

COVER PAGE
INVESTMENT CLIMATE STATEMENT
2015

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Executive Summary

Georgia has made sweeping economic reforms since the “Rose Revolution,” moving from a near-failed state in 2003 to a relatively well-functioning market economy in 2015. Through dramatic police and institutional reforms, the government has mostly eradicated low-level corruption. According to a 2015 Georgia Messenger poll, only 2 percent of the population reported that they had to pay a bribe in the previous year to receive a government service or decision. The government eliminated 84 percent of licensing requirements in 2005, and Georgia ranks 15th in the World Bank’s 2014 Ease of Doing Business Index. Fiscal and monetary policy are focused on low deficits, low inflation, and a floating real exchange rate, although the latter has been affected by regional developments, including sanctions on Russia and other external factors such as a stronger dollar and weaker regional economies.

Parliamentary elections in October 2012 ushered in Georgia’s first democratic transfer of power when former Prime Minister Bidzina Ivanishvili’s Georgian Dream coalition won a parliamentary majority and formed a government. The October 2013 Presidential elections in Georgia were viewed by international observers as highly competitive with fair electoral processes and facilitated Georgia’s second peaceful transfer of power in a little over a year. Ivanishvili resigned as Prime Minister in November 2013, and was replaced by Irakli Garibashvili. Subsequent local self-government elections in 2014 further consolidated Georgia’s record of electoral democracy and were acknowledged by the international community as yet another step towards strengthening democratic processes in Georgia.

The current government has continued the previous government’s low-regulation, low-tax, free market policies, while increasing social spending, strengthening anti-trust policy, amending the labor code to strengthen protections for workers, and consulting the private sector in the development of sound economic policies.

In early 2014, the government published its medium-term economic strategy “Georgia 2020” that outlines Georgia’s economic policy priorities. It stresses the government’s commitment to business friendly policies such as low taxes, but also pledges to invest in human capital and to strive for inclusive growth across the country, not just in Tbilisi. The strategy also emphasizes Georgia’s geographic potential as a trade and logistics hub along the “New Silk Road” linking Asia and Europe via the Caucasus.

Companies in past years reported occasional problems arising from a lack of judicial independence, lack of intellectual property rights enforcement, lack of effective anti-trust policies, selective enforcement of economic laws, and difficulties resolving disputes over property rights. Georgia’s government has pledged to address these issues and, despite these remaining challenges, Georgia stands far ahead of its post-Soviet peers as a good place to do business.

In June 2014, Georgia signed an Association Agreement (AA) and Deep and Comprehensive Free Trade Area (DCFTA) with the European Union. Following President Obama’s January 2012 meeting with former Georgian President Mikheil Saakashvili, the U.S. and Georgia established a High-Level Dialogue on Trade and Investment to identify measures to increase bilateral trade and investment. The U.S. and Georgia also discuss economic cooperation within

the bilateral Strategic Partnership Commission's Economic Working Group. Both countries signed a Bilateral Investment Treaty in 1994, and Georgia is eligible to export many products duty-free to the U.S. under the Generalized System of Preferences (GSP) program, although the program is still awaiting re-authorization by Congress.

1. Openness To, and Restrictions Upon, Foreign Investment

Attitude toward Foreign Direct Investment

Georgia is open to foreign investment, and the Georgia National Investment Agency (www.investingeorgia.org) is implementing an aggressive marketing campaign to encourage more foreign investors to come to Georgia. Legislation establishes favorable conditions for foreign investment, but not preferential treatment for foreign investors. The Law on Promotion and Guarantee of Investment Activity protects foreign investors from subsequent legislation that alters the condition of their investments for a period of ten years.

Other Investment Policy Reviews

N/A

Laws/Regulations of Foreign Direct Investment

The U.S.-Georgia Bilateral Investment Treaty, in force since 1994, guarantees U.S. investors national treatment or most favored nation treatment, whichever is better, in the establishment, operation, and sale of their investments. Exceptions to national treatment may be made by Georgia for investments in maritime fisheries; air and maritime transport and related activities; ownership of broadcast, common carrier, or aeronautical radio stations; communications satellites; government-supported loans, guarantees, and insurance; and landing of submarine cables.

Legislation governing foreign investment includes the Constitution, the Civil Code, the Tax Code, and the Customs Code. Other relevant legislation includes the Law on Entrepreneurs, the Law on Promotion and Guarantee of Investment Activity, the Bankruptcy Law, the Law on Courts and General Jurisdiction, the Law on Limitation of Monopolistic Activity, the Accounting Law, and the Securities Market Law.

Georgia has concluded agreements for avoidance of double taxation with 46 countries. These countries are Armenia, Austria, Azerbaijan, Bahrain, Belgium, Bulgaria, China, Czech Republic, Croatia, Denmark, Estonia, Egypt, Finland, France, Germany, Greece, Hungary, India, Iran, Ireland, Italy, Israel, Kazakhstan, Kuwait, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Norway, Poland, Qatar, Romania, San Marino, Serbia, Singapore, Slovakia, Slovenia, Spain, Switzerland, Turkey, Turkmenistan, UAE, Ukraine, UK, and Uzbekistan. A double taxation avoidance treaty has been ratified, but has not yet entered into force with Portugal. Treaties have been negotiated but are awaiting signing or ratification with Cyprus, Lebanon, Sweden, Oman, Liechtenstein and Iceland. Treaties negotiations have started with Belarus, South Korea, Jordan, Montenegro, Saudi Arabia, Vietnam, Iraq, Argentina, Indonesia, Malaysia, Mexico, Albania, Colombia, Moldova, Mongolia, Morocco, New Zealand, Peru, the Philippines, Tajikistan,

Uruguay, Brazil, Cuba, Ecuador, Canada, and South Africa. Georgia and Russia signed a double taxation avoidance treaty in 1999, which the Georgian Parliament ratified in 2000. Although it has not been ratified by the Russian Duma, Russia regards it as an active agreement.

Ownership and privatization of property is governed by the following acts: the Civil Code, the Law on Ownership of Agricultural Land, the Law on Private Ownership of Non-Agricultural Land, the Law on Management of State-Owned Non-Agricultural Land, and the Law on Privatization of State Property. Property rights in extractive industries are governed by the Law on Concessions, the Law on Deposits, and the Law on Oil and Gas. Intellectual property rights are protected under the Civil Code and the Law on Patents and Trademarks. Financial sector legislation includes the Law on Commercial Banks, the Law on National Banks, and the Law on Insurance Activities.

Industrial Promotion

In 2013 the government created the Georgian Co-Investment Fund (GCF) to promote foreign and domestic investments. GCF is a reported \$6 billion (equal to approximately 38% of Georgia's GDP) private investment fund, with the mandate to provide investors with unique access through a private equity structure to opportunities in Georgia's fastest growing industries and sectors. The GCF, which was initiated by ex-PM Ivanishvili, includes the international and domestic investment communities as Limited Partnerships (LPs), including sovereign wealth funds, major global corporations and private family offices from countries including United Arab Emirates, China, Azerbaijan, Turkey, and Kazakhstan. Ivanishvili's personal contribution to the fund is reportedly \$1 billion. The remaining 85% is held by the Abu Dhabi Group, the Ras Al Khaimah Investment Authority (both United Arab Emirates), Milestone International Holding from China, Mr. Alexander Moshkevich from Kazakhstan, capital from the estate of the late Badri Patarkatsishvili, Batumi Industrial Holdings (a subsidiary of KazTransOil), Çalik Holdings from Turkey, and the State Oil Fund of Azerbaijan (not SOCAR but SOFAR).

