



One step closer – Georgia, EU-  
integration, and the settlement  
of the frozen conflicts?

GRASS  
REFORMANDA



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## **About GRASS**

Georgia's Reforms Associates (GRASS) is a non-partisan, non-governmental policy watchdog and multi-profile think-tank, which was established in October 2012. With its initiatives and activities, GRASS supports the implementation of democratic reforms, the building of a strong civil society and the transparency and accountability of state institutions together with the ongoing process of Georgia's Europeanisation. GRASS has been working on conflict issues, one of its major programs, since 2013. So far, the primary focus of GRASS's activities has been Abkhazia. The organization has brought together stakeholders from Tbilisi and Sokhumi on a number of occasions to contribute to cooperation and confidence building. GRASS has been a strong advocate of applying a status-neutral approach to the humanitarian and security issues with Abkhazia, which has been reflected in the Government's 2018 Peace Initiatives - "A Step to a Better Future". GRASS has built solid contacts in Sokhumi with relevant stakeholders and organized Tack 1.5 discussions with their participation on trade, education and healthcare issues.

## **Disclaimer**

This is a working paper and hence, it represents research still in progress. The authors of the paper recognise territorial integrity of Georgia within its internationally recognised borders. The terms that are used in some places of the paper (such as, for example, "Abkhaz statehood", "Abkhaz imports", etc.) are used to explain de facto authorities' positions/perspectives and do not express positions/opinions of the researchers.

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## Introduction

Georgia's recent history of independence has been marked by conflicts with Russia over its two breakaway regions, Abkhazia and the Tskhinvali region/South Ossetia. Despite many efforts to find a mutually acceptable solution, the conflict still remains unresolved. In 2008, following the August War, Russia recognized the independence of Abkhazia and South Ossetia and openly positioned itself as a party to the conflict. Russia followed up that recognition by continuously increasing its military and political presence in Georgia's breakaway regions, provoking the threat of annexation. Georgia, together with the international community,<sup>1</sup> recognized these regions as occupied by Russia and has since set the goal of de-occupation. Russia sees the conflicts as an instrument for achieving its strategic goal, namely subordinating Georgia and the entire South Caucasus to its "sphere of privileged interest". And it has severely restricted the room for confidence building and caused the security environment on the ground to deteriorate.

Against this background, Tbilisi has tried to engage with the communities in the occupied regions, as well as the de facto authorities in Sokhumi and Tskhinvali, through relevant channels of communication in order to promote peace building process and cooperation. In 2010, the Georgian Government adopted the Strategy Towards the Occupied Regions and the Engagement Action Plan. Almost ten years later, in 2018, Georgian Government proposed a new initiative - "A Step to a Better Future", which provided the instruments to enhance inter-community relations in the fields of trade/commerce and education. The successful implementation of these projects - which enjoy strong support from the civil society and all major political forces in Georgia, as well as from the international community - could have a positive impact on conflict transformation in the years to come. Although the initiatives were publicly rejected by representatives of the de facto authorities in Abkhazia, they have also drawn the attention of part of the Abkhaz public and businesses, who oppose greater Russian control. Such context creates a window of opportunity to progress in confidence-building, provided that Georgia and the international community successfully deter Russia from annexing Georgia's breakaway territories.

This paper mainly focuses on Abkhazia, analysing the potential influence that trade relations and education-related cooperation between Tbilisi and Sokhumi could have on confidence building and reconciliation. In addition, it discusses how Abkhazia could benefit from the overall process of Georgia's Europeanization, including the possibility of applying the benefits of the EU-Georgia free trade to businesses and consumers in Abkhazia.

Confidence-building measures by themselves cannot ensure a political settlement of the conflict, but in view of what has happened in Moldova and Cyprus, it can be fairly argued that deepening relations in the fields of trade and education could be very instrumental to building a meaningful degree of trust on the elite and community levels. Complexities created by the three dimensions of the conflict - that is between Russia and the West, Russia and Georgia, and the Abkhaz and Georgian communities<sup>2</sup> - have marginalized cooperation, but recent developments demonstrate that progress could still be achieved. Eventually,

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<sup>1</sup> During her recent visit to Georgia on 24 August 2018, Angela Merkel also used the term occupation to describe status of the breakaway regions of Georgia. See <http://iep-berlin.de/en/10-years-since-the-russian-georgian-war-a-new-german-ostpolitik-is-needed/>

<sup>2</sup> As acknowledged by the 2010 Strategy toward Occupied Regions

economic factors can play a significant role in contributing to mutually beneficial relationships between the war-torn communities.

This research does not cover the Tskhinvali region/South Ossetia, where GRASS has a rather limited experience. Recent developments in this region might make it a somewhat different case from Abkhazia.<sup>3</sup> Nevertheless, the same analysis could be also applied to the case of the Tskhinvali region/South Ossetia, which will be part of GRASS's subsequent research. The information contained in this paper is based on desk research and interviews conducted with experts and high-level authorities both in Tbilisi and Sokhumi. The paper also benefits from a number of track 1.5 discussions on trade and education issues, bringing together stakeholders from Abkhaz and Georgian communities.

## Background Information

During the dissolution of the Soviet Union, two conflicts erupted in Georgia, one in the Autonomous Oblast of South Ossetia and one in the Autonomous Republic of Abkhazia<sup>4</sup>. The Georgian-Abkhaz conflict resulted in outright war in 1992-1993, where mistakes made by all sides involved in the hostilities led to large scale human suffering and destruction. The fighting left about 8,000 people wounded and at least 12,000 people killed<sup>5</sup>. Furthermore, about 240,000 ethnic Georgians were expelled from Abkhazia<sup>6</sup>, an expulsion that has been recognized as ethnic cleansing by the Organization for Security and Co-operation in Europe (OSCE)<sup>7</sup>. Serious violent clashes ended in 1993, when the Abkhaz forces, backed by the Russian security forces and North Caucasian volunteers, won a military victory. As a result, Georgia lost its control of Abkhazia.

The Sochi Agreement of 1993,<sup>8</sup> and the Moscow Agreement<sup>9</sup> signed one year later, formalized the ceasefire between the conflict parties. As part of these agreements, CIS peacekeeping forces<sup>10</sup> and a UN Observer mission (UNOMIG) were established to monitor the situation on the ground and work towards reaching a political settlement. Despite the engagement of the UN, Russia went beyond its agreed role in the peace process and sought to instrumentalise the conflict to strengthen its influence and position as the only organized and functioning military and political force in the region. Because of its desire for the Kremlin's help in the peace process, Georgia was compelled to join the Commonwealth of Independent

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<sup>3</sup> Unlike their Abkhaz counterparts, the political elites in South Ossetia are supportive of the idea of becoming part of the Russian Federation. Moreover, they often blame Abkhaz elites for hindering this process with their resistance to the idea of "uniting" with Russia. Hence, in the case of South Ossetia, an annexation threat is stronger and is also expressed in discussions about a referendum that would allow the local population to "vote" for unification with North Ossetia and thus become a part of the Russian Federation. Although Russia hitherto remains ambivalent about the referendum the Crimea precedent shows that this opportunity could be exploited at any time.

<sup>4</sup> They were formally called with these names during the Soviet Union.

