



# TRANS-INGUR/I ECONOMIC RELATIONS: A CASE FOR REGULATION

May 2013

**Natalia Mirimanova**

Researchers: Beslan Baratelia, Valeri Basaria, Akaki Chargeishvili, Vakhtang Charaia, Oleg Papaskiri, Lolita Zade

## About International Alert

International Alert helps people find peaceful solutions to conflict.

We are one of the world's leading peacebuilding organisations, with nearly 30 years of experience laying the foundations for peace.

We work with local people around the world to help them build peace. And we advise governments, organisations and companies on how to support peace.

We focus on issues which influence peace, including governance, economics, gender relations, social development, climate change, and the role of businesses and international organisations in high-risk places.

**[www.international-alert.org](http://www.international-alert.org)**

*This work has been produced with the assistance of the European Union and the UK Conflict Pool. The contents of this work are the sole responsibility of International Alert and can in no way be taken to reflect the views of the European Union and the UK government.*

© International Alert 2013

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without full attribution.

Layout by D. R. ink

Front cover image: Local residents crossing Ingur/i bridge, 2008 © RIA Novosti

Map graphics from Shutterstock: Marie Nimrichterova (meat), greiss design (fruit and vegetables), Matthew Cole (furniture), Apollofoto (clothes), Nelia Sapronova (washing machine)

# TRANS-INGUR/I ECONOMIC RELATIONS: A CASE FOR REGULATION

# Contents

<b>Executive summary</b>	<b>3</b>
Conclusions	5
Recommendations	6
<b>1. Informal trade study</b>	<b>7</b>
Methodology	7
Results	9
Trans-Ingur/i commodity flows	10
Commodity composition	16
The dynamics of trans-Ingur/i trade, August 2012-January 2013	18
Goods from Georgia in relation to external trade turnover of Abkhazia	25
Goods transported to Abkhaz markets in relation to official exports of Georgia	27
<b>2. Legal review</b>	<b>29</b>
International documents and mechanisms	29
Internal normative documents	41
Proposals of parties to the conflict and third parties	52
Mutual economic interests	56
Summary and conclusions of the legal review	57

## Executive summary

This study is the third part of a series analysing economic relations across the Georgian-Abkhaz conflict divide, which appraises the potential of mutual economic interest as a basis for conflict transformation.<sup>1</sup> Economic incentives of the private sectors of conflicting parties and other economic actors in the larger region are not currently a defining factor in the peace process. The prospect of parties arriving at a final and comprehensive solution to the Georgian-Abkhaz conflict in the very near future using the existing negotiations format does not look bright.<sup>2</sup> An exploration of the possibility of establishing a provisional economy-driven regulatory mechanism to enable orderly and transparent trade across the Ingur/i river, involving both Georgian and Abkhaz entrepreneurs, as well as business actors from other parts of the South Caucasus, would appear to be a timely proposal and potential game changer.

The conceptual question at the centre of this research is whether economic incentives can facilitate conflict transformation by cementing mutual interest and interdependence, and whether a provisional legal framework, which would make economic activities across the conflict divide regulated and transparent (and, therefore, risk-free), would create a new impetus for peace talks. Outside the realm of “war economy” typically involving small groups able to make extreme profits by breaching embargoes or trading deadly products with the highest returns, conventional trade flows in the conflict environment, most notably between the conflicting parties, are tainted by a lack of access to markets, productivity and purchasing power.<sup>3</sup> However, trade tinted by conflict relationships still follows natural fundamental supply/demand and price gradient patterns. Conflict breeds insecurity and mistrust, which leads to the absence of will to legally define relationships, in particular economic relationships. It is in fact the prohibitive legal context that criminalises cross-conflict economic interaction thus hindering economic drivers from becoming more prominent in the process of conflict transformation. The dilemma over whether economic interaction would lead to greater security as a result of enhanced trust and mutual interest or whether economic interaction would only follow an agreement between the conflicting parties (which would guarantee security) was clearly discernible in the discourse of business communities on both sides of the conflict.<sup>4</sup> This study offers evidence to the conflicting parties to consider a way to transcend this dilemma by creating a mutually acceptable, enforceable and binding regulatory framework (security) to facilitate economic activity at the scale and in the sectors which both parties regard as beneficial (economy).

Trans-Ingur/i trade takes place across a conflict divide in a context where the conflicting parties have no relations, including economic.<sup>5</sup> From a political perspective, for the Georgian side, commodities crossing the boundary into Abkhazia are considered to be internal trade across an administrative border; for the Abkhaz side, this trade is considered to be foreign trade across a state border. From a security perspective, for the Georgian side, commodities enter “occupied territory”. Security concerns of the Abkhaz side have led to the closure to any movement of commercial goods to and from the Georgian side. From a legal perspective, according to the 2007

1 N. Mirimanova (2012). *Prospects for the regulation of trans-Ingur/i economic relations: Stakeholder analysis*. London: International Alert; N. Mirimanova and O. Pentikainen (Eds.) (2011). *Regulating trans-Ingur/i economic relations: Views from two banks*. London: International Alert. These texts and more are available at <http://www.international-alert.org/ourwork/regional/caucasuscentralasia>

2 In this report we are concentrating on the Georgian-Abkhaz conflict because the focus of the attention in the study was the economic interface between the two economies. The Russian-Georgian conflict is outside the scope of this study. However, it is definitely an important factor in the overall conflict context.