GCF is registered offshore; it intends to attract additional capital from other sources. Approximately 80% of the fund will be invested in Georgia over the next five years. About 20% will be invested internationally. Priority areas are: energy; hospitality and real estate; agriculture and logistics; manufacturing and agriculture. Primary allocations have been announced from the outset:

- Energy – up to \$3 billion
- Hospitality and Real Estate – up to \$1 billion
- Agriculture and Logistics – up to \$0.5 billion
- Manufacturing – up to \$1.5 billion
- Other – up to \$0.5 billion

GCF's minimum internal rate of return (IRR) threshold for investment in projects is 17% and it intends to invest 25 – 75% of the total equity investment, with a minimum investment of \$5m. GCF is expected to retain its ownership interest in the Portfolio Companies for up to seven years, extendable to a maximum of nine. During that period the Fund will exit from its investments by selling its ownership interest through different ways:

- Sale to existing co-owners or partners of the project;
- Sale to external third parties;
- IPO on local and international stock exchanges.

In 2014, the government implemented the state program “Produce in Georgia.” The program aims to develop and support entrepreneurship, encourage creation of new enterprises and increase export potential and investment in the country. The program is coordinated by the Ministry of Economy and Sustainable Development of Georgia through its Entrepreneurship Development Agency, National Agency of State Property, and Technology and Innovation Agency of Georgia. The project provides the following support:

- Access to finance
- Access to real property
- Technical assistance

For more information please visit the website: <http://qartuli.ge>

Within the framework of this program the National Agency of State Property is in charge of the Physical Infrastructure Transfer Component, i.e., free-of-charge transfer of government-owned real property to an entrepreneur under certain investment obligations.

Limits on Foreign Control

Georgia does not formally screen foreign investment in the country, other than imposing a registration requirement and certain licensing requirements as outlined below. Foreign investors have participated in most major privatizations of state-owned property. Transparency of privatization has at times been an issue. No law or regulation authorizes private firms to adopt articles of incorporation or association that limit or prohibit foreign investment, participation or control. “Cross-shareholder” or “stable-shareholder” arrangements are not used by private firms in Georgia. Georgian legislation does not protect private firms from takeovers. There are no regulations authorizing private firms to restrict foreign partners' investment activity or limit foreign partners' ability to gain control over domestic enterprises.

Privatization Program

Georgia's government has privatized most large, formerly state-owned enterprises. Successful privatization projects include major deals in energy generation and distribution, telecommunications, water utilities, port facilities, and real estate assets. A list of entities available to be privatized can be found on the website www.privatization.ge. Information on investment conditions and opportunities can be obtained from the Georgia National Investment and Export Promotion Agency. Further information is also available at a website maintained by the American Chamber of Commerce in Georgia, www.amcham.ge.

Screening of FDI

In 2005, the government eliminated 84 percent of existing licensing requirements and created a “one stop shop” for licenses. By law, the government has 30 days to make a decision on

licenses, and if the licensing authority does not state a reasonable grounds for rejection within that time, the license or permit is deemed to be issued. The government only requires licenses for activities that affect public health, national security, and the financial sector. The government currently requires licenses in the following areas: weapons and explosives production, narcotics, poisonous and pharmaceutical substances, exploration and exploitation of renewable or non-renewable substances, exploitation of natural resource deposits, establishment of casinos and gambling houses and the organization of games and lotteries, banking, insurance, securities trading, wireless communication services, and the establishment of radio and television channels. The law requires the state to retain a controlling interest in air traffic control, shipping traffic control, railroad control systems, defense and weapons industries, and nuclear energy. Only the state may issue currency, banknotes, and certificates for goods made from precious metals, import narcotics for medical purposes, and produce control systems for the energy sector.

Competition Law

The agency in charge of reviewing transactions for competition-related concerns is the Competition and Procurement Agency.

Georgia has also signed a number of international agreements containing competition provisions including the Partnership and Cooperation Agreement between the EU and Georgia (Official Journal L 205, 4.8.1999, p. 3), which has been superseded by the EU-Georgia Association Agreement (AA) signed in June 2014 and ratified by the Georgian Parliament in July 2014.

The Deep and Comprehensive Free Trade Area (DCFTA) within the AA goes further than most FTAs, with elimination of non-tariff barriers and regulatory alignment, as well as binding rules on investments and services. The AA/DCFTA aims to integrate Georgia into the EU market, with priorities for cooperation in areas such as foreign and security policy as well as justice and freedom, leaving open the way for future progressive developments.

Investment Trends

Foreign Direct Investments (FDI) slowed down in 2013 following the change of government, but increased again in 2014 by 35%. Transportation and communication sectors attracted the largest share of investments, reflecting Georgia's advantageous location along the so-called "New Silk Road" energy and trade corridor linking Europe and Asia. Second and third positions were taken by construction and manufacturing sectors respectively. Other sectors of interest were agriculture and energy, which the government has identified as priority development areas. With the launch of a second gas pipeline by British Petroleum (BP), investments in the construction area are expected to increase in 2015 and 2016.

Table 1

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2014	50 of 175	transparency.org/cpi2014/results

Heritage Foundation's Economic Freedom index	2015	22 of 178	heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2015	15 out of 189	doingbusiness.org/rankings
Global Innovation Index	2014	74 of 143	globalinnovationindex.org/content.aspx?page=data-analysis
World Bank GNI per capita	2013	USD 7,040	data.worldbank.org/indicator/NY.GNP.PCAP.CD

Millennium Challenge Corporation Country Scorecard

Georgia's Millennium Challenge Corporation Country Scorecard is available online:
<http://redirect.state.sbu/?url=https://assets.mcc.gov/scorecards/score-fy15-english-georgia.pdf>

2. Conversion and Transfer Policies

Foreign Exchange

Georgian law guarantees the right of an investor to convert and repatriate income after payment of all required taxes. The investor is also entitled to convert and repatriate any compensation received for expropriated property. Georgia has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement, effective as of December 20, 1996, undertaking to refrain from imposing restrictions on payments and transfers for current international transactions and from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval. By accepting the obligations of Article VIII, Georgia indicates to the international community that it will pursue sound economic policies that will obviate the need to use restrictions on the making of payments and transfers for current international transactions. Parliament's 2011 adoption of the Act of Economic Freedom further reinforced this provision.

Under the U.S.-Georgia Bilateral Investment Treaty, the Georgian government guarantees that all transfers relating to a covered investment by a U.S. investor can be made freely and without delay into and out of Georgia.

Foreign investors have the right to hold foreign currency accounts with authorized local banks. The sole legal tender in Georgia is the lari (GEL), which is traded on the Tbilisi Interbank Currency Exchange and in the foreign exchange bureau market. There is no difficulty in obtaining foreign currency, nor are there significant delays in remitting funds overseas through normal channels. Several Georgian banks participate in the SWIFT and Western Union interbank communication networks. Businesses report that it takes a maximum of 3 days for money transferred abroad from Georgia to reach a beneficiary's account, unless otherwise provided by a customer's order. There are no known plans to change remittance policies. Travelers must declare at the border currency and securities in their possession valued at more than 30,000 lari (approximately \$13,300).

The official exchange rate of the lari is calculated based on transactions secured on the interbank foreign exchange market. Interbank trading with foreign currencies is organized in an international trading system (Bloomberg). Taking into consideration the secured transactions, the weighted average exchange rate of the lari against the USD is calculated and announced as the official exchange rate for the next day. The official exchange rate of the Georgian lari against other foreign currencies is determined according to the rate on international markets or the issuer country's domestic interbank currency market on the basis of cross-currency exchange rates. The cross-currency rates are acquired from the Reuters and Bloomberg information systems and the corresponding webpages of central banks. The information is automatically received, calculated, and disseminated from these systems.