<sup>5</sup> History: Georgian-Abkhaz Conflict, Conciliation Resources

<sup>6</sup> UN High Commissioner for Refugees (UNHCR), Protection of Internally Displaced Persons in Georgia: A Gap Analysis, July 2009

<sup>7</sup> Budapest Declaration and Geneva Declaration on Ethnic Cleansing of Georgians in Abkhazia by Russia between 1992 and 1993 adopted by the OSCE and recognized as ethnic cleansing in 1994 and 1999

<sup>8</sup> Agreement of Cease-Fire in Abkhazia and Arrangements to Monitor its Observance, July 1993

<sup>9</sup> Agreement on a Cease-Fire and Separation of Forces, May 1994

<sup>10</sup> In fact, "peacekeeping" forces located in Abkhazia, as well as South Ossetia were ordinary infantry sub-divisions of Russian forces, who mainly remained there after the fighting and were not trained to carry out peace missions.

States (CIS) in 1993.<sup>11</sup> However, this did not yield any significant positive outcome. On the contrary, the vastly superior political and military weight of Russia toppled the balance and prevented Tbilisi and its two breakaway regions from coming to a durable arrangement.<sup>12</sup> The hundreds of meetings and documents signed in the 1990s between Tbilisi and Sokhumi were in vain.

The Rose Revolution in 2003 inspired new hopes that the conflict could be resolved. Although Saakashvili's government used quite assertive rhetoric about restoring Georgia's territorial integrity, it also proposed a number of peace initiatives to Abkhazia and South Ossetia. These included an offer of "special status" within Georgia, which would be achieved by creating a federal state containing republics with considerable autonomy<sup>13</sup>. In addition, it sought to reengage Russia and renegotiate the terms of conflict resolution. However, the Saakashvili government's aspirations to integrate with the European Union (EU) and NATO, like its close ties with the USA, ran counter to Russia's strategic ambition to subordinate Georgia and entire South Caucasus region to its perceived sphere of influence and created opposition in Moscow.

### New Reality: Consequences of August 2008 War

The Kremlin became deeply concerned as Georgia deepened its ties with the West. In 2006, Russia imposed an economic embargo on Georgia and forcibly deported a large number of Georgians residing in Russia, an action based solely on their ethnic origin and nationality<sup>14</sup>. Moreover, Russia gradually prepared itself for military intervention, heavily militarizing Georgia's breakaway regions. After the NATO Bucharest Summit, when Georgia and Ukraine were promised they "will become" members of the alliance<sup>15</sup>, the Kremlin waged a brief war against Georgia to curb its integration process with the NATO and the EU. The war also served to send a message to the West that the region belonged to the Kremlin's "sphere of privileged interest" - and that the increased presence of Western structures in Georgia would not be tolerated. Following the war, and in grave violation of the six-point cease-fire agreement of 2008 brokered by the then-French EU presidency, Moscow recognized the independence of Abkhazia and South Ossetia, which fundamentally changed the landscape of the conflicts: Russia was formally a mediator in the peace process until 2008, but since August 2008 it has openly become a party to the conflict.

The August 2008 War has exacerbated existing challenges and severely deteriorated the security environment in the region. Soon after the war, the Kremlin launched an active campaign to "convince" other states to recognize Abkhazia and South Ossetia as independent states. These efforts were successfully countered by Georgia's non-recognition policy, which enjoyed strong international support.

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<sup>11</sup> In addition, Moscow pushed hard to keep its four military bases in Georgia for an indefinite period of time. However, they had to withdraw from them a decade later (withdrawal of military bases were completed by 2007, except a military base in Abkhazia).

<sup>12</sup> Independent International Fact-Finding Mission on the Conflict in Georgia, September 2019

<sup>13</sup> Tracey German, Abkhazia and South Ossetia: Collision of Georgian and Russian Interests, June 2006

<sup>14</sup> It later lost the case on this issue to Georgia in the European Court of Human Rights in Strasbourg, which found it liable to pay EUR 10 million to the victims of illegal deportation. Available at: <https://hudoc.echr.coe.int/eng#%7B%22itemid%22:%5B%22001-189019%22%5D%7D>

<sup>15</sup> Bucharest Summit Declaration, NATO, 3 April 2008

As a result, to date only Nicaragua, Venezuela<sup>16</sup>, Nauru, and Syria have recognized Abkhazia as independent, while Tuvalu and Vanuatu have withdrawn their recognition.

The war has allowed Russia to increase further its grip on Abkhazia and station over 5000 troops and heavy military equipment in the region. In 2010, Moscow signed a deal with Abkhazia's de facto regime whereby Russia was allowed to establish a military base on its territory for the period of 49 years<sup>17</sup>. In addition, it has built 22 military settlements and stationed a S-400 missile system in Abkhazia. Moscow is stepping up the pressure on Abkhazia, with Russian officials appointed to high ranking positions in the security services and various ministries and municipalities. Russia also runs an active disinformation campaign in Abkhazia through Sputnik and other propaganda outlets, wrapping the region in an information vacuum<sup>18</sup>. Russia's over-dominance in Abkhazia, symbolized by the huge embassy building in the center of Sokhumi<sup>19</sup>, also instils resentment among Abkhaz elites and citizens, who increasingly push against Russia's total control and look towards new alternatives.

Besides increasing the military presence since the war, Russia has also actively employed the strategy of "Borderisation", in the process violating international law and commitments undertaken by the 2008 agreement. The term refers to the installation of artificial border infrastructure (border markers, barbed wires, razor fences, trenches, etc.) across the Administrative Boundary Line (ABL), as well as the gradual movement of "border" infrastructure inside the Tbilisi-controlled territory, a process often described as "creeping annexation". Borderisation keeps up the pressure on Georgian society and the international community and seeks to create a sense of indefensibility and vulnerability. The occupation line is now just 350-400 meters away from the major east-west motorway. Some segments of Baku-Supsa pipeline even fall within occupied territory<sup>20</sup>.

In November 2014, Russia signed the so called "Agreement on Alliance and Strategic Partnership" with the de facto government of Abkhazia<sup>21</sup>. This agreement implies the full integration of Abkhaz defence, security, and customs into the Russian legal area. Most importantly, high officials of the Russian Federation linked the agreement to financial aid, which made it impossible for the Sokhumi representatives to reject it. By signing it, Russia has demonstrated that it is pursuing the policy of de facto annexation, putting the security in the area at further risk. The agreement raised serious cause for concern, not only in Tbilisi but also among the Abkhaz community. A major part of the Abkhaz public expressed a negative attitude to the first draft of the treaty, which foresaw even greater Russian control. Abkhaz demonstrated particularly strong opposition to simplifying the granting of citizenship to the Russian citizens, which would then pave the way for them to acquire property in Abkhazia<sup>22</sup>. Abkhaz elites, having no desire to become part of Russia, feared that it would allow Moscow to further increase its grip

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<sup>16</sup> Venezuela will likely revoke its recognition of Georgian occupied regions if the interim government of Juan Guido preserves power. According to Carlos Becchi, Venezuela's interim representative to the USA, his government intends open relations with Georgia and will recognize it as having sovereignty over Abkhazia and South Ossetia.

<sup>17</sup> Russia Gains Military Base in Abkhazia, Radio Liberty, 17 February 2010

<sup>18</sup> GRASS interviews, de facto officials from Sokhumi, October 2018

<sup>19</sup> Thomas De Waal, Enhancing the EU's Engagement with Separatists Territories, Carnegie Europe, January 2017

<sup>20</sup> Ministry of Internal Affairs of Georgia, Existing Situation along the Occupation Line, July 2015

<sup>21</sup> Moscow, Sokhumi Sign Treaty on Alliance and Strategic Partnership, Civil.ge, 24 November 2014

<sup>22</sup> Vladimir Putin signs treaty with Abkhazia and puts Tbilisi on edge – Financial Times, 24 November 2014

on their land and become a “legal owner” of Abkhazia<sup>23</sup>. While the initial text of the treaty was eventually revised, the resentment about the final agreement has remained strong in some parts of Abkhaz society.