3 International Alert (2006). *Local business, local peace: The peacebuilding potential of the domestic private sector*. London. Available at <http://www.international-alert.org/resources/publications/local-business-local-peace>

4 N. Mirimanova (2012). Op. cit.

5 The Ingur/i hydropower plant is an exception.

decree of the president of Abkhazia, this movement of goods is considered to be prohibited, and whatever commodities cross into Abkhazia from that direction are considered contraband. From the Georgian position, this movement of goods is not fully in line with the law either. The Law on the Occupied Territories, which was adopted in the aftermath of the August 2008 war, declares that economic activity (including business) on the territory of Abkhazia is illegal.

The perception exists that opening up economic channels across a problematic border carries the danger of eroding border control and eventually security. However, the facilitation of economic interactions over the border would in fact require more sophisticated and strict policing,<sup>6</sup> as well as the proper organisation of the movement of cargo and people. The facilitation of economic relations necessitates clear, strictly observed and enforceable rules. However, above all, the regulation of economic relations in the absence of a peace agreement between conflicting parties requires ongoing and preferably institutionalised coordination and dialogue between the relevant authorities, businesses and civil society structures, such as Chambers of Commerce, which represent the interests of the private sector.

This report consists of two parts: an assessment of the economic significance of trans-Ingur/i trade and a reconstruction of legal dynamics in Georgian-Abkhaz economic relations with particular emphasis on how economic relations featured in the negotiation process.

In this study, trade across the Ingur/i river was objectified by monitoring and assessing the structure and quantities of traded commodities over a six-month period (August 2012–January 2013). The monitoring covered Zugdidi market and several Abkhaz markets all the way to the Russian border. The data obtained was cross-referenced with official external trade data in order to define the significance and specificities of trans-Ingur/i trade within the trade structures of the Georgian and Abkhaz economies.

This report embarks on the first comprehensive inventory of the laws, by-laws, decrees and other normative acts adopted by either side, by third parties and by international organisations relating to the economic aspects of the Georgian-Abkhaz conflict, including economic relationships and regulations targeting the economy of the opposite side, as well as third-party regulations that had an impact on the economic situations of the primary conflict sides. The chronological analysis of the dynamics of the legal provisions within which Georgian-Abkhaz economic relations have unfolded has revealed important trends, as well as the exceptional yet noteworthy creative legal frameworks for the operation of the Ingur/i power plant.

The main findings of the *economic component* of the study are as follows:

1. Trans-Ingur/i trade is asymmetric and, by and large, unidirectional: commodities are supplied to Abkhaz markets by Georgian producers or intermediaries. This unidirectional movement of commodities is defined by the supply/demand balance aligned with the price gradient.
2. Hazelnuts and certain fruits (tangerines, kiwi and feijoa<sup>7</sup>) are moving across the divide to meet demand outside Abkhazia and Georgia: both Russian and European markets absorb nearly all hazelnuts grown in Western Georgia and Abkhazia. Georgian producers are orientated towards European markets (the Russian market is inaccessible), while most Abkhaz-grown hazelnuts are shipped to Russia. However, there is also a small percentage of hazelnuts grown along the Abkhaz bank of the Ingur/i that cross the river into Georgia. Tangerines, kiwi and feijoa from Abkhazia have been recently “re-discovered” by Georgian, Armenian and Azerbaijani wholesalers and a niche for fruit of Abkhaz origin may well arise in the markets across the South Caucasus.

<sup>6</sup> P. Andreas (2003). ‘Redrawing the lines: borders and security in the twenty-first century’, *International Security*, Vol. 28, No. 2, pp.78–111.

<sup>7</sup> A fruit from the guava family.



3. The majority (up to over 80 percent) of commodities brought into Abkhazia across the Ingur/i are intended for Sukhum/i and Gagra. Only 8–25 percent of commodities (depending on season) from across the Ingur/i remain in Gal/i. Supply from across the Ingur/i constitutes a sizeable portion of goods in Gal/i markets, while in Sukhum/i the share of goods from Georgia is small compared to the share of goods imported from Russia or Turkey.
4. Potatoes, tomatoes, cucumbers, onions and apples constitute the largest group of vegetables brought to Abkhaz markets from across the Ingur/i, making up 20–40 percent of total namesake vegetables imports from Russia and Turkey.
5. Furniture that is supplied to Abkhazia from across the Ingur/i, both Georgian and non-Georgian-produced, constitutes 40 percent of total direct shipments of furniture from Russia and Turkey into Abkhazia.
6. The volume of potatoes, tomatoes, cucumbers, onions, apples and other fruit from Georgian producers and intermediaries for sale in Abkhaz markets amounts to 10 times the total official Georgian exports of these particular products.
7. The outflow of meat and dairy products for sale in the Abkhaz market is roughly equal to the total exports of these products from Georgia to other destinations.
8. Furniture brought into Abkhazia on average amounts to 25 percent of Georgia's total official furniture exports.

The main findings of the *legal component* of the study are as follows:

1. The jointly managed Ingur/i power plant was the only constant that made the conflicting parties invent legal formulae to define mutually binding responsibilities over the operation, maintenance, distribution of energy and other matters pertinent to this highly economically important asset. The composition of the signatories to the agreements therefore reveals a willingness of the sides to circumvent certain imposed legal restrictions.
2. Other economic interactions, most notably trade across the Ingur/i, were never regulated by any norms and, by default, could be considered legal on the Abkhaz side before the 2007 presidential decree banning the movement of all commercial goods across the Ingur/i border (in both directions). For the Georgian side, trade was never illegal as it had always been considered internal trade. The 2008 Law on the Occupied Territories then declared any entrepreneurial activities on these territories illegal.<sup>8</sup> The clause on exceptions is vague and does not provide any clues as to the legal definition of trans-Ingur/i trade.
3. The rare normative regulations of economic relations with the opposite side were purely restrictive. No regulations were ever issued by either side to facilitate economic relations. Working groups tasked with economic and social issues were established within negotiation structures, but the issue of regulating economic interaction between the sides, most notably private entrepreneurs, was not tackled. No institutions for economic cooperation were ever established.
4. Agreements and communiqués issued during negotiation processes address economic rehabilitation of the conflict region, but not economic relations. Furthermore, economic projects such as the operation of the existing Ingur/i power plant and the construction of new hydropower stations, as well as the reopening of railway links until 2003, were on the agenda of bilateral and multilateral talks in which top officials from both sides took part (as well as Russia). However, regulations were never developed.