Georgia has a floating exchange rate regime. The Central Bank (National Bank of Georgia) does not intend to fix the exchange rate regime and does not generally intervene in the foreign exchange market, except under certain circumstances when the fluctuation has a high magnitude. Due to external shocks that led to a sharp depreciation of the lari in Nov/Dec 2014, the Bank intervened four times in 2015 as of April 1.

Remittance Policies

Foreign investors have the right to hold foreign currency accounts with authorized local banks. The sole legal tender in Georgia is the lari (GEL), which is traded on the Tbilisi Interbank Currency Exchange and in the foreign exchange bureau market. There is no difficulty in obtaining foreign currency, nor are there significant delays in remitting funds overseas through normal channels. Several Georgian banks participate in the SWIFT and Western Union interbank communication networks. Businesses report that it takes a maximum of 3 days for money transferred abroad from Georgia to reach a beneficiary's account, unless otherwise provided by a customer's order. There are no known plans to change remittance policies. Travelers must declare at the border currency and securities in their possession valued at more than 30,000 lari (approximately \$13,300).

3. Expropriation and Compensation

The Georgian Constitution protects property ownership rights, including ownership, acquisition, disposal, and inheritance of property. Foreign citizens living in Georgia possess rights and obligations equal to those of Georgia citizens. The Constitution allows restriction or revocation of property rights only in cases of extreme public necessity, and then only as allowed by law.

The Law on Procedures for Forfeiture of Property for Public Needs establishes the rules for expropriation in Georgia. The law allows expropriation for certain enumerated public needs and provides a mechanism for valuation and payment of compensation, and for court review of the valuation at the option of any party. The Georgian Law on Investment allows expropriation of foreign investments only with appropriate compensation. Recent amendments to the Law on Procedures for Forfeiture of Property for Public Needs allow payment of compensation with property of equal value as well as money. Compensation includes all expenses associated with the valuation and delivery of expropriated property. Compensation must be paid without delay and must include both the value of the expropriated property as well as the loss suffered by the

foreign investor as a result of expropriation. The foreign investor has a right to seek review of an expropriation in a Georgian court. In 2007, Parliament passed a law generally prohibiting the government from contesting the privatization of real estate sold by the government before August 2007. The law is not applicable, however, to certain enumerated properties. While expropriation disputes in Georgia are not common, some reputable NGOs claim that the creation of tourist zones by the previous government involved illegal revocation of historic ownership rights in Svaneti, Anaklia, Gonio, and Black Sea-adjacent territories. There were also allegations that the previous government improperly used eminent domain to seize property in Tbilisi at unfairly low prices during the Tbilisi Railway Bypass Project, though in March 2014 the government announced a two-year moratorium on this railway construction project until 2016 to allow for further cost-benefit analysis.

The U.S.-Georgia Bilateral Investment Treaty permits expropriation of covered investments only for a public purpose, in a non-discriminatory manner, upon payment of prompt, adequate and effective compensation, and in accordance with due process of law and general principles of fair treatment.

4. Dispute Settlement

Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts

Georgia's legal system is based on civil law. The Ministry of Justice's Public Service Halls provide property registration.

Georgia does not have a commercial code. There are, however, a number of different laws and codes (Tax Code, Law on Entrepreneurs, Law on Insolvency) that constitute the legislative body for regulating the commercial activity in Georgia.

Bankruptcy

The World Bank 2013 Doing Business report upgraded Georgia's ranking in 'Resolving Insolvency' category, assessing that Georgia expedited the process of resolving insolvency by establishing or tightening time limits for all insolvency-related procedures, including auctions. However, the bankruptcy process remained clumsy, prompting the Ministry of Justice to request USAID assistance with an assessment of bankruptcy/insolvency legislation and respective practices within the framework of USAID's Governance for Growth (G4G) project. USAID recommendations may contribute to legislative and procedural changes in this area.

Investment Disputes

Georgian investment law allows disputes between a foreign investor and a government body to be resolved in Georgian courts or at the International Center for the Settlement of Investment Disputes (ICSID), unless a different method of dispute settlement is agreed upon between the parties. If the dispute is not considered at ICSID, the foreign investor has the right to submit the dispute to any international arbitration body set up by the United Nations Commission for International Trade Law (UNCITRAL) to resolve the dispute in accordance with the rules set forth by the treaty with the investor's host country. The right to use ICSID or UNCITRAL

arbitration is also guaranteed in the U.S.–Georgia Bilateral Investment Treaty.

Georgia is party to the International Convention on the Recognition and Enforcement of Foreign Arbitration Awards (New York Convention). As a result, the government in principle agrees to accept binding international arbitration of investment disputes between foreign investors and the state, although in at least one instance investors claimed the government attempted to avoid its obligation. The Ministry of Justice oversees the government's interests in arbitrations between the state and private investors.

It is recommended that contracts between private parties include a provision for international arbitration of disputes because of ongoing judicial reforms in the Georgian court system. Litigation can be protracted. Disputes over property rights have at times undermined confidence in the impartiality of the Georgian judicial system and rule of law, and by extension, Georgia's investment climate. The government identified judicial reform as one of its top priorities and Parliament has passed reforms aimed at strengthening judicial independence. In May 2013, parliament reorganized the High Council of Justice, the institution charged with overseeing the administration of the judiciary, to make it more independent and free from political considerations.

Over the past 10 years, there have been 5 investment disputes involving U.S. citizens, and all of them have been resolved through court ruling or agreement between the state and an investor.

International Arbitration

Georgia has been a signatory of the International Centre for Settlement of Investment Disputes (ICSID) Convention since 1992, a member of the New York Convention since 1994, and a member of the WTO since 2000.

In 2009, Georgia's Parliament passed the On Arbitration law, which came into force on January 1, 2010 (Official Journal of the Republic of Georgia, 1280-Is). UNCITRAL included Georgia in its list of countries which enacted legislation based on the Model Law.

Georgian has signed bilateral investments treaties (BIT) with over 30 countries including the U.S. Georgia is party to the International Convention on the Recognition and Enforcement of Foreign Arbitration Awards (New York Convention). As a result, the government in principle agrees to accept binding international arbitration of investment disputes between foreign investors and the state, although in at least one instance investors claimed the government attempted to avoid its obligation. The Ministry of Justice oversees the government's interests in arbitrations between the state and private investors.

ICSID Convention and New York Convention

Georgia has been a signatory of the International Centre for Settlement of Investment Disputes (ICSID) Convention since 1992, a member of the New York Convention since 1994, and a member of the WTO since 2000. As a result, the government in principle agrees to accept binding international arbitration of investment disputes between foreign investors and the state, although in at least one instance investors claimed the government attempted to evade its

obligation. The Ministry of Justice oversees the government's interests in arbitrations between the state and private investors.

Duration of Dispute Resolution

While the law limits the duration of investment/commercial disputes to 15-18 months, in some cases, primarily due to a shortage of judges with commercial law education, proceedings have lasted up to 3 years.

5. Performance Requirements and Investment Incentives

WTO/TRIMS

Georgia has been a member of the WTO since 2000 and consistently meets the Agreement on Trade Related Investment Measures (TRIMs) requirements and obligations.

Investment Incentives

Georgia is attractive to foreign investment because of low labor and electricity costs. It is also increasingly being recognized as a regional transportation hub that allows access to the New Silk Road trade corridor linking Asia and Europe.