Another important issue is the restrictions on the freedom of movement, which divide conflict-affected communities and complicate efforts to build confidence between them. Of the six crossing points that were operational after the August 2008 War, only one - the Enguri bridge - is currently open, and even that is subject to arbitrary shutdowns from time to time. The current restrictions exact a high humanitarian and human cost. Communities living adjacent to the ABL are affected through decreased opportunities for education, trade, medical treatment, livelihood development, etc. These restrictions also have more severe consequences, allowing the “Russian border guards” to detain people for “illegal trespassing of the border.” According to the information of the State Security Service of Georgia, there were 1,864 instances of illegal detention of Georgian citizens for illegally crossing the so-called border of occupied Abkhazia in the period of 2008 to 2018, while kidnappings have become almost a daily routine<sup>2425</sup>. **The lack of predictability and absence of an agreed code of conduct regarding the crossings, detentions, and kidnappings across the ABL is an acute humanitarian challenge that must be addressed more thoroughly, including by the international community.**

The approximately 50,000 Georgians who reside in the Gali region of eastern Abkhazia suffer the most severe consequences of the conflict, facing ethnic discrimination on a daily basis. In 2014, the new leadership in Sokhumi annulled the Abkhaz passports of a large part of the Gali residents in order to avoid any significant impact of Gali votes on the outcomes of “elections”<sup>26</sup>. Instead, Gali residents were provided with resident permits, which could only be used for identification and crossing and cannot guarantee political, civil, and economic rights within Abkhazia. Gali residents, who in many ways are regarded as second-class citizens, have no access to education in their native language, cannot purchase property in Abkhazia, and are subject to different discriminatory restrictions that raise the threat of a new wave of ethnic cleansing. The ethnocratic (de facto) regime in Abkhazia suppresses the fundamental rights of Gali residents, something that has also been condemned by human rights representatives in Abkhazia, who advocate a more depoliticized approach<sup>27</sup>.

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<sup>23</sup> Thomas De Waal, *Enhancing the EU’s Engagement with Separatists Territories*, Carnegie Europe, January 2017

<sup>24</sup> Ten Years after the War – Russian Occupation in Numbers, FactCheck.ge, 9 August 2018

<sup>25</sup> The cases of Giga Otkhзорia and Archil Tatunashvili, who lost their lives at the hands of Russian-backed security services, triggered the creation of the “Tatunashvili-Otkhзорia list”, proposed by the opposition European Georgia party and supported by the Georgian Dream governing party. The list established a blacklist of perpetrators and persons responsible for grave human rights violations in Abkhazia and the Tskhinvali region. It was later supported by the European Parliament’s resolution, Parliamentary Assembly of the Council of Europe and US Congress. Archil Tatunashvili, a Georgian national, was illegally detained in the occupied Tskhinvali region/South Ossetia on the grounds of made up charges. From the moment of his detention, he was deprived of his fundamental rights, subjected to torture and inhuman treatment, and ultimately killed by South Ossetian security officers. Giga Otkhзорia, a Georgian national, was killed by Abkhaz border guard officer in Khurcha village, in a territory under Georgian control, in the near to the Georgian-Abkhaz administrative border. To date, the killer has not been held liable for the committed crime. See: <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2018-0266+0+DOC+XML+V0//EN&language=EN>

<sup>26</sup> Thomas Hammarberg and Magdalena Grono, *Human Rights in Abkhazia Today*, July 2017

<sup>27</sup> Abkhazian human rights commissioner condemns treatment of Gali Georgians, OC Media, 5 February 2019

## Conflict Settlement Formats and Instruments

The Geneva International Discussions (GID) is the major international format launched in the aftermath of the August War to address the consequences of 2008 conflict in Georgia. The discussions are co-chaired by the Organization for Security and Co-operation in Europe (OSCE), the European Union (EU), and the United Nations (UN). The GID also brings together the representatives of Georgia, USA, Russia, and Georgia's breakaway Abkhazia and South Ossetia to discuss relevant issues within two working groups dealing with: (1) security and stability in South Ossetia and Abkhazia, including the non-use of force and international security arrangements as well as confidence building measures; and (2) the return of IDPs/refugees, humanitarian aid, and human rights issues.

Due to irreconcilable interests between Russia on the one hand and Tbilisi and international partners on the other, the GID has not delivered on its mandate to secure the fulfilment of the Six-point Cease-Fire Agreement that ended the August 2008 War. In addition, as claimed by a high-ranking EU official,<sup>28</sup> the GID has become hostage to the geopolitical situation. As a result, the discussion process has stagnated and entered a stalemate, in large part due to Russia's policy of promoting status issues of Georgia's breakaway regions within the GID. Despite these limitations, it is crucial that GID continues its work, as it remains the only functioning and sustainable platform for international engagement and dialogue.

The major achievement of the discussions so far is the establishment of the Joint Incident Prevention and Response Mechanism (IPRM) with a hotline in 2009. The aim of the mechanism is to ensure a timely and adequate response to the security situation, including incidents and their investigation, responding to criminal activities, ensuring effective delivery of humanitarian aid, and any other issues that could affect stability and security on the ground. The IPRMs allow for regular contact between the structures responsible for security and public order in the areas of tension. IPRMs also engage the representatives of the UN, the EU, and the OSCE. Though there are frequent obstructions and interruptions, regular meetings of the IPRM have been taking place since 2009. **It is noteworthy that the establishment of the IPRM was the result of political will and a successful application of a status-neutral approach to negotiations bogged down by their focus on status. While it still needs to reach its full potential, for instance when it comes to effective follow-up to the incidents and their investigation, the IPRM continues to play an indispensable role.**

**The experience with the establishment of the IPRM mechanism can also be replicated in the area of freedom of movement of people and eventually goods. A great deal of energy should be invested in setting up a particular "code of conduct" which, while leaving the underlying status-related questions untouched, could at least guarantee a civilized and dignified way of crossing for the local population. The set of measures proposed by the co-Chairs of the GID need to be discussed and, eventually, adopted by consensus to replicate the practices followed for the establishment of the IPRM.**

In order to address the security challenges in the region and make a contribution to conflict resolution, the EU established an unarmed civilian monitoring mission (EUMM), which has been deployed since September 2008 in the areas adjacent to Abkhazia and Tskhinvali region/South Ossetia. The major goal of the EUMM is to report on developments and ensure that there is no return to hostilities. But the mission

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<sup>28</sup> GRASS interview, EU official, Tbilisi, February 2019

is denied access to the breakaway regions,<sup>29</sup> even though its mandate is to cover the whole territory of Georgia. On a conceptual level, in 2009 the EU developed the so-called Non-Recognition and Engagement Policy (NREP), which seeks to de-isolate the conflict regions without recognizing their sovereignty. The policy has been instrumental in terms of resisting Russia's attempts to gain other countries' support for recognition of Abkhazia. In addition, the EU has been supporting implementation of different status-neutral projects in the framework of NREP and has spent around EUR 40 Million in Abkhazia to contribute to improving healthcare, education, infrastructure, etc. **Although the EU's policy is embedded in the NREP, the latter is sometimes forgotten in policy discussions,<sup>30</sup> and the ambitious goals of the NREP have not been achieved. Moreover, in recent times the EU has suffered from a lack of optimism, or even fatigue, that has reduced its enthusiasm for dealing with Abkhazia. The EU needs to update its approach and revamp its activities, as its role has been largely outweighed by both Russia's economic assistance and its military and political presence in Abkhazia.**

### Tbilisi's Approach to Confidence-Building

Following the August War, Georgia had more of an isolationist attitude towards the breakaway regions. But since 2010, it has gradually been shifting its approach towards a policy of engagement. As a part of this approach, in 2010, Georgia introduced its "State Strategy on Occupied Territories: Engagement Through Cooperation"<sup>31</sup>. The major goal of the strategy and its action plan was to reduce the isolation of the populations residing in Abkhazia and Tskhinvali region, enable their greater access to benefits and participation in wider civic life and thus, lay foundation for reconciliation between divided communities.

