

# **Export opportunities for Georgia generated by the membership in the PEM Convention**

## **Part 1: opportunities for intensified exports of intermediate products**

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# 1. Introduction

- EU-Georgia Association Agreement allowed Georgia to join the Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention) in July 2017
- The PEM Convention offers so called *diagonal cumulation* implying the use of the preferential rules of origin requirements for trade among its members thereby stimulating development of production chains and improving efficiency of the mutual free trade agreements
- Georgia is or soon will be able to use the PEM Convention in trade with the EU, EFTA, Turkey, Ukraine and Moldova

## Key policy question:

- How can Georgia utilize export opportunities generated by the PEM Convention ?

## 2. Overview of the PEM Convention

- **The Regional Convention on pan-Euro-Mediterranean preferential rules of origin (PEM Convention)** is an international agreement that specifies a single set of rules of origin for goods among its member countries
  - Members as of October 2019: 50 countries and territories, including *EU-28, EFTA, Albania, Bosnia and Herzegovina, Egypt, Faroes, North Macedonia, Georgia, Israel, Jordan, Lebanon, Moldova, Montenegro, Morocco, Palestinian Authority, Serbia, Tunisia, Turkey, Ukraine*
  - **Key principle of diagonal cumulation:** goods or products that have originating status in one of the countries within the Pan-Euro-Med zone may be added to products originating in any other country within the Pan-Euro-Med zone without losing originating status within the PEMC zone. But not in “any other country within the Pan-Euro-Med zone”, but only in the countries that have mutual FTAs
- **GEO can use the PEM Convention for trade with its FTA partners**
- **Current list: the EU, EFTA, Turkey, Ukraine and Moldova**

### 3. Impact channels of the PEM Convention

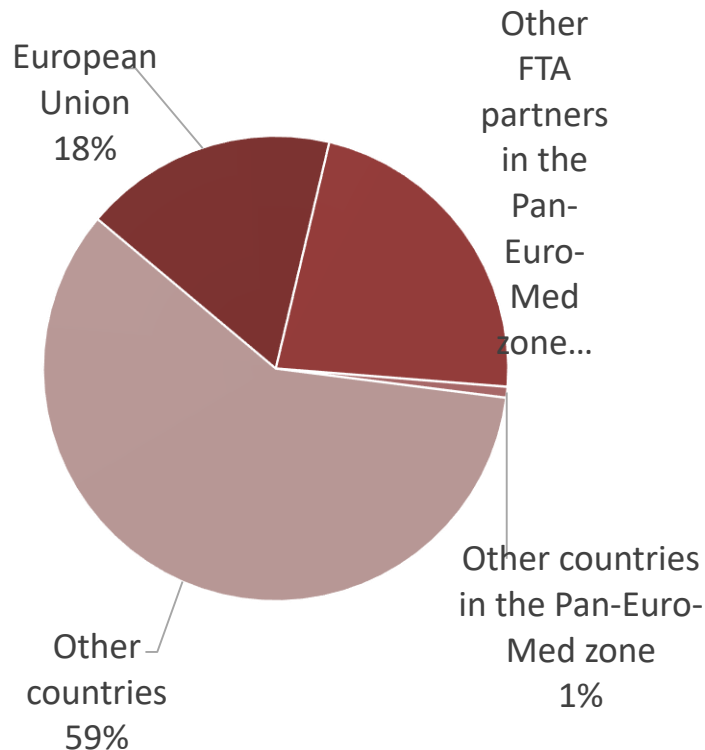
Key channels for the impact of the PEM Convention:

1. An **increased demand in GEO** for wider variety / cheaper inputs imported from the countries in the Pan-Euro-Med zone used for the export-oriented GEO production targeting other markets in the Pan-Euro-Med zone
2. An **increased demand in other countries within the Pan-Euro-Med zone** for GEO intermediate products that can be used in their production chain and further exported to the third countries in the Pan-Euro-Med zone, including:
  - i. **Intensification of existing GEO exports** of intermediate products to each of FTA partners in the Pan-Euro-Med zone
  - ii. **Development of new export flows:** GEO can export products that it exports to other countries, but not to FTA partners in the Pan-Euro-Med zone, while FTA partners in the Pan-Euro-Med zone imports, but not from GEO