Research and Development

Georgia's Innovation and Technology Agency (GITA) has developed research and innovation centers across Georgia and provides training in a variety of technical fields. More information is available at: <http://gita.gov.ge/eng.html>

Performance Requirements

Performance requirements are not a condition of establishing, maintaining, or expanding an investment, but have been imposed on a case-by-case basis in some privatizations such as commitments to maintain employment levels or to make additional investments within a specified period of time. The scope and time limit on licenses to extract natural resources have been a topic of dispute, and the Ministry of Energy has rescinded several mining licenses then re-auctioned them. In other instances, there have been disputes between the government and concessioners regarding production-sharing agreements. While many privatizations have proceeded smoothly and regularly, there are allegations that the previous government used non-fulfillment of performance requirements to justify rescinding privatizations and re-selling enterprises, usually for higher prices, sometimes to the benefit of other interested parties. Most types of performance requirements are prohibited by the U.S.-Georgia Bilateral Investment Treaty.

Data Storage

The government does not follow "forced localization" policy so foreign investors have no obligation to use domestic content in goods or technology.

In addition, there are no requirements for foreign IT providers to turn over source codes and/or provide access to surveillance.

The Data Exchange Agency requires any company managing critical data to implement a number of security protocols to protect that information.

6. Right to Private Ownership and Establishment

Foreign and domestic private entities may freely establish, acquire, and dispose of interests in companies and business enterprises, and engage in all forms of remunerative activity. Some specific laws regulate business activity in the banking, agribusiness, energy, transport, and tourism sectors. To the extent that public enterprises compete with private enterprises, they do so on the basis of equality.

Foreign individuals and companies may buy non-agricultural land in Georgia. However, from June 2013 to December 2014, Parliament placed a temporary legal ban restricting non-Georgian citizens (including Georgian entities with foreign minority shareholders) from purchasing or inheriting agricultural land.

Parliament is considering a new bill, expected to pass in 2015, which describes the conditions for foreign agricultural land ownership. According to the bill, foreigners may own agricultural land if they: inherit the land; co-own the land through marriage to a Georgian citizen or by being a member of a Georgian citizen household; or hold a residence permit. If foreign agricultural land owners can no longer meet the requirements for agricultural land ownership, the alien must sell the agricultural land within six months or the government could seize the land. Also, agricultural plots owned by foreigners must be between 5 and 20 hectares. For entities founded by foreigners, the land plot must be between 20 and 200 hectares. Restrictions on land plot size do not apply to international financial institutions, commercial banks and microfinance organizations. Lastly, the bill stipulates that all agricultural land sales to foreigners require a notarized contract. The notary must check if the alien or the entity registered by an alien under Georgian jurisdiction meets all the legal requirements for agricultural land ownership.

The United States Government (and the majority of the international community) does not recognize the jurisdiction of the de facto authorities in either the Abkhazia or South Ossetia regions, and warns American citizens against undertaking business ventures in those Russian-occupied regions. Furthermore, due to the volatility of the political situation, reported high levels of crime, and the limited ability of embassy personnel to travel to the Abkhazia or South Ossetia regions to assist American citizens in distress, the U.S. embassy also strongly discourages travel to these areas for any purpose. Land for sale in those regions may rightfully belong to internally displaced persons forced to leave the breakaway regions in the early 1990s and may have been placed improperly on the market. In such cases, the government of Georgia considers the sale of property in Abkhazia and South Ossetia illegal and the property could be reclaimed by original owners at a future date.

7. Protection of Property Rights

Real Property

Secured interests in both real and personal property are recognized and recorded. However, deficiencies in the operation of the court system can hamper investors from realizing their rights in property offered as security. In the past, foreign investors' interests have sometimes been harmed by biased court proceedings and by legislation and decrees that clearly favored a Georgian entity or partner involved in the enterprise. It is recommended that contracts between private parties include a provision for international arbitration of disputes. Additionally, some observers believe economic regulations were inconsistently enforced under the previous government based on the company's relationship with the government.

The government has developed an electronic registry system for recording land titles and is cooperating with international donors to improve land cadaster in order to promote development of Georgia's land market.

Intellectual Property Rights

Georgia acceded to the World Trade Organization (WTO) and the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement in 2000. The Ministry of Economy and Sustainable Development is responsible for WTO compliance. In 2004, the Georgian Parliament ratified the Rome Convention for Protection of the Rights of Performers, Producers of Phonograms and Broadcasting Organization, and the Lisbon Agreement on Denomination of Origin. In 2005, Georgia joined the World Intellectual Property Organization's (WIPO's) International Convention for the Protection of New Varieties of Plants. Georgia is a party to the Bern Convention, a member of two WIPO digital treaties – the Copyright Treaty and the Performance and Phonograms Treaty-- The Hague Agreement, and the Budapest Treaty Concerning the International Recognition of the Deposit of Microorganisms for the Purpose of Patent Procedures.

For several years running, Georgia is one of the easiest places in the world for registering property according to its high ranking in the World Bank's Doing Business Report. The Public Registry provides purchase title registration in four business days for GEL 50 (\$25), and offers expedited registration in 1 business day (1-2 calendar days) for 150 GEL (\$75). Electronic extracts are available from the Georgian National Agency of Public Registry (NAPR) website for 10 to 40 GEL (\$5-20) depending on the urgency.

Six laws regulate intellectual property rights (IPR) in Georgia: the Law on Patents, Law on Trademarks, Law on Copyrights and Neighboring Rights, Law on Appellation of Origin and Geographic Indication of Goods, Law on Topographies of Integrated Circuits, and Law on IP-Related Border Measures. Georgian law now provides retroactive protection for works of literature, art, science, and sound recordings for 50 years.

Georgia has aligned its intellectual property legislation with international standards, but enforcement remains weak as judges and lawyers lack sufficient knowledge of IPR laws and IPR issues. Pirated video and audio recordings, electronic games, and computer software are freely sold in Georgia. Internet service providers host websites loaded with unlicensed content free for users to download or stream. In January 2014, the Georgian National Intellectual Property

Center “Sakpatenti” launched an electronic platform for streamlining the registration, processing, and viewing of IPR objects. In general, while compliance with IPR laws across the public and private sectors is inconsistent, the number of patent filings during the last year showed a dramatic increase and Sakpatenti remains an active and engaged partner of the U.S. on trainings to educate the public on IPR issues.

In January 2015, the Government of Georgia and Microsoft signed an agreement for the sale of Microsoft’s Genuine OS Licenses and Enterprise Licensing for all Georgian government workstations. Georgia will be the first post-Soviet country to have legal, licensed Microsoft programs.

Georgia is not listed in USTR’s Special 301 report.

Resources for Rights Holders

- Charles F. Seten
- Economic Officer
- (995) 32 227 7629
- SetenCF@state.gov

American Chamber of Commerce in Georgia
36a Lado Asatiani St., 0105, Tbilisi, Georgia
Tel: (995) 32 222 6907
E-mail: amcham@amcham.ge

8. Transparency of the Regulatory System

The Georgian government has committed to greater transparency and simplicity of regulation. The government publishes laws and regulations in Georgian in the official gazette, the Legislative Messenger. Since 2004, the government has reduced the number of taxes from 22 to 6. The tax on corporate profits is 15 percent. The Value Added Tax is 18 percent. The tax on personal income is 20 percent. The dividend income tax rate is 5 percent. 2008 legislation abolished social taxes and set dividend and capital gains tax rates at zero with respect to publicly traded equities (defined as having a free float in excess of 25 percent). There are excise taxes on cigarettes, alcohol, and fuel. In 2010, the government levied an excise tax on mobile telecommunication. Most goods, except for some agricultural products, have no import tariff. For those with tariffs, the rates are 5 or 12 percent, except in cases where FTAs exist.

