trend has spread to Central Europe too. This opens possibilities for those producing organic, ecological, and special healthy products. Lunter's products are exclusively of plant origin, free of cholesterol, and very low in fat.
- Staying motivated: in closing, founder Jan Lunter notes that the business has always been motivated by "love of the family"!



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