The Georgian Dream government that came to power in 2012 has stuck with the 2010 strategy on engagement. It has supported the Georgian State Referral Programme initiated in 2011, which allows Abkhazian citizens to travel to Tbilisi-controlled territory and access medical services free of charge. The number of Abkhazians taking advantage of this program has steadily increased over the years. In 2014-2017, a total of 6,188 patients (including from South Ossetia) benefited from this service, which has cost nearly GEL 17 million<sup>32</sup>. The program is especially important in view of the lack of material and human resources in Abkhazia, where even simple medical care is often not available. Although the program has its own limitations, it continues to assume a positive role in the process of confidence building. In addition to the referral programme, Georgia has provided material and technical support to Abkhazia's medical service on several occasions and is working on the extension of the Hepatitis C Elimination Program to the region.

In recent years, Georgia has also been promoting cooperation opportunities in the field of education. In 2018, the government introduced an initiative covering the fields of education and economy called "A Step to a better Future". The education initiative aims at expanding education opportunities for residents

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<sup>29</sup> European Union Monitoring Mission (EUMM) mandate, available at EUMM Webpage

<sup>30</sup> Thomas De Waal, Enhancing the EU's Engagement with Separatists Territories, Carnegie Europe, January 2017

<sup>31</sup> State Strategy on Occupied Territories: Engagement through Cooperation, 27 January 2010

<sup>32</sup> Medical Care Expenses of Patients Living in the Occupied Territories, Institute for Development of Freedom of Information, April 2018

of Abkhazia and South Ossetia/Tskhinvali Region in Tbilisi-controlled territory as well as abroad<sup>33</sup>. The initiative addresses the challenges in Abkhazia's educational system, which suffers from institutional underdevelopment, non-professionalism, and a lack of human-resources and technical capacities. **There is a particular problem with the low level of preparation of youth for post-secondary education (as well as the absence of knowledge in foreign languages), a fact identified by GRASS during its conversations with Abkhaz stakeholders and also addressed in the government initiative.**

### New Opportunities in Education

Among others, the main goals of this initiative are to ensure native-language education; protect and develop the Abkhazian language; enhance and simplify the possibilities for engaging in education system; and support vocational education and scientific work. The initiative also sets out a plan to facilitate the participation of Abkhaz students in international education programs, including Erasmus+ Programme, Visegrad countries scholarships fund, UK Chavening scholarships, German DAAD, etc. In addition, the initiative foresees the creation of an Education Preparation Center and relevant needs-oriented programs to prepare students from Abkhazia and South Ossetia for post-secondary education. The training centre will focus on a set of key subjects such as general aptitude skills, computer programs, foreign languages, national exams, international programs, etc. **Since it is less likely that Abkhazians will receive education on Tbilisi-controlled territory at this stage, establishing such centres abroad in partnership with European Educational Institutions is clearly a more feasible option. A 4-6-month training program in European countries<sup>34</sup> could contribute to the education of around 15 students annually from Abkhazia. Following the training program, participants will be prepared for continuing studies in higher education institutions in Europe through Erasmus+ Programme or other scholarship opportunities. This could make a significant difference for a small community, such as in Abkhazia<sup>35</sup>.**

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<sup>33</sup> Enhancing Educational Opportunities for the residents of Abkhazia and Tskhinvali Region/South Ossetia, Office of the State Minister for Reconciliation and Civil Equality of Georgia, 2018

<sup>34</sup> **Educational institutions in Baltic states, for instance Vilnius University, could be a good destination for launching the training center.** Since a large part of population in Baltic countries speak Russian, students from Abkhazia will find it easier to socialize with peers.

<sup>35</sup> GRASS discussed this idea with the representatives of the National Erasmus+ Office (NEO) Georgia, Georgian Government, EU Delegation to Georgia, representatives of US Embassy to Georgia, as well as stakeholders from Abkhazia. All expressed initial support to this idea.

## Abkhazia – Economic Background

While recognized by most of the world as a de jure part of Georgia, since the August 2008 war Abkhazia has remained isolated from the outside world, and its dependence on Russia's economic and financial aid has steadily increased. Russia remains the main trading partner if not a "trade patron" of Abkhazia, where its products comprised 80% of Abkhaz imports in 2015-2016, while Abkhazian exports to Russia amounted to 60% in the same period<sup>36</sup>. The products exported to Russia include citrus, nuts, fish, alcoholic beverages, raw wood, and lumber, while Moscow's imports to Sokhumi are oil, tobacco, flour, and other consumer goods<sup>37</sup>.

Despite isolation, in the last decade the economy in Abkhazia has advanced as compared with the 90's war-torn situation. However, this improvement is largely due to Moscow's budgetary assistance, which is transferred in two ways—an investment program and socio-economic development aid. The investment program is mainly focused on building and renovating infrastructure. The socio-economic component covers regular expenditures of government activities, including education, health, and police. Therefore, **Abkhazia is heavily dependent on Russia's financial support and features little, if at all, economic growth, without any significant institutional and structural development.**

In the last five years Abkhazia has experienced a decrease in Russian subsidies. In 2013, 75% of the Abkhaz budget consisted of Russian financial support, but in 2018 that figure plummeted to 50%<sup>38</sup>. In numerical terms, the 2017 Abkhazia budget amounted to 10.2 billion rubles (around 155 million USD), of which Russian subsidies made up around 5.3 billion Russian rubles (around 80 million USD)<sup>39</sup>. The de facto authorities explained that the decrease of the Russian share in the Abkhaz budget was because of the increase of local income in the budget. However, the truth is that the decreased Russian inflows were related to Russia's inherent economic and political challenges, such as the drop in oil prices and sanctions, war in Syria, expenses related to the annexation of Crimea, and Russia's ongoing aggression in eastern Ukraine. As long as these factors remain unchanged, the trend of declining revenue from Russia will likely persist.

Another problem concerning Abkhazia's social and economic life is related to the high corruption rate and lack of administrative capacity. Even Russian officials (like the de facto opposition leaders) have claimed that the funds transferred from Russian budget are not properly utilized, largely because of the unprofessionalism and corruption prevalent in the de facto institutions of Abkhazia. Igor Koshin, the Russian deputy minister for North Caucasian Affairs, has openly described Russian financial transfers to

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<sup>36</sup> Abkhazia and South Ossetia: Time to Talk Trade, International Crisis Group, 24 May 2018

<sup>37</sup> The statistics of the Russian Federal Customs Service

<sup>38</sup> People in Abkhazia discussed how the share of Russian aid has decreased in five years (В Абхазии рассказали, как снизилась доля российской помощи за пять лет), 5 August 2018, Ria Novosti

<sup>39</sup> State Statistics Office of Abkhazia, State Budget 2017, published in 8 August, 2018

Sokhumi as “a waste of money” due to non-efficient spending on the one hand and shortcomings in its absorption on the other<sup>40</sup>.