In 2010, the Georgian Parliament passed a new Tax Code aimed at increasing transparency in both policy and implementation. The Revenue Service began implementing the Code in early 2011. The Code introduced several new concepts into Georgian tax law including giving the Ministry of Finance the authority to issue legally binding advance rulings to companies on tax questions. Additionally, the Revenue Service will now consider the intent of a company when a tax mistake is made, and if the mistake is deemed to have been innocent, fines can be reduced or waived. The new Tax Code also includes tax benefits for small and micro-businesses. In 2011, the Revenue Service took further steps to ease relations with businesses, including introducing a program of “alternative audits,” to allow companies to choose to outsource their tax inspection to

private auditing companies, allowing declaration of technical losses, and regulating the process of writing down fuel expenses. The government plans to phase out the “alternative audit” program over the next few years, as the Revenue Service develops sufficient capacity to conduct all audits itself.

The new Tax Code established the Office of the Business Ombudsman as an independent body accountable to the Prime Minister. It is authorized to investigate complaints filed by taxpayers with his office. The website www.businessombudsman.ge was launched in November 2011 to publish information on business registration, amendments to tax legislation, liabilities on cash counters’ use and rules of litigation, etc.

The Georgian National Investment and Export Promotion Agency has established Business Information Centers in Tbilisi and other Georgian cities. These centers are intended to provide domestic and foreign businesses with a standard package of information about doing business in Georgia. They also provide specific information tailored to the needs of individual businesses. Business Information Centers also facilitate a public-private dialogue to improve communication between regulators and businesses.

International accounting standards became binding for joint stock companies in Georgia as of January 1, 2000. For other institutions, such as banks, insurance companies and companies operating in the field of insurance, as well as limited liability companies, limited partnerships, joint liability companies, and cooperatives, the standards became binding on January 1, 2001. Private companies (excluding sole entrepreneurs, small businesses and non-commercial legal entities) are required to perform accounting and financial reporting in accordance with international accounting standards. Sole entrepreneurs, small businesses, and non-commercial legal entities perform accounting and financial reporting according to simplified interim standards approved by the Parliamentary Accounting Commission. Despite the legal requirement, the conversion to international accounting standards is going slowly, in part because in the past, many businesses operated in the shadow economy or maintained two sets of books. Qualified accounting personnel are also in short supply. The previous government abolished anti-monopoly service in the country, which resulted in dominant positions for certain companies, especially in pharmaceutical, petroleum, and other sectors.

On March 21, 2014 the Parliament of Georgia adopted the bill “Amendments to the Law of Georgia on Free Trade and Competition.” This law was developed as part of the anti-monopoly reform and aims to promote a free, competitive marketplace. The law provided for the establishment of an independent structure named the Competition Agency to exercise effective state supervision over a free, fair, and competitive market environment.

Georgia upgraded from 72 to 69 in a new Global Competitiveness report 2014-2015, which measures competitiveness landscapes in 144 economies.

9. Efficient Capital Markets and Portfolio Investment

Banking is one of the fastest growing sectors in the Georgian economy. As of January 2015, 19 commercial banks were registered in Georgia.

The banking system currently consists of domestically based small- and medium-sized banks, a handful of large banking institutions based in Tbilisi with subsidiaries (e.g., Societe Generale, Vneshtorgbank, Privat Bank), and two foreign banks with branches (Turkish Bank Ziraat and the International Bank of Azerbaijan). According to the National Bank of Georgia, as of January 2015 the total assets of the country's 19 commercial banks (16 of which have foreign capital) were around \$12 billion. Credit from commercial banks is available to foreign investors as well as domestic clients, although interest rates are high. Banks continue offering business, consumer, and mortgage loans.

The International Finance Corporation (IFC), European Bank for Reconstruction and Development (EBRD), U.S. Overseas Private Investment Corporation (OPIC), Millennium Challenge Corporation (MCC), Asian Development Bank (ABD), and other international development agencies have a variety of lending programs that make credit available to large and small businesses in Georgia. In the beginning of 2015 there were up to 70 microfinance organizations operating in Georgia, with total assets of around \$650 million, making small credit available to businesses.

The limited number of foreign banks operating in Georgia reflects, in part, the small size of Georgia's financial market. Foreign investment in the sector, however, is significant, and is present in 16 out of 19 banks. More specifically, Russian, Kazakh, U.S., German, French, and UAE capital was invested in Georgian banks in 2013. A private Chinese company, Xinjiang Hualing Industry and Trade Group, purchased a 90 percent equity stake of JSC BasisBank from the European Bank for Reconstruction and Development and other Georgian shareholders. With this move, Basis Bank became the first Chinese-owned bank in Georgia.

For information about the securities market and the Georgian stock exchange, please see the next section: "Money and Banking System, Hostile Takeovers."

Money and Banking System, Hostile Takeovers

Georgian banks remained solvent during the global credit crisis largely due to the central bank-mandated 13 percent capital reserve requirement and conservative lending practices. The National Bank of Georgia (central bank) relaxed the capital reserve requirement to five percent in the aftermath of the 2008 war and in response to the global credit crisis to try to inject liquidity into the market and spur new lending. In order to promote development of the interbank money market and restore the relationship between interest rates, the NBG increased the reserve requirements for lari-denominated funds to 10 percent starting from April 2010. Legislation entering into force in January-February 2011 gradually increased reserve requirements for foreign liabilities from 5 to 15 percent.

The government and Central Bank (National Bank of Georgia) respect IMF Article VIII and impose no restrictions on payment and transfers in current international transactions.

In June 2014, Georgia's TBC Bank debuted on the London Stock Exchange, the first Georgian company to go public since the Bank of Georgia did so in 2006. TBC priced so-called global depository receipts at \$13 apiece, valuing the company at \$640 million.

<http://blogs.wsj.com/frontiers/2014/06/06/georgian-banks-london-ipo-highlights-investor->

confidence/

The National Bank of Georgia regulates the securities market. All market participants submit their reports in line with international standards, bringing market participants closer to international investors and partners. All listed companies must make public filings, which are then uploaded on the National Bank's website, allowing users to evaluate a company's financial standing. The Georgian securities market includes the following licensed participants: a Stock Exchange, a Central Securities Depository, nine brokerage companies, and six registrars.

The Georgian Stock Exchange (GSE) is the only organized securities market in Georgia. Designed and established with the help of USAID and operating under a legal framework drafted with the assistance of American experts, the GSE complies with global best practices in securities trading and offers an efficient investment facility to both local and foreign investors. The GSE's automated trading system can accommodate thousands of securities that can be traded by brokers from workstations on the GSE floor or remotely from their offices. As of March 1, 2015, 128 companies were traded on the GSE, with total market capitalization of \$945 million. In 2013, a total of 85 million securities were traded at a value of GEL 47.4 million (approx. \$27.1 million). The value of transactions made at the stock exchange trading sessions amounted to GEL 0.88 million (approximately \$0.5 million). No law or regulation authorizes private firms to adopt articles of incorporation or association that limit or prohibit foreign investment, participation or control. "Cross-shareholder" or "stable-shareholder" arrangements are not used by private firms in Georgia. Georgian legislation does not protect private firms from takeovers. There are no regulations authorizing private firms to restrict foreign partners' investment activity or limit foreign partners' ability to gain control over domestic enterprises.

10. Competition from State-Owned Enterprises

After the fall of the Soviet Union, the new Georgian government privatized most state-owned companies. At the end of 2013, the major state-owned companies were Georgian Railways, Georgian Oil and Gas Corporation (GOGC), Georgian State Electrosystem (GSE), Electricity System Commercial Operator (ESCO), and Enguri Hydropower plant. Of these companies, only Georgian Railways is a major market player. The energy-related companies largely implement the government's energy policies and help manage the electricity market. There are also a number of Legal Entities of Public Law (LEPLs) -- independent bodies that carry out government functions, such as the Public Service Halls.

In May 2012, the GOGC successfully priced its first-ever 144A/RegS corporate bond of \$250 million. In June 2012, Georgian Railways floated Eurobonds of \$500 million with a 7.750 percent coupon, maturing in 2022. As part of its Eurobond issuance, this organization conducts regular financial reporting.