## Conclusions

1. Trans-Ingur/i trade supplies a significant share of some basic agricultural products and household commodities to Abkhaz markets (25–40 percent).

<sup>8</sup> See Article 6 of the Law on Occupied Territories. Also, see Georgian Criminal Code article 322<sup>1</sup>-1 and 322<sup>2</sup>-2: Carrying out prohibited economic activity in the occupied territories: 1. Carrying out economic activity, prohibited by the Georgian Law On Occupied Territories, in the occupied territories is punishable by a fine or deprivation of freedom for a term of three to five years. 2. The same action committed: a) by a group, b) several times is punishable by a fine or deprivation of freedom for a term of four to six years.

2. Trade across the Ingur/i serves the needs of the Abkhaz population, but has its implications for tourism. An increase in the trade of agricultural produce during the tourist season points to the need for an additional influx of healthy food products (which is one of the attractions for tourists).
3. Selling agricultural products on the Abkhaz markets constitutes an important income-generating activity for Georgian producers and vendors. Given the inaccessibility of the Russian market and a lack of demand for similar agricultural produce from neighbouring Armenian, Azerbaijani and Turkish markets, Abkhazia has become an important destination for Georgian vegetables, fruit, meat and dairy products. Similar tastes and cuisine, especially with the Samegrelo region, keep demand for these products sustainable in Abkhazia at comparatively advantageous prices.
4. Prohibitive legal frameworks on both sides discourage economic incentives, particularly at the local level, and push trans-Ingur/i trade further underground. This hits the Gal/i population the most. As a periphery to both Sukhum/i and Tbilisi, people in Gal/i district have very few income-generating alternatives. Engaging in trade across the Ingur/i is vitally important for livelihoods.
5. Economic interactions between the Georgians and Abkhaz took place outside a specific normative framework before 2007. Where interdependence was absolutely necessary, ad hoc regulatory rules were created, such as for the Ingur/i hydropower plant. For the most part, a lack of legal provisions for economic interactions with the other side left a legal void in which businesses and communities had to find alternative means to survive and profit in the harsh post-war reality.
6. The legal bans on the movement of goods and cargo across the Ingur/i did not stop cross-boundary trade.

## Recommendations

1. A joint group of experts from the relevant authorities, civil society and business circles needs to be established to attempt to design an alternative to underground trans-Ingur/i economic relations, which would delineate local development horizons, enhancing wellbeing and social security of those regions adjacent to the boundary and adding value to economic linkages. The extent and specific sectors of economic activity acceptable to both sides for regulation need to be defined.
2. Against a background of deficient legal institutions for Georgian-Abkhaz trade, the possibility of broadening the mandate of the Chambers of Commerce to incorporate matters of cross-divide trade and other economic exchanges between private sector actors should be explored.
3. An informal, ongoing discussion mechanism for experts from all sides and stakeholder groups should be established to address the issues pertinent to the implementation of the Russia–Georgia WTO agreement and other matters requiring coordination between all sides.



# 1. Informal trade study

## Methodology

The main aim of this study was to evaluate the scale and structure of trans-Ingur/i trade in order to reveal the economic reasons as to why it persists despite official prohibition and the possibilities of trading elsewhere. This evaluation is crucial to be able to assess how Georgian-Abkhaz economic relations – both bilateral and within a broader regional framework – could potentially serve as a pragmatic basis for conflict transformation. In particular, the question of how a security system can be built based on mutual interests and prospects for sustainable development, by strengthening economic ties, entering new markets and improving the investment climate of the region.

Creating a forecast for the scale of trans-Ingur/i trade was not a goal of the study. Trans-Ingur/i trade is extremely vulnerable because it takes place outside of legal frameworks. Making forecasts like those for official trade – based on identified supply/demand and differences in prices of similar goods – is not appropriate, as the very existence of the trade itself is exceptional. Additionally, it was not possible within the framework of this project to track transportation across the boundary, to make regular visual and documentary assessments of the volume of trade crossing the boundary, and to compare this field data with official trade statistics. Such an approach would only be possible if the movement of goods across the divide were not forbidden. Due to the fact that all trade across Ingur/i is informal and, thus, hidden, it is not feasible to track the entire trade flow or its size due to practical impediments and the high risks for researchers; therefore, an accurate empirical assessment of trans-Ingur/i trade is not possible and any attempt would be fraught with inaccuracies.

The research is presented in the form of a case study, in which all the specific aspects of the phenomenon (for example, individual markets, the transportation system for informal trade and the informal trade network) are gathered together to create a full picture. The case study methodology is utilised when the researcher is answering the question “What is happening?” (when the researcher’s task is to describe) or “How can what is happening be explained?” (when the researcher’s task is to explain).<sup>9</sup> The particular case selected is studied in its immediate context. During the research process, the case boundaries could be expanded or contracted; therefore, one needs to look beyond the narrower focus of the case study, acknowledging the broader context – political dynamics on both sides of the conflict, changes in the law and important events, etc. Data on the wider context were gathered by researchers through interviews with experts, stakeholders and from media reports, as well as through document analysis. Special non-statistical methods have been developed to allow for a comparative analysis of cases.