So despite slight improvements<sup>41</sup> Abkhazia continues to suffer from economic deficiencies and poverty, with the poor standard of basic social and economic infrastructure, including market resources and job opportunities, undermining progress. The lack of economic development remains the biggest challenge, as the local public is well aware<sup>42</sup>. According to the official data from the de facto authorities, 250,000 people live in Abkhazia<sup>43</sup>, out of which 145,000 represent workforce (42,000 are employed, 26,000 of whom work in the public sector). Although the de facto statistics office of Abkhazia does not provide unemployment statistics, based on available data and analysis of various economic parameters it appears that the unemployment rate in Abkhazia stands at 40-70%<sup>44</sup>. And salaries remain low. According to the 2017 statistics (which have not changed significantly in 2018), the average monthly salary in Abkhazia amounts to 10,300 Russian rubles (around 156 USD).<sup>45</sup> Russian-provided pensions<sup>46</sup>, which were worth USD 300 before the depreciation of the ruble, have recently decreased in value to around USD 160. Household incomes have also decreased due to the high inflation rate.<sup>47</sup> In short, financial dependence on Russia has diminished the purchasing power of Abkhaz due to ruble devaluation. Abkhazia, which relies on locally produced goods and Russian imports, has consistently been confronted with an increase of basic commodity prices.

During Soviet times, Abkhazia was regarded as *cote d'azur* on the Black Sea and a favourite destination for Soviet political elites as well as for the citizens across the Soviet Union, including for Russians. Today, tourism is supposed to be a locomotive of Abkhazian economy. According to the de facto minister of tourism and resorts of Abkhazia, tourist arrivals are increasing annually. In 2018, one million visitors came to Abkhazia, of which 550,000 were tourists, while the rest spent less than 24 hours in Abkhazia. As the de facto minister stated, the overall capacity of tourism infrastructure includes 300 hotels with 25,000

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<sup>40</sup> Igor Koshin: do not count only on Russian assistance (Игорь Кошин: Не стоит рассчитывать только на российскую помощь), 12 October 2018, Abkhazia Inform

<sup>41</sup> During 2009-2017, Russian financial aid to Abkhazia amounted 44.6 million rubles. Through this aid, infrastructure, including government buildings, roads, etc. was reconstructed.

<sup>42</sup> Sonja Katharina Schiffers, The Intricacies of International Assistance to De Facto States Human Security and International Engagement in Abkhazia, August 2015, Centre for German and European Studies

<sup>43</sup> The figures are contested in Tbilisi.

<sup>44</sup> If we divide a number of employed, 42,000 people, by the total size of the labor force, 145,000 people, unemployment will stand at 70%. However, the calculation does not include self-employed population, number of which could equal to the number of employed population. People involved in agriculture, taxi drivers, private teachers, etc. could be regarded as self-employed.

<sup>45</sup> State Statistics Office of Abkhazia, State Budget 2017, published in 8 August, 2018

<sup>46</sup> Pensions for residents holding Russian citizenship represent an important income source for thousands of households in Abkhazia since well before 2008. Thousands of elderly residents receive pensions from the office of the Russian Pension Fund. The closest office is located in the Russian town of Adler. Since 2012, recipients of Russian pensions living in Abkhazia were asked to update their residency status with Abkhaz address. Until 2014 they continued receiving pensions that on average were 40% lower than in the neighboring Southern Federal District of Russia (from International Crisis Group Report)

<sup>47</sup> However, the de facto authorities have managed to decrease the high inflation rate from 19.2 percent in 2008, to 9.1 percent in 2015 and finally to 4 percent in 2017 year (State Statistics Office of Abkhazia, State Budget 2017).

bed places<sup>48</sup>. Nevertheless, the sector suffers from a number of challenges, including poor infrastructure, a lack of investment, its seasonal character, and the low-income of Russian tourists, among others.<sup>49</sup> In fact, the opposition claims that—and this contradicts the statement of the de facto minister—that the number of tourist arrivals in Abkhazia is actually declining annually due to high crime rates, poor services and infrastructure<sup>50</sup>. The Abkhaz tourism industry will likely take another hit in the near future because Airbnb has announced that it will remove all housing offers in Abkhazia from its web site due to the lack of international recognition of territory.<sup>51</sup>

Apart from tourism, agriculture is supposed to be another important sector in Abkhazia's economy. During Soviet times, there was 6,000 ha (hectare) of agricultural land, but today there is only 1,200 ha<sup>52</sup>. Apart from being famous for its hazelnuts and citrus (mainly tangerines), Abkhazia has the potential to grow olives, avocado, and kiwi, and to produce high quality dried fruit and tea. However, the agricultural sector has also been declining due to lack of access to financial resources and investments, processing factories, skilled labour force, and technologies.

In general, the weaknesses of Abkhazian economy and its underlying factors are manifold. Some are systemic, some are related to the criminal situation, and others stem from a lack of modern-day skills and expertise. A host of factors significantly impede economic development, including clan rule, high crime rates, underdeveloped financial sector, lack of skilled labour force, poor legal system and shadow economy.<sup>53</sup> Abkhazia's GDP in 2018 was around RUB 30.4 billion (about US \$450 million), with a World Bank global rating of 185. Though official data from de facto authorities suggest that the nominal GDP from 2013 to 2017 increased by 21% (with an average annual growth of 5.25%)<sup>54</sup>, the socio-economic situation remains challenging. The Abkhaz public generally recognizes the “deteriorating socio-economic situation in the country”. Aslan Bzhania, a de facto MP and presumably one of the most serious contenders for the 2019 “presidency”<sup>55</sup>, went as far as to declare that the “Abkhaz state is being smashed down as its government institutions degrade, unemployment numbers increase, and the scale of crimes and corruption reach a tipping point.”<sup>56</sup>

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<sup>48</sup> The meeting between the president of Abkhazia, Raul Khadzhimba and the minister of resorts and tourism, Avtandil Gartskia was held in Sokhumi (Встреча президента Абхазии Рауля Хаджимба и министра по курортам и туризму республики Автандила Гарцкия прошла в Сухуме), 16 November 2018, Sputnik Abkhaz

<sup>49</sup> Economy in Breakaway Abkhazia: Development or Standstill, 14 December 2015, Business Caucasus Week

<sup>50</sup> Aslan Bzhania: “the opposition will consistently and publicly defend the interests of citizens, no matter how much efforts it would take” (Аслан Бжания: “Оппозиция и вперёд будет последовательно и публично отстаивать интересы граждан, каких бы учились это ей не стоило”), 18 December 2018, Abkhazia Inform

<sup>51</sup> Airbnb will remove all listings from occupied Abkhazia and South Ossetia, 13 February 2019, Commersant.ge

<sup>52</sup> Russian market will not take Abkhaz tangerines yet (Абхазских мандаринов на российском рынке пока не будет), 10 November 2017, AccentNews

<sup>53</sup> Socio-economic system of Abkhazia and problems of its development, International Alert,

<sup>54</sup> Statistics Office of Abkhazia, Official Statistic, available at: <http://ugsra.org/ofitsialnaya-statistika.php>

<sup>55</sup> Most probably the next presidential elections will be held in June, 2019.