During 2012, 100 percent of the assets of Georgian Railways, Georgian Oil and Gas Corporation (GOGC), Georgian State Electrosystem, and Electricity System Commercial Operator LLC, were placed into the Partnership Fund, a state-run fund to facilitate foreign investment into new projects. In addition, the fund controls 25 percent of shares in TELASI Electricity Distribution Company, but has stated its intention to sell those shares. In the coming period, the government plans to convert the Partnership Fund into the Sovereign Wealth Fund (SWF). The latter will be

composed of two components reflecting their separate functions: SWF for asset management and SWF for investment. This move follows the recommendations of international financial institutions to mitigate risk with the strategic assets owned by the Fund, particularly those that issue bonds. Under the new organization, they will be completely independent arms and the SWF will have more flexibility over investments and an increased flexibility to shape its investment portfolio. It also plans to hire the World Bank's International Finance Corporation as a consultant for the SWF.

Despite state ownership, state-owned enterprises (SOEs) act under the general terms of the Entrepreneurial Law. Georgian Railway and GOGC have supervisory boards, while GSE and ESCO do not. Major procedures and policies are described in the charters of respective SOEs. Georgia particularly encourages its SOEs to adhere to OECD's Guidelines on Corporate Governance for SOEs as they are sufficient to ensure a level playing field between SOEs and private sector enterprises.

The senior management of SOEs report to Supervisory Boards where such exist (GRW, GOGC); in other cases they report to the line ministries. Governmental officials can be on the supervisory board of the SOEs and the Partnership Fund has five key governmental officials on its board. SOEs explicitly are not obligated to consult with government officials before making business decisions, but informal consultations take place depending on the scale and importance of the issue.

To ensure the transparency and accountability of state business decisions and operations, regular outside audits (in case of large SOE, that by a "big four" auditing company) are conducted and annual reports are published. SOEs with more than 50 percent state ownership are obliged to follow the State Procurement Law and make procurements via public tenders. The Partnership Fund, GRW and GOGC are subject to valuation by international rating agencies. There is no legal requirement for SOEs and sovereign wealth funds to publish an annual report or to submit their books for independent audit, but this is still practiced. In addition, GRW and GOGC are Eurobonds issuer companies and therefore required to publish reports.

SOEs are subject to the same domestic accounting standards and rules and these standards are comparable to international financial reporting standards. There are no SOEs that exercise delegated governmental powers.

OECD Guidelines on Corporate Governance of SOEs

Georgia particularly encourages its SOEs to adhere to OECD's Guidelines on Corporate Governance for SOEs as they are sufficient to ensure a level playing field between SOEs and private sector enterprises.

Sovereign Wealth Funds

Georgia does not have a Sovereign Wealth Fund (SWF). The government plans to convert the Partnership Fund into a Sovereign Wealth Fund in 2015, but the exact timing is still uncertain.

See section 10 for more information on Sovereign Wealth Funds.

11. Corporate Social Responsibility

While the concept of Corporate Social Responsibility (CSR) is not highly developed in Georgia, it is growing. Most large companies engage in charity projects and public outreach as part of their marketing strategy. The American Chamber of Commerce in Georgia has a Corporate Social Responsibility committee that works with member companies on CSR issues. The Global Compact, a worldwide grouping of UN agencies, private businesses, and civil society groups promoting responsible corporate citizenship, is active in Georgia. The Eurasia Partnership Foundation has sponsored CSR classes at five Georgian universities and Global Compact Georgia is currently focused on educating Georgian companies on the benefits of such policies. Civil society organizations working on labor and environmental issues have become increasingly strong and vocal over the past few years, pushing to ensure that companies conduct business in a socially responsible manner.

OECD Guidelines for Multinational Enterprises

According to the OECD 2014 Responsible Business Conduct report (RBC), no comprehensive government RBC policy exists yet in Georgia. Despite the ongoing economic and social reforms that aim to reduce the gap with international standards in fields such as human rights, labor relations, and the environment, actual RBC-specific initiatives are generally undertaken by private actors. There are no state bodies which are responsible for developing a comprehensive RBC policy or that are responsible for implementation and promotion of RBC. Enterprises, therefore, do not have a clear understanding of government expectations for RBC.

12. Political Violence

Georgia suffered considerable instability in the immediate post-Soviet period. After independence in 1991, civil war and separatist conflicts flared up in the areas of Abkhazia and South Ossetia. The status of each region remains contested, and the central government does not have effective control over these areas. The United States supports the territorial integrity of Georgia within its internationally-recognized borders. In August 2008, tensions in the region of South Ossetia culminated in a brief war between Georgia and Russia. Russia invaded and occupied areas of undisputed Georgian territory, destroyed portions of vital infrastructure, blocked the main east-west highway, and blockaded the Georgian port of Poti. Nearly all damaged infrastructure has been repaired and commerce has returned to normal. While the separatist regions of South Ossetia and Abkhazia – where Russian troops and border guards have established a long-term presence -- have declared independence, only Russia, Venezuela, Nicaragua, and the island nation of Nauru recognize them. Tensions still exist and there are occasional reports of limited violence both inside the breakaway regions and near the administrative boundary lines, but other parts of Georgia, including Tbilisi, are not directly affected.

Violent street protests in Georgia are rare, though some smaller political skirmishes have occurred. In recent years, police have fulfilled their duty to maintain order even in cases of unannounced protests.

13. Corruption

Under the leadership of President Saakashvili, Georgia took dramatic action to reduce petty corruption. Saakashvili's anti-corruption efforts resulted in the arrests of former officials, the radical downsizing of state bureaucracies, and effective crackdowns on smuggling. Consequently, state revenue collection has increased by about 250% since 2004. The government completely disbanded the notoriously corrupt traffic police in mid-2004 and citizens' service agencies have been reformed into Public Service Halls where citizens can efficiently obtain numerous government services in a single building. They are considered a showcase of Georgia's successful reforms.

Following transfers of power in 2012 and 2013, then Prime Minister Bidzina Ivanishvili and his successor Prime Minister Irakli Garibashvili both pledged to strengthen Georgia's anti-corruption stance. Alleging elite corruption under the previous government, the new government launched a number of investigations and prosecutions against former officials, although the parliamentary opposition has alleged these prosecutions are politically motivated. As of May 2014, many of these cases are ongoing.

Articles 332-342 of the Criminal Code criminalize bribery. Senior public officials must file financial disclosure forms which are posted online and Georgian legislation provides for civil forfeiture of undocumented assets of public officials who are charged with corruption offenses. Penalties for accepting a bribe start at six years in prison and can extend up to 15 years depending on the case's circumstances. Penalties for giving a bribe can include a fine, a minimum prison sentence of two years, or both. In aggravated circumstances, when a bribe is given to commit an illegal act, the penalty can be from four to seven years. Abuse of authority and exceeding authority by public servants are criminal acts under Articles 332 and 333 of the criminal code and carry a maximum penalty of 8 years imprisonment. The definition of a public official includes foreign public officials and employees of international organizations and courts. White collar crimes such as bribery fall under the investigative jurisdiction of the Prosecutor's Office.

UN Anticorruption Convention, OECD Convention on Combatting Bribery

Georgia is not a signatory to the Organization for Economic Cooperation and Development (OECD) Convention on Combating Bribery of Foreign Public Officials in International Business Transactions. Georgia has, however, ratified the UN Convention against Corruption. Georgia cooperates with the Group of States Against Corruption (GRECO) and the OECD's Anti-Corruption Network for Transition Economies (ACN).