**In this paper, we explore the potential of the development of new export flows**

## 4. GEO exports to the Pan-Euro-Med zone

### Structure of GEO exports of goods



Source: UN Comtrade 2018; own estimates excluding re-exports

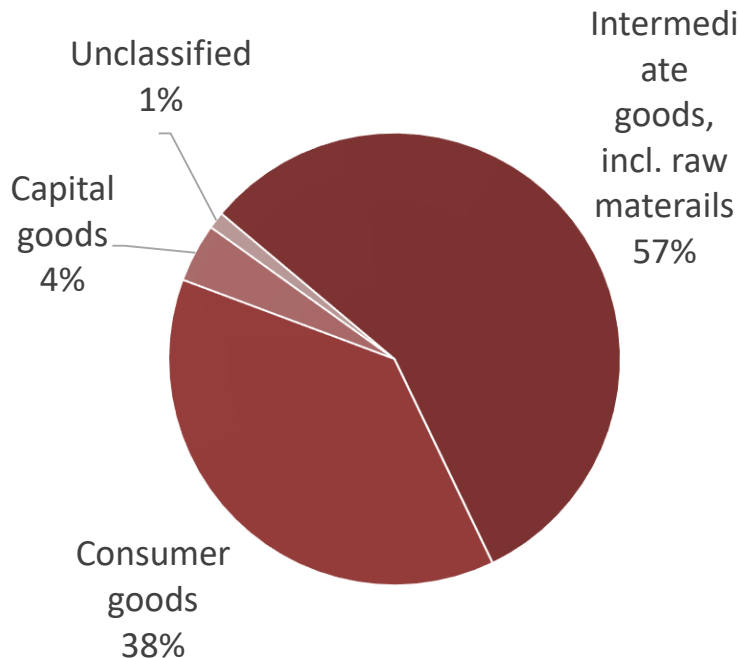
- GEO exports to FTA partners in the Pan-Euro-Med zone, 2018:
  - USD 691 m
  - 40% of total exports
  - 98% of exports to PEMC members
- **Within Pan-Euro-Med zone, GEO exports mainly to its FTA partners**

### Main destinations:

- European Union, USD 303 m
- Turkey, USD 205 m
- Ukraine, USD 114 m

## Structure of GEO exports by main use

### Structure of GEO exports by main use



- GEO exports by main use, 2018:
  - Intermediate goods: USD 977 m
  - Consumer goods: USD 652 m
  - Capital goods: USD 72 m

→ **GEO exports mainly goods, consumed by industry**

### Main export categories within intermediate products:

- Ferro-silico-manganese
- Ammonium nitrate
- Gold

*Source: UN Comtrade 2018; own estimates excluding re-exports; UNCTAD classification*

## 5. Methodology

**Task:** identify intermediate products with untapped export potential to FTA partners in the Pan-Euro-Med zone

**Step 1:** Identification of intermediate products that GEO exports but not to FTA partners in the Pan-Euro-Med zone → GEO export potential list

Filters: manufacturing products only; GEO exports > USD 100 thousand; no product re-exports

**Step 2:** Identification of intermediate products that each FTA partner in the Pan-Euro-Med zone imports but not from GEO → Import potential list for each of FTA partners in the Pan-Euro-Med zone

Filter: PEMC-FTA imports > USD 100 thousand

**Step 3:** For each of FTA partners in the Pan-Euro-Med zone, match GEO export potential list and of FTA partner in the Pan-Euro-Med zone import potential list → matched GEO export potential list

**Step 4:** Rank GEO export potential list based on GEO export value, import value of FTA partners in the Pan-Euro-Med zone and GEO potential price advantage



## 6. Key intermediate products with untapped export potential to FTA partners in the Pan-Euro-Med zone

- **Metals and products thereof:**
  - Ferro-silicon
  - Angles, shapes & sections of iron/non-alloy steel
  - Stranded wire of aluminum with steel core
- **Products of wood & paper:**
  - Medium density fibreboard
  - Railway/tramway sleepers of wood
  - Fluting paper
- **Chemical products:**
  - Manganese dioxide
  - Safety fuses; electric detonators
  - Plates, sheets, film of acrylic polymers