<sup>56</sup> Aslan Bzhania: “the opposition will consistently and publicly defend the interests of citizens, no matter how much efforts it would take” (Аслан Бжания: “Оппозиция и вперёд будет последовательно и публично отстаивать интересы граждан, каких бы учились это ей не стоило”), 18 December 2018, Abkhazia Inform

## Window of Opportunity

There is unlikely to be a political solution to the conflict in Abkhazia in the near future. The status quo is firmly anchored, and the Russian military and political presence prevents a real solution. At the same time, the Abkhaz ruling elite, unlike its South Ossetian counterpart, is not showing a willingness to integrate into Russia. Also, Abkhaz society demonstrates less flexibility on status issues vis-à-vis Tbilisi than, for example, Transnistria's elite does vis-à-vis Chisinau. However, there is still a possibility that Tbilisi and Sokhumi could sidestep status-related issues and "talk trade and economy". The recent economic downturn in Russia and the Kremlin's increased efforts to gain more control over Abkhazia could contribute to this.<sup>57</sup> **These trends might create more incentives for Sokhumi to think about plausible trade cooperation with Tbilisi as expanding its economic options becomes a necessity rather than a luxury. Abkhazia increasingly understands that Tbilisi is the key for its access to the wider world.** Some Abkhaz interlocutors have openly acknowledged that it's in their interest to reach an agreement, for example, on "import" of goods through Tbilisi-controlled territory, since "importing" from Turkey via Black Sea or importing from Russia makes products much more expensive. But on the other hand, they are worried that developing trade links with Tbilisi could contribute to the "de-sovereignization" of Abkhazia<sup>58</sup>.

The ambivalent attitudes of Abkhaz are expressed in their current approach vis-à-vis existing exchanges on the Enguri bridge. Despite the fact that Abkhaz regulations ban trade, the de facto authorities turn a blind eye to goods crossing the dividing line on a daily basis. The only authorized "export" good allowed to be traded since 2015 is hazelnut; anything else that crosses the so-called border is defined as "contraband" by the de facto authorities.

Allowing informal trade across the ABL demonstrates Sokhumi's need, if not desire, to open up for trade with Tbilisi. In addition, the de facto authorities have not shied away from promoting more transparent and effective management of trade across the boundary line. For example, last year the de facto president, Raul Khajimba, publicly stated the need to "legalize" trade with Georgia<sup>59</sup>. In addition, in private conversations many Abkhaz<sup>60</sup> express their readiness to open up for trade with Tbilisi.

**Economic exchange between Sokhumi and Tbilisi could be in the Kremlin's interest too, as it could ease its financial burden.** In 2018, the deputy foreign minister and Russia's representative in the GID, Grigori Karasin, hinted at the possibility of developing trade and education cooperation that could also be addressed in the GID, while setting aside the settlement of the intractable political and security issues that are locked in a stalemate (e.g. non-use of force). **It would be naïve to assume that Moscow would take a hands-off approach if trade contacts between Tbilisi and Sokhumi were opened up, but building contacts could at least create a room for manoeuvre for international actors, such as the EU, to lobby the Kremlin to allow more trade and ensuring freedom of movement across the dividing line.**

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<sup>57</sup>In addition, Abkhaz demonstrate increased sentiments of Abkhaz and Georgians being related ethnicities and therefore, being much closer to Georgians than to Russians

<sup>58</sup> GRASS interviews, de facto officials from Sokhumi, October 2018.

<sup>59</sup> President Raul Khadzhimba stands for the legalization of trade on the border with Georgia (Президент Рауль Хажинба выступает за легализацию торговли на границе с Грузией), 30 August 2018

<sup>60</sup> During GRASS-led 1.5 track meetings, Abkhaz interlocutors, including high ranking authorities, have stated that even they could export Abkhaz goods with the certificates of origin issued by Georgia.

**Tbilisi and Sokhumi—together with the international community and especially the EU—need to go beyond the political deadlock and work out their difficulties in status-neutral modus operandi if they wish to ultimately contribute to the welfare and security of the communities.** There are differences between the Georgian issues and the cases of Moldova and Cyprus, but the experiences learned in those countries show that trade connections across the conflict lines have led neither to agreement on the fundamental and politically sensitive issues nor to the “de-sovereignization” of the unrecognized entities. Nevertheless, such trade links have in fact contributed to much progress and development for the populations residing on both sides of the conflict divide. **Even in the given circumstances, Abkhaz could take bolder steps and manage to get more freedom from Russia to engage with Georgians on trade and other important issues, bypassing status issues.**

### Trading with the EU – a juicy carrot

Informal trade between Abkhaz and Georgian sides has grown over the past years. According to a report by the International Crisis Group, 150 tons of commercial cargo cross the conflict line daily, with freight’s annual value ranging from \$7 to \$15 million<sup>61</sup>. Although Russia is the biggest trade partner for Abkhazia, local businesses in Abkhazia are striving to connect with alternative trade routes beyond Russia, including with the European countries<sup>62</sup>. EU-Georgia free trade creates a new possibility for local businesses and consumers. **To be specific, Abkhaz can enjoy the benefits of free trade by getting their products onto European markets, as well as to receive goods in cheaper prices. To this end, Sokhumi and Tbilisi, with the help of Brussels, would ideally need to agree (like in the Action Plan on Implementing Measures on Facilitation of Trade with the European Union between Tiraspol and Brussels) on specific status-neutral modalities with regard to certificates of origin and the quality of goods. Moreover, even before achieving such a deal—which could take quite some time to achieve—Abkhaz could enjoy the benefits of free trade through certain ad hoc arrangements based on the possibilities provided in Tbilisi’s new trade initiative - “A Step to a Better Future”.**

Georgia signed the Association Agreement (AA) with the Deep and Comprehensive Free Trade Area (DCFTA) with the EU in 2014. It came into force in 2016. According to article 429, the deal does not apply to breakaway regions; however, the preamble of the same agreement explicitly states that the EU and Georgia are committed to providing the benefits of closer political association and economic integration of Georgia with the EU to all citizens of Georgia *including the communities divided by conflict*<sup>63</sup>. Tbilisi’s 2018 “A Step to a Better Future” initiative reflects the potential benefits of extending the EU-Georgia free trade agreement to the businesses and consumers in Abkhazia via status neutral modalities.

The Moldovan case suggests that the extension of DCFTA benefits across the conflict divide could bring tangible progress without touching politically sensitive issues<sup>64</sup>. In some way, Transnistria is an unlikely

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<sup>61</sup> Opening the ‘Ingur/i gate’ for legal business Views from Georgian and Abkhaz private companies, March 2018, International Alert

<sup>62</sup> Abkhazia and South Ossetia: Time to Talk Trade, International Crisis Group, 24 May 2018, pg. 9-11

<sup>63</sup> EU-Georgia Association Agreement, 2014, pg. 6.

<sup>64</sup> However, Georgia’s trade relations with Russia should incentivize Sokhumi to launch talks about liberalizing trade across the boundary line. Despite the fact that Russia has occupied 1/5th of the Georgian territories and diplomatic relations are cut-off, Russia is one of the leading economic partners for Georgia. After the 2008 war, Russia

model for Abkhazia: first, because Moscow has not recognized Transnistria as an independent state as it has Abkhazia; second, unlike Abkhazia, Transnistria does not share a direct border with Russia. In addition, Transnistrians had much greater economic incentives to open up to the EU markets and think beyond “recognition” issues. Tiraspol has traditionally been heavily industrialized and enjoyed access to EU markets even before signing of the EU-Moldova DCFTA.