Following its assessment of Georgia in October 2009, the OECD released a report in March 2010 that concluded Georgia had significantly reduced corruption levels over the past four years. In September 2013, the OECD conducted its third monitoring of Georgia and its report noted that further progress had been made since the 2010 monitoring round. The 2013 report credited Georgia's efforts from 2010-2013 in implementing anti-corruption reforms, specifically for publishing an anti-corruption strategy and action plan, ensuring the autonomy of criminal prosecutions, excluding the Minister of Justice from the prosecutorial hierarchy, and establishing

a legislative framework for the system of internal audits in the public sector. However, the report suggested that reforms should continue in order to strengthen the Anti-Corruption Interagency Council and improve judicial integrity. The full report is available at <http://www.oecd.org/corruption/acn/GEORGIAThirdRoundMonitoringReportENG.pdf>

Since 2003, Georgia has significantly improved its ranking in Transparency International's Corruption Perceptions Index (CPI) report. In 2014, Georgia's CPI score was 52 and it ranked 50th out of 175 countries surveyed in the Corruption Perception Index.

Resources to Report Corruption

Government agency responsible for combating corruption:

- Mr. Zurab Sanikidze
- Head of Analytical Department
- Ministry of Justice of Georgia
- 24 A Gorgasali Street, Tbilisi , Georgia
- zsanikidze@justice.gov.ge

Non-governmental organization:

- Ms. Eka Gigauri
- Director
- Transparency International
- 26, Rustaveli Ave, 0108, Tbilisi, Georgia
- +995-32-292-14-03
- ekag@transparency.ge

14. Bilateral Investment Agreements

Bilateral Taxation Treaties

Georgia has bilateral agreements on investment promotion and mutual protection with 32 countries, including the United States, Armenia, Austria, Azerbaijan, Belgium, Bulgaria, China, Czech Republic, Estonia, Egypt, Finland, France, Germany, Greece, Iran, Israel, Italy, Kazakhstan, Kyrgyzstan, Kuwait, Latvia, Lithuania, Luxemburg, Moldova, Netherlands, Romania, Sweden, Turkey, Turkmenistan, Uzbekistan, the United Kingdom, and Ukraine. Negotiations are underway with the governments of 24 countries: Bangladesh, Belarus, Bosnia and Herzegovina, Croatia, Cyprus, Denmark, Iceland, India, Indonesia, Jordan, Korea, Lebanon, Malta, Norway, Philippines, Portugal, Saudi Arabia, Slovakia, Slovenia, Spain, Switzerland, Syria, Tajikistan, and Qatar. In 2007, Georgia signed a Trade and Investment Framework Agreement (TIFA) with the United States.

On June 27, 2014, Georgia signed an Association Agreement (AA) and Deep and Comprehensive Free Trade Agreement (DCFTA) with the European Union. A free trade agreement is in force with the Commonwealth of Independent States and others exist bilaterally with Ukraine, Russia (though trade is restricted by the Russian Government), Kazakhstan, Azerbaijan, Armenia, Moldova, Turkmenistan, and Turkey. An agreement is signed, but not yet ratified, with Uzbekistan. Georgia has ongoing free trade agreement consultations with Belarus,

Kyrgyzstan, the Cooperation Council of Gulf Arab States, and Tajikistan.

Following President Obama's January 2012 meeting with former Georgian President Mikheil Saakashvili, the U.S. and Georgia established a High-Level Dialogue on Trade and Investment, a bilateral dialogue aimed toward identifying measures to increase bilateral trade and investment. The U.S. and Georgia signed a Bilateral Investment Treaty in 1994, and Georgia will be able to resume export of many products duty-free to the U.S. under the Generalized System of Preferences (GSP) program when that program is re-authorized by Congress.

The U.S. and Georgia are beneficiaries of the U.S.-Georgia Bilateral Taxation Treaty as Georgia is one of the former Soviet Republics which is covered under the U.S. treaty with the Commonwealth of Independent States (CIS), formerly known as the Union of Soviet Socialist Republics (USSR). Double taxation issues are covered under the "Convention with the Union of Soviet Socialist Republics on Matters of Taxation" of 1973 (<http://www.irs.gov/pub/irs-trty/ussr.pdf>). The Georgian government has expressed interest in renewing the agreement.

Georgia has concluded agreements for avoidance of double taxation with 46 countries. These countries are Armenia, Austria, Azerbaijan, Bahrain, Belgium, Bulgaria, China, Czech Republic, Croatia, Denmark, Estonia, Egypt, Finland, France, Germany, Greece, Hungary, India, Iran, Ireland, Italy, Israel, Kazakhstan, Kuwait, Latvia, Lithuania, Luxemburg, Malta, Netherlands, Norway, Poland, Qatar, Romania, San Marino, Serbia, Singapore, Slovakia, Slovenia, Spain, Switzerland, Turkey, Turkmenistan, UAE, Ukraine, UK, and Uzbekistan. A double taxation avoidance treaty has been ratified, but has not yet entered into force with Portugal. Treaties have been negotiated but are awaiting signing or ratification with Cyprus, Lebanon, Sweden, Oman, Liechtenstein, and Iceland. Treaty negotiations have started with Belarus, South Korea, Jordan, Montenegro, Saudi Arabia, Vietnam, Iraq, Argentina, Indonesia, Malaysia, Mexico, Albania, Colombia, Moldova, Mongolia, Morocco, New Zealand, Peru, the Philippines, Tajikistan, Uruguay, Brazil, Cuba, Ecuador, Canada, and South Africa. Georgia and Russia signed a double taxation avoidance treaty in 1999, which the Georgian Parliament ratified in 2000. Although it has not been ratified by the Russian Duma, Russia regards it as an active agreement.

15. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) is the U.S. Government's development finance institution. OPIC finance and political risk insurance programs assist U.S. companies to invest overseas. Since 1993, OPIC has committed over \$500 million in financing and political risk insurance for more than 50 projects in Georgia. OPIC investment in Georgia has focused on the following sectors: credit for small and medium-sized enterprises, and projects in the franchising, education, manufacturing, tourism, agriculture and health care sectors. Some recent examples are OPIC's \$18 million loan commitment to finance a Marriott branded budget hotel in Tbilisi, a \$10 million loan commitment to finance a Radisson branded hotel in Kakheti, and an \$18 million loan commitment to finance a hospital in Tbilisi.

16. Labor

Georgia offers skilled and unskilled labor at attractive costs compared not only to Western European and American standards, but also to Eastern European standards. While some of the

best-qualified professionals and technicians emigrated from Georgia (mostly to Russia, the United States, and Europe) after the Soviet Union's collapse, many have remained in the country or returned from abroad and are attempting to find a new role in Georgia's market economy. However, skilled labor availability in the engineering fields remains underdeveloped. Unemployment remains high with official indicators at 14.6 percent in 2013. However, unofficial unemployment is considerably higher, especially in rural regions where subsistence farmers are considered employed for statistical purposes and job creation has remained a particular challenge. Recently, some investment agreements between the Georgian government and private parties have included mandates for contracting of local labor for positions below the management or executive level.

Georgia's labor market was one of the world's freest as the Labor Code of 2006 set only minimal requirements and liberalized labor regulations. The Code defined the minimum age for employment (16), work hours (41 per week), annual leave (24 calendar days), and left the rest to be regulated by agreement between the employer and employee. However, the code did not prove an effective tool for job creation and Georgia attracted criticism by international human rights and labor organizations due to persistent sub-standard labor conditions and harassment of union leaders. Labor disputes also frequently resulted in strikes.

To respond to multiple complaints from domestic and international organizations, the government passed a number of amendments to the Labor Code in July 2013, which included regulations on the termination of employment contracts and mass dismissal and increased the role of the state in the collective dispute resolution process. Grounds for termination of employment relations were further elaborated; the code defines severance pay for an employee at the time of termination of a labor relation and its payment term. An employer is obliged to give compensation of not less than a month's salary to an employee within thirty (30) days. According to the amendments, an employer is obliged to give to the dismissed employee a written description of the grounds for termination within 7 days after an employee requests it. The labor code also proscribes rules for paying overtime labor (over 41 hours), which must be paid at an increased hourly rate.