Studying trans-Ingur/i economic relations is a valuable enterprise as the meaning of its economic aspects has never been studied empirically (i.e. based on data). In this study, trans-Ingur/i trade was examined using an analytical framework, and neither the criminal code nor political frameworks were employed in the assessment.<sup>10</sup> This approach allowed the researchers to construct a three-dimensional picture of trans-Ingur/i trade, the motivations of those involved, public opinion – and its economic significance in the local and the national context.

<sup>9</sup> R. Yin [2012]. *Applications of case study research*. SAGE, Los Angeles, London, New Delhi, Singapore, Washington DC.

<sup>10</sup> Analysis of the current dynamics and state of affairs in the legal context of trans-Ingur/i trade was carried out as a separate piece of research.

Developing a methodology to assess the scale of informal trade presented a series of challenges for the researchers. These included:

1. The lack of statistics on informal trade.
2. Limited or no possibilities to monitor the actual movement of commodities, i.e. directly being able to count informal trade volumes (the movement of goods is carefully concealed). For this reason, proxy indicators were employed to assess informal (shadow) trade, which substituted the variables describing informal trade (first-rank variables) and which can be empirically measured. These indicators were selected on the basis of their good prediction of the values of the first-rank informal trade variables.<sup>11</sup>
3. The limited reliability of assessments of informal trade by participants and observers.
4. The impossibility of putting together a representative and sufficiently large sample of persons engaged in informal trade. As a result, it was impossible to employ a quantitative survey to substitute for the lack of official statistics on informal trade. Testing the hypothetical relationship between variables pertaining to informal trade and variables pertaining to social, political and other factors using quantitative analysis proved impossible as a sufficient number of observations were not gathered.
5. Personal risks for the researchers and research subjects made long-term field research problematic.
6. Research should be long-lasting and uninterrupted. However, this requires significant resources and increases the risks for the researchers and the research subjects.

In addition to the difficulties of assessing shadow commerce, this becomes even more difficult in conflict conditions. Researchers on opposing sides do not have opportunities to conduct research on the opposing side. Therefore, the research for this study covered each side symmetrically and the results obtained on both sides were regularly compared.

In order to minimise these challenges, the following decisions were taken:

1. Assessments of the volumes of goods brought across the Ingur/i obtained through monitoring markets and stakeholder interviews acted as a proxy indicator for informal trade.
2. Monitoring was conducted using anthropological methods: the researchers were immersed in the context, developed relationships of trust with persons involved in trans-Ingur/i trade and observed the trade from the “inside”. The data obtained from conversations with buyers and sellers were compared with market observations.
3. Monitoring took place over a period of six months (August 2012–January 2013).
4. Monitoring was conducted simultaneously at the two ends of the trade route, i.e. on the two sides of the conflict, using an identical methodology. Researchers visited selected markets once a month throughout the six-month research period.
5. Monitoring was conducted by research teams. Different team members would visit markets and interact directly with traders and customers, so that data received by the different researchers could be compared.

11 M. Ruge [2010]. *Determinants and size of the shadow economy: An empirical Structural Equation Model with latent variables*. University of Potsdam. Available at <http://ebookbrowse.com/01-ruge-determinants-and-size-of-the-shadow-economy-potsdam2010-pdf-d484029508>

The monitoring schedule and the number of persons surveyed in the markets are presented in Table 1 below.

**Table 1: Monitoring of markets – number of trade participants interviewed**

	August 2012	September 2012	October 2012	November 2012	December 2012	January 2013
Tbilisi	14	17	0	16	13	0
Zugdidi	55	23	21	20	0	20
Gal/i	27	32	21	25	22	23
Ochamchira/e	8	8	10	9	9	10
Sukhum/i	17	20	19	18	15	15
Gudauta	10	11	12	11	10	11
Gagra	13	15	12	12	14	13

In addition to the survey of trans-Ingur/i trade participants, the researchers also conducted interviews with experts, which enabled the context of informal trade to be established. In particular, information was obtained about economic development trends, the specifics of external trade and legislation.

In Sukhum/i, interviews were conducted with officials from the Ministry of the Economy (3), the Ministry of Finance (3) and the Customs Committee (3); Chamber of Commerce staff (2); parliamentary deputies (2); and business leaders (small, medium and large) (5).

In Zugdidi and Tbilisi, interviews were conducted with 10 officials from various state bodies, including the Interior Ministry, the Ministry of the Economy and the local administration in Zugdidi. A total of 50 entrepreneurs from small- and medium-sized enterprises (SMEs) were interviewed in Zugdidi (from the trade, services, construction and other sectors).

## Results

The first step was to compile an inventory of items traded across the Ingur/i. At this stage, the inventory was an informed guess (by the researchers), based on the context of Abkhazia and the Samegrelo region of Georgia adjacent to the Ingur/i divide, as well as Tbilisi. After the first round of observations and talks with traders on the markets on both sides, the initial list was refined and reduced to a more accurate list of the products traded across Ingur/i.

Foodstuffs	Non-foodstuffs
<ul style="list-style-type: none"> <li>• Fruit and vegetables: cabbage, potatoes, greens, beets, carrots, apples, bananas, grapes</li> <li>• Meat and dairy products: fresh pork and beef, cheese, live pigs, chickens, turkeys, goats</li> <li>• Fish: frozen sea (ocean) fish, fresh river fish, smoked fish</li> <li>• Different food products: wine, spices, seasonings, nuts, soft drinks, mineral water, dried fruits</li> </ul>	<ul style="list-style-type: none"> <li>• Shoes and clothes: men's, women's and children's shoes</li> <li>• Car parts</li> <li>• Household goods (in stock)</li> <li>• Medicines and medical supplies</li> <li>• Perfume and beauty products</li> <li>• Other non-food items: jewellery, toys, Christmas decorations, fireworks, firecrackers, etc.</li> </ul>

The first month of monitoring identified commodity groups transported across the Ingur/i on a regular basis and in substantial quantities. The selected commodity groups were then monitored further.