Though Abkhazia may not have as much to lose as Tiraspol, Sokhumi still has an opportunity to get significant benefits from being able to use Georgia’s free trade with the EU. Abkhazia is one of the biggest hazelnut producers in the world, and these nuts could reportedly fetch five times as much in the West as they do in Russia.<sup>65</sup> Abkhazia is also rich in mineral waters and has potential in wine industry as well as in some other agricultural fields. In addition, there can be a stronger incentive for Abkhaz to find cheaper import goods, as trade with Russia and Turkey is expensive due to transportation costs, tariffs or other barriers, while local production is insignificant. Therefore, **there is merit to discussing the prospects of extending benefits of the EU-Georgia free trade agreement to Abkhaz consumers and businesses, particularly among the part of the Abkhaz political elite that has retained hope of accessing Europe and its markets.** The EU has started to test the ground in Sokhumi over the past few years. The Abkhaz elite’s (and general public’s) sensitivity regarding this issue is related to status, as they believe would be difficult to defend their “status” if they fulfilled EU requirements for the export of Abkhaz goods to the EU. Tbilisi has developed its own vision for how Abkhaz concerns can be mitigated and how trade across the boundary line, as well as a possible extension of DCFTA benefits to the Abkhaz businesses and communities, could practically take place.

The 2018 initiative “A Step to a Better Future” creates the possibility for products produced or originating from Abkhazia and Tskhinvali region/South Ossetia to access Georgia’s internal market as well as foreign markets through the privileged export opportunities available to Georgia, *inter alia* the Deep and Comprehensive Free Trade Agreement with the EU”. To this end, it introduces a simplified status-neutral procedure for Abkhaz to receive identification and register as entrepreneurs. In practical terms, and contrary to the previous regulations, Abkhaz entrepreneurs have under this initiative an opportunity to engage in commercial activities either in Tbilisi-controlled territory or abroad without surrendering their “sovereignty”. **The new initiative offers a possibility for Abkhaz residents to receive necessary identification numbers (personal numbers) by presenting documents issued in Abkhazia (that means Abkhaz or Russian passports) and without a need to acquire Georgian citizenship. Any foreigner undergoes the same procedure if he/she wants to conduct business activities in Georgia**<sup>66</sup>. A number of legislative amendments to make the initiative fully functional are in the pipeline<sup>67</sup>. These procedures pave the way to achieving the main goal of the initiative: allowing Abkhaz businesses to sell their products both

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maintained and strengthened its place in top three trading partners for Georgia; it is the number one market for main Georgian export products, such as wine and mineral water; in 2018, Russia was third as a source of tourism in Georgia (where Russian tourists amount 23,8% of total number); Russia is one of the top investor countries in Georgia, including: in banking sector, mobile communication, wine industry, infrastructure, energy sector etc.; in addition, the hundreds of thousands of Georgians living in Russia send around half a billion USD annually to Georgia, making Russia the number one country in terms of remittances to Georgia.

<sup>65</sup> Abkhazia and South Ossetia: Time to Talk Trade, International Crisis Group, 24 May 2018

<sup>66</sup> Facilitation of Trade Across Dividing Lines, Office of the State Minister for Reconciliation and Civil Equality of Georgia, 2018

<sup>67</sup> Certain amendments are envisaged to the law “on the occupied territories”.

in Tbilisi-controlled territory and abroad (EU markets for instance) without Georgian intermediaries and with tax preferences, including, for example, exemption from VAT/profit/income taxes. Businesses can also apply for special grants/funds.

The Moldovan experience sets out an interesting precedent of how Moldova and Transnistria managed to compromise, meeting requirements for connecting the region to the DCFTA through the mediation of European diplomats and trade specialists. The major requirements are<sup>68</sup>: (1) Standardization of the customs tariff regime with the EU. As the DCFTA requires the reciprocal elimination of import tariffs, Tiraspol has to adjust its policy accordingly. (2) Transnistria has to provide continued access to Moldova's competent bodies in order to verify companies' compliance with standards and certify the quality of products, which was happening before on an ad hoc basis. (3) Transnistria has to harmonize its economic and trade-related legislation with European standards in order to reduce non-tariff barriers that could hamper access to the EU market<sup>69</sup>.

If a deal between Tbilisi-Sokhumi-Brussels is achieved, Abkhazia would also be asked to fulfil similar requirements. Tbilisi's initiative provides solutions to some of those requirements, including issues related to the certificate of origin and quality certification (which requires inspection and subsequent certification by the authorized bodies). Tbilisi offers Abkhaz businesses/entrepreneurs the opportunity to obtain an appropriate quality certificate with the support of private laboratories. This provision opens up the possibility of the status-neutral set-up of inspection and quality certification. If it is too difficult for Sokhumi to accept quality check compliance through on-the-spot inspections from Tbilisi or in the Tbilisi-based laboratories, **one alternative is to allow inspection and quality certification in Sokhumi by independent experts from the EU certified foreign companies. This would increase the costs but could certainly be an alternative possibility.**

However, the issues related to the certificate of origin are more complex. As the Transnistrian or Cypriot experiences may not be fully relevant in Georgia's case, there are few, if any, available solutions for certificates of origin at this stage. While Transnistrians are more flexible and have been enjoying free trade benefits of Moldova with the EU through documents issued by Chisinau, the possibilities of this sort are limited in the Abkhaz case. Within the "Step to a Better Future" initiative, Tbilisi offers Abkhaz businesses and entrepreneurs the chance to export their goods as originating from Georgia. A section of the Abkhaz business and political elites would agree to such arrangement<sup>70</sup>. **While these would represent ad hoc cases rather than a sustainable solution, they would nevertheless contribute to the facilitation of trade and the freedom of movement of goods and people across the dividing line (*inter alia*, by reducing risks of arbitrarily impeding flow of goods for political or other purposes).** In other words, what is suggested here is to "liberalize contraband" at the first stage through ad hoc arrangements. Therefore, these ad hoc arrangements need to be encouraged by all stakeholders. However, the importance of a deal similar to

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<sup>68</sup> Stanislav Secieru, Transnistria Zig-zagging towards a DCFTA, January 2016, PISM Policy Papers

<sup>69</sup> However, in the case of Moldova, Thomas de Waal suggests that "in practice, the government of Transnistria has so far avoided implementing some of the key measures [most importantly elimination of duties on imports] it had agreed to when it joined the DCFTA" and most interestingly, "Transnistria's slowness to comply with these demands has so far been overlooked in Brussels, which values the political importance of the deal" - Enhancing the EU's Engagement with Separatists Territories, Carnegie Europe, January 2017

<sup>70</sup> GRASS interviews, de facto officials from Sokhumi, October 2018.

Chisinau-Tiraspol cannot be underestimated—and efforts for achieving an agreement of that kind should be maximized, as it provides the only sustainable solution to meaningful trade relations.

In 2018, the International Crisis Group came up with another hypothetical option to avoid the potential disagreements about treating Abkhaz goods as originating from Georgia. This option implies inviting independent international companies that could provide Abkhaz goods locally with the **same code** assigned to Georgian products in the **certificate of origin** (EUR.1 document). That would require Tbilisi to start talks with Brussels to allow into its market Abkhaz goods with EUR.1 documentation, which, contrary to the existing structure would not specify country of origin and instead include town of origin. Country of origin will only be implied under the code that is assigned to Georgia. While this option of issuing certificate of origin may seem to be too much of a political concession<sup>71</sup> for Tbilisi, Georgia has already expressed its readiness to use status-neutral labelling. The new initiative proposes that only the name of the producer, the name of the city/settlement (e.g. Sukhumi, Gagra, etc.) and/or address (street, number) on the Abkhaz product could be sufficient for Abkhaz goods to be traded on Tbilisi-controlled territory as well as abroad. The details of this hypothetical option do require more analysis, however, as its practical application might lead to unintended negative consequences of a political nature.