**Full list for each country: see Annex**

## 7. Conclusions

- The PEM Convention stimulates involvement of member countries in production chains by simplifying the rule of origins for trade in the Pan-Euro-Med zone
- In the paper, we analyzed how GEO can expand its exports to its FTA partners in the Pan-Euro-Med zone, focusing on development of new export flows
- Analysis showed that GEO has untapped export potential for selected products of:
  - Metallurgy
  - Manufacture of wood products and paper
  - Chemical industry
- Other opportunities generated by the PEM Convention include intensification of existing intermediate products' exports to FTA partners in the Pan-Euro-Med zone and the development of domestic export-oriented production, using intermediate products originating from the Pan-Euro-Med zone. The latter is the focus of the second part of our analysis

## Contacts

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## Annex 1.1: GEO exports potential: the EU

No.	HS code	Description	GEO exports, 2018, USD m	Partner imports, 2018, USD m	GEO price advantage potential
1	480519	Fluting paper, uncoated, in rolls/sheets	0.3	2,469	yes
2	360300	Safety fuses; electric detonators	0.3	196	yes
3	720229	Ferro-silicon, other than that containing >55% of silicon, in granular/powder form	0.6	292	yes
4	721661	Angles, shapes & sections of iron/non-alloy steel	0.2	623	yes
5	761410	Stranded wire, of aluminum with steel core	0.5	117	yes
6	441112	Medium density of fibreboard of wood/other ligneous materials	0.2	409	yes
7	392059	Plates, sheets, film, of acrylic polymers	0.2	148	yes
8	870790	Bodies (incl. cabs), for the motor vehicles	0.8	3,113	no
9	680911	Boards, sheets, of plaster	4.1	524	no
10	720211	Ferro-manganese, containing by weight >2% of carbon, in granular/powder form	0.2	559	no
11	282010	Manganese dioxide	0.4	109	no
12	440690	Railway/tramway sleepers (cross-ties) of wood	0.1	97	no

Source: own estimates

## Annex 1.2: GEO exports potential: Turkey

No.	HS code	Description	GEO exports, 2018, USD m	Partner imports, 2018, USD m	GEO price advantage potential
1	720229	Ferro-silicon, other than that containing >55% of silicon, in granular/powder form	0.6	28	yes
2	680911	Boards, sheets, of plaster	4.1	2	yes
3	360300	Safety fuses; electric detonators	0.3	38	yes
4	282010	Manganese dioxide	0.4	0	yes
5	392059	Plates, sheets, of acrylic polymers	0.2	8	yes
6	721661	Angles, shapes & sections of iron/non-alloy steel	0.2	4	yes
7	441112	Medium density of fibreboard of wood/other ligneous materials	0.2	2	yes
8	870790	Bodies (incl. cabs), for the motor vehicles	0.8	11	no
9	480519	Fluting paper, uncoated, in rolls/sheets	0.3	22	no
10	720211	Ferro-manganese, containing by weight >2% of carbon, in granular/powder form	0.2	58	no
11	761410	Stranded wire, of aluminum with steel core	0.5	3	no
12	440690	Railway/tramway sleepers (cross-ties) of wood	0.1	0	no

Source: own estimates

## Annex 1.3: GEO exports potential: Ukraine

No.	HS code	Description	GEO exports, 2018, USD m	Partner imports, 2018, USD m	GEO price advantage potential
1	720229	Ferro-silicon, other than that containing >55% of silicon, in granular/powder form	0.6	4	yes
2	360300	Safety fuses; igniters; electric detonators	0.3	2	yes
3	721661	Angles, shapes of iron/non-alloy steel	0.2	3	yes
4	720211	Ferro-manganese, containing by weight >2% of carbon, in granular/powder form	0.2	1	yes
5	870790	Bodies (incl. cabs), for the motor vehicles	0.8	11	no
6	680911	Boards, sheets, panels, tiles & similar articles, of plaster	4.1	4	no
7	441112	Medium density of fibreboard of wood/other ligneous materials	0.2	18	no
8	480519	Fluting paper, uncoated, in rolls/sheets	0.3	10	no
9	761410	Stranded wire, of aluminum with steel core	0.5	1	no
10	282010	Manganese dioxide	0.4	0	no
11	392059	Plates, sheets, film, of acrylic polymers	0.2	1	no
12	440690	Railway/tramway sleepers (cross-ties) of wood	0.1	0	no