## Trans-Ingur/i commodity flows

The main commodity flow of both foodstuff and non-foodstuffs across the Ingur/i is east–west inflow into Abkhaz markets from the Georgian side.

### Movement of goods across the Ingur/i into Abkhaz markets

#### Transport routes

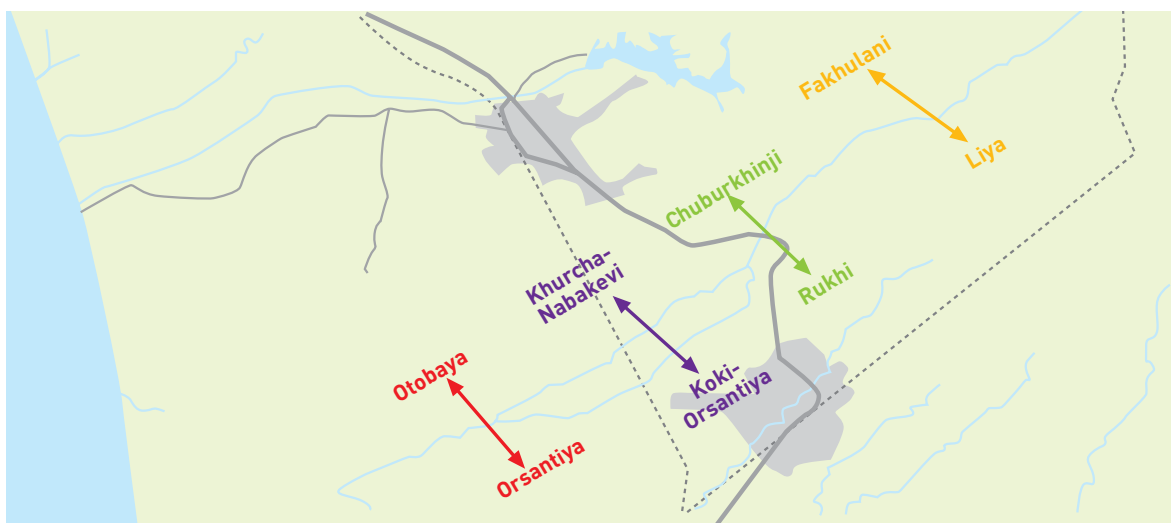
Wholesale supplies of fruits and vegetables to Abkhaz markets are supplied from three sources: the Tbilisi (Lilo) non-food wholesale market, the Tbilisi (Navtlugi) wholesale agricultural market and the Zugdidi wholesale market (adjacent to the Zugdidi agricultural market).

Three main “channels” of movement of goods were identified during the period across the boundary:

1. the Ingur/i bridge: which accounts for over 80 percent of total commodity flows;
2. the so-called “Upper zone”: a difficult-to-cross and under-populated area that accounts for less than 5 percent of cross-boundary trade volume;
3. the so-called “Lower zone”: a more populated area, where 15–20 percent of commodity flows take place.

It should be emphasised that residents of Gal/i district can legally cross the boundary in both directions. The maximum weight limit for an individual’s luggage when entering the territory of Abkhazia (the majority of people cross the Ingur/i bridge on foot) is 50kg. The contents of luggage should be for the individual’s own personal use, not for sale. By special permission, residents of other Abkhaz regions may also leave for Georgia. No obstacles have been created for Abkhaz on the Georgian side, where there is no inspection of hand luggage or transported goods.

**Figure 1: Official (Rukhi-Chuburkhindzhi) and unofficial crossing points on the Ingur/i river<sup>12</sup>**



<sup>12</sup> At the time of the field research (August 2012–January 2013).

Towards the end of 2012 the central bridge over the Ingur/i (Rukhi-Chuburkhindzhi) had become the main route of movement of goods and people. According to the researchers' observations and the stories of "shuttle traders" and minibuses drivers, at present over 75 percent of people and over 80 percent of cargo are transported via this route. Residents of Gal/i district who hold Abkhaz passports or possess the so-called "Form N.9" identification can cross the border with no restrictions.<sup>13</sup> With regard to the transportation of goods for commercial application, this is all resolved by "arrangements". Minibuses regularly cross the bridge (5 to 8 vehicles per day); a bus with employees of the Ingur/i hydropower plant runs several times a day; between 10 and 20 cars from Gal/i cross the bridge on a regular basis. Drivers hold special one-time permission certification from the administration of the district and, as per the informal instructions of the headquarters of the Georgian patrol service, cars with Abkhaz numbers can move freely in Zugdidi district.

### Social infrastructure of trans-Ingur/i trade

The Gal/i agricultural market has for many years operated on three days a week (Wednesday, Friday and Sunday). However, since the August 2012 decision of the administration of Gal/i district and the market's management, it has been open all week. On standard market days sellers (both individuals and legal entities) pay a 200–500 RUB (US\$6–17) fee per day to the market's administration; on non-official "market days" they are exempt from payments. The market is open from 0630–1600. The number of sellers in the market (including the area directly adjacent to the market and those trading on the small wholesale market located close to the agricultural market) fluctuates between 80 and 140; there are 26 stationary shops and up to 12 mobile shops.