Another problem of exporting Abkhaz goods to the EU is related to **barcodes**, which are placed on certain products according to their content. While the issue might seem technical at first glance, it is actually quite political in nature. In order to go out for “export,” Abkhaz goods would need proper labelling that primarily includes the Global Trade Item Number (GTIN)<sup>72</sup>, a globally recognized protocol for assigning item numbers in all types of trade. During Track 1.5 discussions, while addressing the issue of barcodes, Abkhaz representatives exercised a certain degree of flexibility. Although the issue is politically sensitive, progress could be achieved. However, if other essential conditions are met but an agreement on barcode could not be achieved, Tbilisi and Sokhumi (with the EU’s involvement) could also think about possibilities for attaining a status neutral barcode that does not include the Georgian prefix in GTIN<sup>73</sup>.

One thing is clear: for any trade arrangement to be agreed and succeed, Abkhaz need to think beyond their “recognition first” motto<sup>74</sup> and help their own de-isolation by showing more flexibility towards

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<sup>71</sup> It directly contradicts Georgia’s new initiative that maintains that issuance of a certificate of origin, declaration, inspection, and export-related procedures shall be handled by the Revenue Service in compliance with Georgian legislation.

<sup>72</sup> Global Trade Item Number (GTIN) is an identifier for trade items, developed by GS1. Such identifiers are used to look up product information in a database (often by entering the number through a **barcode** scanner pointed at an actual product) which may belong to a retailer, manufacturer, collector, researcher, or other entity. The uniqueness and universality of the identifier is useful in establishing which product in one database corresponds to which product in another database, especially across organizational boundaries. GTIN is traditionally enshrined in **barcodes** that indicate the country in which the company that produces the product is based. This means the company is headquartered, or has an office in that location, but the product could be in another country.

<sup>73</sup> It should be noted that in the case of Cyprus, barcodes have become a strictly political issue and Cyprus has refused to allow Northern Cypriots to trade with their own barcode, or to negotiate any status neutral solution.

<sup>74</sup> To nobody’s surprise, de facto officials in Abkhazia publicly rejected Georgia’s new initiative. As the de facto minister of foreign affairs commented: “The Republic of Abkhazia is an independent, sovereign state. The only step in a better future is Georgia’s recognition of the independence of the Republic of Abkhazia and the construction of a full-fledged interstate dialogue between our countries in order to ensure stability and prosperity for future generations.” Likewise, the former prime minister Gennady Gagulia, said that he was “ready to trade with Georgia”

ensuring freedom of movement of people and goods across the dividing lines. As discussed above, part of the business community and political elite in Abkhazia is ready to discuss possibility of accepting practices of status-neutral options as successfully tested in other conflict situations. **It is high time to transform these pro-business attitudes into policies.** From the perspective of Abkhaz political elites, these policies could be communicated for domestic consumption as serving “legitimate Abkhaz statehood” goals, such as a) improving socio-economic conditions and well-being in Abkhazia; b)<sup>75</sup> Creating employment opportunities by strengthening local businesses; c) enhancing administrative capacity, which implies contributing to “state-building”.

Seen from this perspective, Tbilisi’s initiative provides a useful basis for further discussions. In the meantime, Brussels should continue its talks with Sokhumi about a possible extension of free trade benefits to the Abkhaz businesses and consumers and, at the same time, provide increased support to informal channels within track 1.5 level format.<sup>76</sup>

### Essential steps to be enforced

A status-neutral approach should be the modus operandi in the confidence building process. Such an approach, if taken seriously, can be successfully applied to issues such as free movement, trade, education, agriculture and livelihood programs, humanitarian connections, health care, and on-the-ground security measures. Tailoring the status-neutral instruments to the most pressing needs for building confidence can yield results for years to come, improve the living conditions and well-being of communities divided by conflict, and have a positive effect on the overall peace process.

Tbilisi’s recent initiative to facilitate trade and enhance educational opportunities is a very important step forward. However, it is absolutely vital to back up the initiative with more robust practical steps, strengthen coordination among relevant stakeholders, and invest far greater human and financial resources. Yet the Georgian Government alone will not be able to succeed in this process; and the engagement of civil society actors is crucial for developing innovative ideas and initiatives and communicating them with the relevant stakeholders from Abkhaz community.

For their part, Abkhaz should try to come up with their own proposals and show more flexibility to cooperate on pertinent issues by applying a status-neutral approach. Lifting restrictions on trade would be an essential part of such cooperation. Increasing engagement with Georgian community would

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but not prepared to make any political concessions to do so. He also added that Sokhumi would eagerly welcome the EU’s proposal to extend DCFTA benefits to Abkhazia only if Georgia recognizes Abkhazia’s independence.

<sup>75</sup> An International Alert study about the attitudes of Abkhaz and Georgian businesses regarding economic cooperation across the boundary line suggests that political issues outweigh economic benefits among the business communities as well. Business representatives usually take a zero-sum approach and do not think ‘outside the box’ about potential economic gains from mutual economic cooperation. This is the case even though neither side rules out special laws enabling business relations across the conflict divide: “legality is the key factor for Georgians; for the Abkhaz, the moral aspect of business relations is paramount.” However, in private talks Abkhaz business community as well as some of de facto authorities seem to be more open and ready for cooperation if their concerns about status related issues are safeguarded.

<sup>76</sup> **Since 2014, GRASS has pursued confidence-building activities and in doing so, has institutionalized a track 1.5 level meeting format that allows official and non-official participants to meet and discuss conflict resolution issues. Brussels can also use GRASS’s services in that regard.**

contribute to their de-isolation and create better chances for socio-economic development. To this end, Abkhaz should start thinking more rationally and overcome their emotional attitude towards trading with Georgia, which is portrayed as the enemy. Abkhaz also need to “do their homework” and advocate for getting implicit, or explicit “permission” from Moscow for such a “soft” engagement with Tbilisi.

For practical reasons, it is important to strengthen the so-called Track 1.5 dialogue formats, which would bring together state and non-state actors to engage in the continued dialogue process, build trust, and work towards the implementation of mutually beneficial initiatives. It is equally important to maintain work in between the meetings, in order to develop a results-oriented dialogue platform with sustainable channels for communication. With very few exceptions, the previous experience with confidence building between Georgians and Abkhaz supported by international donors—such as within the Schlaining Process<sup>77</sup>--has proved that one-off meetings without somewhat structured dialogue are not enough to achieve sustainable progress. Furthermore, the relevant stakeholders in Georgia need to improve the quality of coordination and establish relevant formats for cooperation and the effective exchange of information.

For its part, the international community, including the EU, should review its approach towards the conflicts in Georgia and engage more actively in the confidence-building process. The EU has credibility both in Tbilisi as well Sokhumi, and it should effectively leverage its soft power along with relevant financial instruments in order to achieve practical results in the overall peace building process, but particularly in trade and education. On an international level, the EU needs to increase the pressure on Moscow to get it to soften its restrictive approach towards the unfolding relations between Abkhaz and Georgian communities.

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<sup>77</sup> The Schlaining Process was a dialogue format between Abkhaz and Georgian officials, politicians and civil society activists mediated by the Conciliation Resources. It facilitated 20 dialogue workshops between Georgian and Abkhaz interlocutors between 2000 and 2007.