The new labor code now specifies the essential terms for labor contracts. These terms include: the starting date and the duration of labor relations, working hours and holiday time, location of workplace, position and type of work, amount of salary and its payment, overtime work and its payment, duration of a paid and unpaid vacation and leave, and rules for granting leave. The code states that the duration of a business day for an underage person (ages 16 to 18) should not exceed 36 hours per week. New regulations prohibit interference in union activities and discrimination of an employee due to union membership. The amendments also mandate that the government reestablish a labor inspectorate to ensure adherence to labor safety standards as the previous inspectorate was abolished by an earlier government. In March 2015 the government officially established the inspectorate under the Ministry of Labor, Health, and Social Affairs via Prime Ministerial decree, but had not yet specified what issues inspectors would be responsible for monitoring. International donors, including the USG, have been engaged with the Georgian government on setting up this agency.

Employees are entitled to up to 183 days (six months) of paid maternity leave which can be up to

24 months when combined with unpaid leave. Leave taken for pregnancy, childbirth, childcare, and adoption of a newborn are subsidized by the state. An employer and employee may agree on additional compensation. Under the Labor Code, a contract of employment may bar an employee from using the knowledge and qualifications obtained while performing his duties with another employer. This provision may remain in force even after the termination of labor relations.

Employers are not required to pay social security contributions for employees. The former 12 percent income tax paid by employees and 20 percent social security tax paid by employers on their employees' wages was merged into a unified personal income tax at the rate of 20 percent in 2009, shifting the employer's tax burden to the employee. The state social security system provides modest pension and maternity benefits. The minimum monthly pension is 150 GEL (\$75) and is scheduled to increase slightly in September 2015. The average monthly salary across economy in Georgia in Q4 of 2014 was 950 GEL (\$546). The average monthly salary for state sector employees was 1361 GEL (\$783). The minimum wage requirement for state sector employees is 115 GEL (\$70) per month. Legislation on the official minimum wage in the private sector has not changed since the early 1990s and stands at 20 GEL (\$10) per month, but is not applied in practice and is not being used for reference.

In recent years, the government failed to enforce a number of minimum ILO standards, largely because there was no inspectorate charged with handling labor issues. The relationship between the government and labor organizations has historically been contentious. Organized labor has complained that the government interfered in dues collection and in workers' ability to organize and bargain collectively. Between 2006 and 2010 relations between employers and labor unions were so bad that some union leaders received death threats and feared for their personal safety. As a result of a petition the teachers' union filed to the ILO, in September 10, 2010, the AFL-CIO registered a petition against the government requesting Georgia's removal from the Generalized System of Preferences (GSP) program that gives duty-free treatment to most Georgian goods due to the government's unwillingness to enforce Labor Code standards as required by ILO conventions. After the U.S. Trade Representative accepted the petition and held a hearing in Washington on January 24, 2012, the Georgian government pledged to make changes to its labor laws and Parliament enacted limited changes to the Labor Code in the summer of 2012. While 2013's amended labor code addressed many of these concerns, a major component for further improvement of labor conditions rests with the reestablishment of the labor inspectorate, a project still in progress. Discussions between the Georgian government and USTR on the GSP petition are ongoing.

Georgia has signed multiple ILO agreements, including the Forced Labor Convention of 1930; the Paid Holiday Convention of 1936; the Anti-Discrimination (Employment and Occupation) Convention of 1951; the Human Resources Development Convention of 1975; the Right to Organize and Collective Bargaining Convention of 1949; the Equal Remuneration Convention of 1951; the Abolition of Forced Labor Convention of 1957; the Employment Policy Convention of 1964; and the Minimum Age Convention of 1973.

17. Foreign Trade Zones/Free Ports/Trade Facilitation

In June 2007, the Parliament of Georgia adopted the Law on Free Industrial Zones, which defined the form and function of free industrial/economic zones. Financial operations in such zones may be performed in any currency. Foreign companies operating in free industrial zones will be exempt from taxes on profit, property, and VAT. UAE-based RAK Investment Authority (Rakia) purchased LLC Poti Sea Port in 2008 and began development of a free industrial zone on 300 hectares of land adjacent to the port. In 2011, Rakia sold 80 percent of the Port to APM Terminals, based in the Netherlands and part of the Danish A.P. Moller-Maersk group, but maintains 100 percent ownership in Poti Free Industrial Zone, the first of its kind in Georgia and the whole Caucasus region. More information is available at www.potifreezone.ge.

Georgia's second free industrial zone is a 27-hectare plot in Kutaisi, where the Egyptian company Fresh Electric constructed a kitchen appliances factory in 2009. The company has committed to building about one dozen textile, ceramics, and home appliances factories in the zone, and announced its intention to invest over \$2 billion.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

INSTRUCTIONS: Please complete data chart below. Please add data elements you think are useful to better understand the investment climate. Please provide local statistics for data elements, if they are available. Please show statistics from USG/international website indicated. If local and USG/international statistics differ significantly, please identify the discrepancy and explain it in a narrative below the chart. ***Please delete this block of text when finished. Note: if you paste text instead of typing it in, blue text will turn black***

Table 2: Key Macroeconomic Data, U.S. FDI in Host Country/Economy

	Host Country Statistical source*		USG or international statistical source		USG or International Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (\$M USD)	2014	\$16,529	2014	\$16,140	www.worldbank.org/en/country
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other

U.S. FDI in partner country (\$M USD, stock positions)	2014	\$79.9	2014	\$1.0	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Host country's FDI in the United States (\$M USD, stock positions)	n/a	n/a	n/a	n/a	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm
Total inbound stock of FDI as % host GDP	2014	7.7	2013	5.9	BEA data available 3/19/14 at http://bea.gov/international/direct_investment_multinational_companies_comprehensive_data.htm

* GeoStat(Georgia National Statistics Office)

Table 3: Sources and Destination of FDI

The IMF's calculations of foreign direct investment (FDI) in Georgia differ from the Georgian government's official calculations. The most recent IMF statistics available regarding Georgia's FDI are from 2012.

Direct Investment from/in Counterpart Economy Data

From Top Five Sources/To Top Five Destinations (US Dollars, Millions)

Inward Direct Investment			Outward Direct Investment		
Total Inward	9,651	100%	Total Outward	N/A	100%
United States	1,182	11%	N/A	N/A	X%
United Kingdom	1,007	10%	N/A	N/A	X%
Turkey	893	8%	N/A	N/A	X%
Netherlands	843	8%	N/A	N/A	X%
United Arab Emirates	629	6%	N/A	N/A	X%

"0" reflects amounts rounded to +/- USD 500,000.

Table 4: Sources of Portfolio Investment

Georgia is not in the IMF's Coordinated Portfolio Investment Survey (CPIS)

Portfolio Investment Assets

Top Five Partners (Millions, US Dollars)

Total			Equity Securities			Total Debt Securities		
All Countries	Amount	100%	All Countries	Amount	100%	All Countries	Amount	100%
Country #1	Amount	X%	Country #1	Amount	X%	Country #1	Amount	X%
Country #2	Amount	X%	Country #2	Amount	X%	Country #2	Amount	X%
Country #3	Amount	X%	Country #3	Amount	X%	Country #3	Amount	X%
Country #4	Amount	X%	Country #4	Amount	X%	Country #4	Amount	X%
Country #5	Amount	X%	Country #5	Amount	X%	Country #5	Amount	X%

19. Contact for More Information

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