Source: own estimates

## Annex 1.4: GEO exports potential: Switzerland

No.	HS code	Description	GEO exports, 2018, USD m	Partner imports, 2018, USD m	GEO price advantage potential
1	480519	Fluting paper, uncoated, in rolls/sheets	0.3	35	yes
2	720229	Ferro-silicon, other than that containing >55% of silicon, in granular/powder form	0.6	1	yes
3	721661	Angles, shapes s of iron/non-alloy steel	0.2	22	yes
4	392059	Plates, sheets, film, of acrylic polymers	0.2	5	yes
5	720211	Ferro-manganese, containing by weight >2% of carbon, in granular/powder form	0.2	4	yes
6	440690	Railway/tramway sleepers (cross-ties) of wood	0.1	3	yes
7	680911	Boards, sheets, panels, tiles & similar articles, not ornamented, of plaster	4.1	46	no
8	870790	Bodies (incl. cabs), for the motor vehicles	0.8	27	no
9	360300	Safety fuses; igniters; electric detonators	0.3	21	no
10	441112	Medium density of fibreboard of wood/other ligneous materials	0.2	4	no
11	282010	Manganese dioxide	0.4	0	no

Source: own estimates

## Annex 1.5: GEO exports potential: Moldova

No.	HS code	Description	GEO exports, 2018, USD m	Partner imports, 2018, USD m	GEO price advantage potential
1	480519	Fluting paper, uncoated, in rolls/sheets	0.3	3	yes
2	360300	Safety fuses; electric detonators	0.3	0	yes
3	721661	Angles, shapes & sections of iron/non-alloy steel	0.2	2	yes
4	680911	Boards, sheets, panels, tiles & similar articles, not ornamented, of plaster	4.1	4	no
5	761410	Stranded wire, cables, plaited bands & the like, of aluminium, with steel core	0.5	1	no
6	870790	Bodies (incl. cabs), for the motor vehicles	0.8	0	no
7	441112	Medium density of fibreboard of wood/other ligneous materials	0.2	1	no
8	440690	Railway/tramway sleepers (cross-ties) of wood	0.1	1	no

Source: own estimates



## Annex 1.6: GEO exports potential: Norway

No.	HS code	Description	GEO exports, 2018, USD m	Partner imports, 2018, USD m	GEO price advantage potential
1	360300	Safety fuses; electric detonators	0.3	35.5	yes
2	680911	Boards, sheets, panels, of plaster	4.1	34.8	yes
3	761410	Stranded wire, of aluminum with steel core	0.5	17.9	yes
4	721661	Angles, shapes of iron/non-alloy steel	0.2	18.1	yes
5	720229	Ferro-silicon, other than that containing >55% of silicon, in granular/powder form	0.6	1.3	yes
6	440690	Railway/tramway sleepers (cross-ties) of wood	0.1	1.5	yes
7	720211	Ferro-manganese, containing by weight >2% of carbon, in granular/powder form	0.2	5.1	yes
8	392059	Plates, sheets, film, foil & strip, of acrylic polymers	0.2	1.4	yes
9	870790	Bodies (incl. cabs), for the motor vehicles	0.8	10.7	no
10	480519	Fluting paper, uncoated, in rolls/sheets	0.3	10.7	no
11	441112	Medium density of fibreboard of wood/other ligneous materials	0.2	5.1	no

Source: own estimates

## Annex 1.7: GEO exports potential: Iceland

No.	HS code	Description	GEO exports, 2018, USD m	Partner imports, 2018, USD m	GEO price advantage potential
1	680911	Boards, sheets, panels, tiles & similar articles, of plaster	4.1	3.6	yes
2	721661	Angles, shapes & sections of iron/non-alloy steel	0.2	0.2	yes
3	360300	Safety fuses; detonating fuses; percussion/detonating caps; igniters; electric detonators	0.3	0.4	yes
4	441112	Medium density of fibreboard of wood/other ligneous materials	0.2	0.2	yes
5	870790	Bodies (incl. cabs), for the motor vehicles	0.8	0.2	no

Source: own estimates