In the absence of formal Abkhaz-Georgian economic relations, goods are transported not by legal entities (firms), but by dissociated individuals (shuttle traders) unrelated to each other who – from the standpoint of the Abkhaz legislation – are engaged in smuggling. This is due to the fact that, firstly, big businesses would find it difficult to escape being detected participating in illicit trade. Secondly, the risks that goods transported from Georgia could be confiscated as contraband are lower using shuttle traders. The philosophy employed is "less and more often": it is more beneficial to make several trips given the risk of losing everything at once. Thirdly, transporting goods in small lots can enable a trader to say that goods have been imported for personal needs and not for commercial application.

For instance, out of the total number (78) of respondents on 12th and 18th August and 2nd and 23rd September 2012 at Zugdidi market, three people identified themselves as "employees of companies" (limited liability companies), six people identified themselves as "individual entrepreneurs" and the remaining 69 called themselves simply "individuals". Out of that 69, 16 people referred to themselves as "wholesalers" and 5 identified themselves as "individual buyers" from Abkhazia. Only half of the respondents admitted that they acquired goods for sale in Abkhazia. However, most of the others were identified as regular customers by the sellers. The fact that the others were regular customers from Abkhazia was also disclosed by the wholesalers themselves. The majority of wholesale purchasers from Abkhazia (47) were women. Those who said they were from Abkhazia introduced themselves as residents of Gal/i district; however, some of them were referred to as being from Sukhum/i by other respondents.

### Origin of goods transported from Georgian side of Ingur/i

Identifying the origin of goods in Georgian markets – especially non-labelled fruits and vegetables – was a difficult task. As a rule, shuttle traders themselves refer to the key source of information as being the wholesalers from whom they purchase their goods. Wholesalers in their turn often consciously give incorrect information about the origin of goods. The reason is simple: knowing about the negative attitude of the majority of buyers to goods of Chinese (onion), Iranian (garlic) or Turkish (potatoes, cucumbers, tomatoes) origin, sellers claim their goods to be "local" produce,

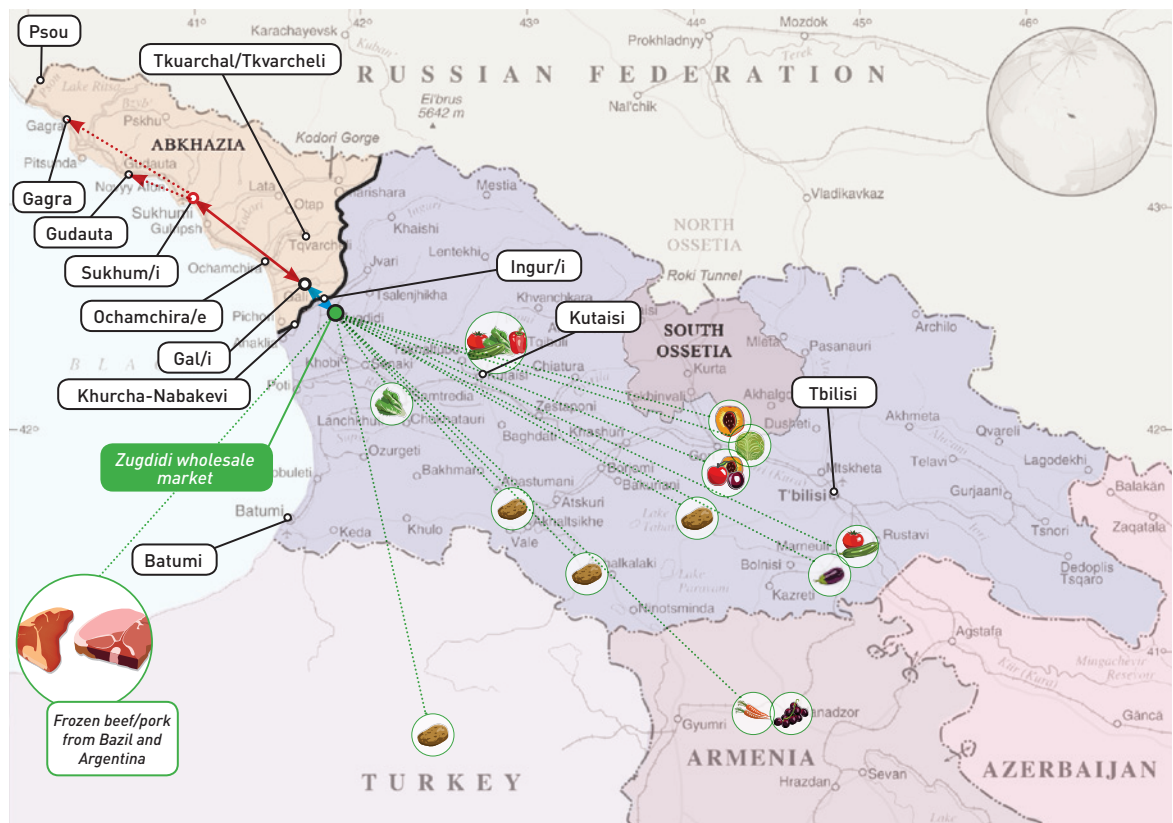
<sup>13</sup> From September 2012 an additional requirement was introduced concerning the submission of one-time passes by Gal/i district residents, which must be obtained from the Abkhaz special services. Since the research was conducted, however, the Form N.9 has been abolished.

which is the term used for products of Georgian origin in Abkhaz markets. Abkhaz buyers state that they believe goods of Georgian origin to be of superior quality. Buyers who then become sellers of these “Georgian” goods on the other side of the Ingur/i are cunning and, as it is simply impossible for an average buyer in an Abkhaz market to double check the origin of goods, this deception runs little risk of being detected.

Based on interviews with sellers, the origins of several food products supplied to shops and agricultural markets in Abkhazia from the Zugdidi wholesale market were identified:

1. Potatoes – Georgia (Akhaltzikhe, Akhalkalaki, Tsalka), Turkey
2. Cabbage – Georgia (Kaspi)
3. Carrots – Armenia
4. Cucumbers and tomatoes – Georgia (Kutaisi, Tskhaltubo, Marneuli)
5. Aubergines – Georgia (Marneuli)
6. Fresh greens – Georgia (Samtredia, Kutaisi)
7. Bell peppers – Georgia (Kutaisi)
8. Table grapes – Armenia
9. Peaches and nectarines – Georgia (Gori, Kaspi)
10. Apples, plums – Georgia (Gori)
11. Frozen beef – Brazil
12. Frozen pork – Argentina

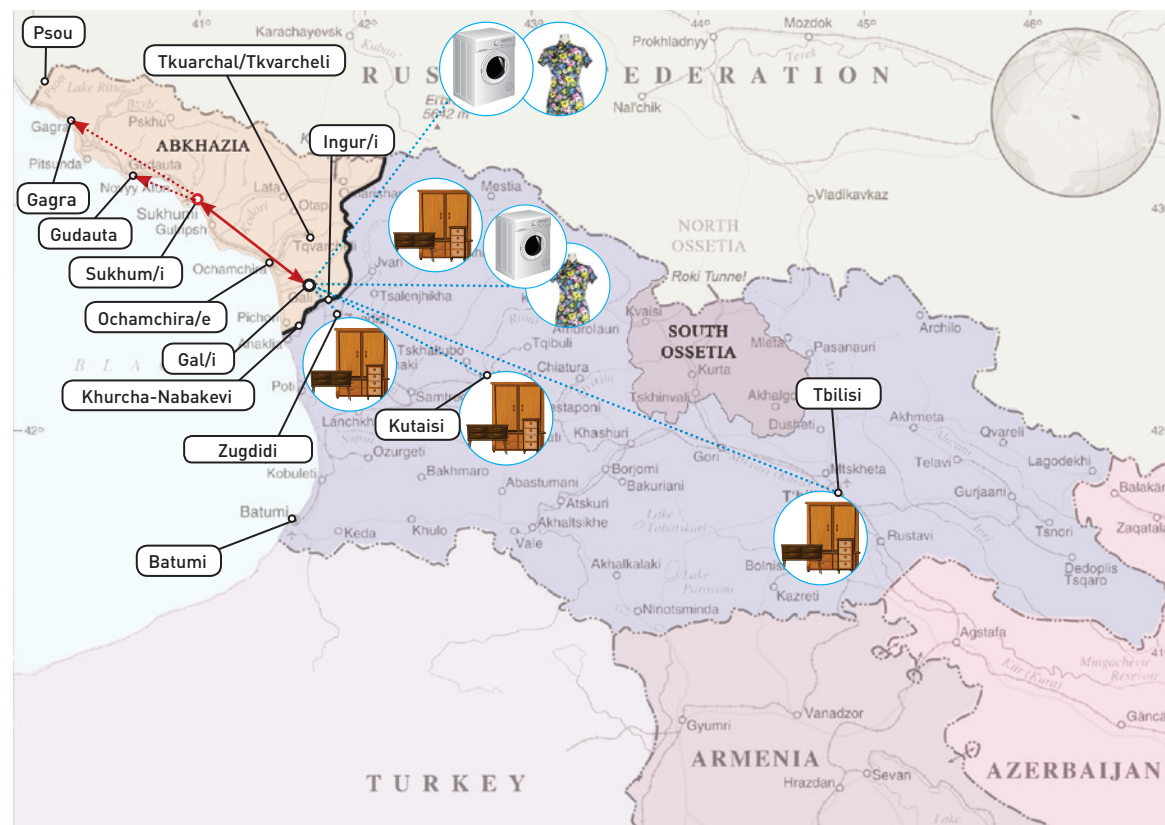
Figure 2: Origin of foodstuff transported from Georgian side of Ingur/i





Identifying the origins of other goods, in particular furniture and building materials, also proved complicated. For instance, furniture manufactured at small enterprises in Zugdidi, Kutaisi and Tbilisi, including those on preliminary orders from Abkhaz purchasers, in most cases was not labelled. Moreover, this helps sellers of these goods on the Abkhaz side when unexpected inspections by customs bodies occur. As for labelled goods, these are usually from Chinese or Turkish manufacturers (clothes, shoes, home appliances, etc.), which can be supplied to shops in Abkhazia from both Georgia and Russia. This makes it difficult to trace the transportation routes of these goods to Abkhaz consumers.

**Figure 3: Origin of non-foods transported from Georgian side of Ingur/i**



**Disclaimer:** These maps (above and on page 12) are modified versions of the original taken from the Nations Online Project ([www.nationsonline.org](http://www.nationsonline.org)). Geographic denominations and boundaries are a contentious issue in the Georgian-Abkhaz context. Therefore, these maps are used solely for reference purposes and do not signify any political or other views on the conflict.

## Movement of goods into Georgian markets

Hazelnuts are an exceptional item in trans-Ingur/i trade. This commodity can be transported in both directions depending on the situation in the market. Hazelnuts have a key application in the confectionery industry. Consumption volumes in the districts where it is grown are insignificant; therefore, hazelnuts are a product of commercial value rather than a product of daily consumption, and have a long shelf-life. Thus, the movement of hazelnuts is determined by market price, not by daily demand.

Hazelnuts are grown both in Samegrelo and in all areas of Abkhazia. Each family harvests on average 1.5–2.5 tonnes of hazelnuts (weight including shells) each year. Abkhazia does not have any big hazelnut plantations; however, several middle-sized farms exist in Samegrelo. One large farm is located in Zugdidi district and is owned by the Italian company “Ferrero International”.

The hazelnut harvest begins in the middle of August. This is the timeframe when the initial price for hazelnuts in the market starts to form. In 2012 in the middle of August the price per kilogram of hazelnuts (with shells) was GEL2 (US\$1.21); by the beginning of September the price rose to GEL2.5 (US\$1.5); at the beginning of October it exceeded GEL3 (US\$1.8).

On average, 1kg of hazelnut produces 380–400g of hazelnut kernels, i.e. the output rate is 38–40 percent. The price per kilogram of hazelnut kernels was GEL5 (US\$3) in August and reached GEL6 (US\$4) in early October.

**Table 2: Wholesale prices for hazelnut (US\$/kg)**

	in Gal/i	in Zugdidi	in Adler (Russia)
August 2012	3.10–3.15	3.00–3.05	5.80–6.00
September 2012	3.15–3.25	3.15–3.40	6.00
October 2012	3.20–3.60	3.50–4.00	6.00–6.20
November 2012	3.50–3.80	4.00	6.30–6.60
December 2012	4.00	4.20	6.50–6.80
January 2013	4.50	4.20–4.50	6.80–7.00
February 2013 (forecast)	4.70	4.50	6.50–7.00
March 2013(forecast)	4.50–4.70	4.50	6.50–7.00
April 2013 (forecast)	4.70	4.50	6.50–7.00

Hazelnut outflows from Abkhazia to Russia within the first nine months of 2012 amounted to 656.5 tonnes. Customs duty on hazelnut outflows is calculated based on the price of US\$1.2 per kilogram of hazelnuts with shells. This aspect creates favourable conditions for hazelnut outflow to Russia.

Despite the obvious difference in price for hazelnuts on the Russian side (Adler) and in Zugdidi, the hazelnut harvest of 2012 from the settlements located along the bank of the Ingur/i river on the Abkhaz side and in Gal/i district (Gagida, Otobaia, Fichori, Nabakevi and Tagiloni villages) was targeted at Zugdidi. This occurred for the following reasons:

- Transportation from villages above to Zugdidi is cheaper, according to residents of these regions, than delivery to Psou. The risk of being caught when crossing the Ingur/i is regarded, then, as lower than high transport costs to Russia.
- A portion of the hazelnuts transported to Zugdidi in August and September is stored at homes of relatives to await increases in prices, after which it is sold.

Hazelnuts from other villages in the Gal/i district are sold directly onsite to wholesale purchasers and are then transported through Abkhazia to Psou. Wholesale purchasers buy hazelnuts for further de-shelling and export to Russia. Gal/i has three operating factories of average capacity, which process hazelnuts of local origin. Processed hazelnuts are never transported from Zugdidi to Gal/i.

As a rule, prices for hazelnuts are roughly the same in the Zugdidi and Gal/i markets. The movement of hazelnuts into the Georgian market is stipulated by considerations of smaller losses rather than higher profits. About 15 percent of hazelnuts sold in Zugdidi come from individual farmers in Abkhazia. However, if price differences between the Gal/i market and Zugdidi market rise, hazelnut sales tend to shift towards the area with higher prices.

In October and November 2012 the purchasing price for hazelnuts with shells increased to GEL2.9 (US\$1.76) per kilogram in Zugdidi, at least 15 percent higher than in Gal/i. This difference was sufficient to initiate a relatively stable flow of hazelnuts via the Lower zone as well as across the

central bridge over the Ingur/i towards Zugdidi. However, in December 2012–January 2013 hazelnut supplies from Gal/i district to processing centres in Zugdidi fell drastically. Only very small volumes of hazelnuts were transported by people mostly living in pre-frontier villages and, as a rule, via the Lower zone (which is uncontrolled by Russian Federal Security Units and the Abkhaz administration). The reason for such reduced flows of the highest-selling product over recent years was, for the most part, an extremely unfavourable market situation in terms of prices, even on the part of multinational buyers. Hazelnut entrepreneurs in Abkhazia explained that in such a situation it was more profitable to store the hazelnuts and wait for a more favourable period.

Another group of products finding their way to Zugdidi from Abkhazia includes citrus fruits, pineapple, feijoa and kiwi from Gal/i district. Purchasing prices for tangerines in Gal/i do not exceed 10 RUB (US\$0.3) per kilogram, whereas prices are 30 percent higher in Zugdidi. As Gal/i does not possess any production facilities to process these fruits (which have a short shelf-life) and shipping the goods to Psou is a long-term and expensive process, farmers try to take their goods to Zugdidi. Nevertheless, the volume of transported fruits to Zugdidi is relatively small. However, in the event of a rather big crop of citrus and other subtropical fruits (e.g. pineapple, feijoa and kiwi) in comparison with previous years, the volume of Abkhaz (mostly Gal/i) supplies of tangerines to Georgian markets can increase. With recent unexpected restrictions on the outflow of citrus fruits to Russia, such as quarantine, on the one hand, and increased demand for Abkhaz citrus fruits from recently “recovered” Georgian processing facilities and Armenian and Azerbaijani wholesalers on the other, the growth of purchasing prices for these products in Georgia could encourage a rise in volumes of goods moving from Gal/i to Zugdidi. Many Tbilisi residents even noted the appearance of high-quality Abkhaz tangerines and feijoa in markets there. The prices for Ajarian and Abkhaz tangerines are almost identical. According to the assessments of the surveyed entrepreneurs, the ratio of these two flows – to and from Abkhaz to Georgian markets – is 7:1. Outflow and inflow ratios of commodity flows between Abkhazia, Russia and Turkey are approximately 1:5.5.<sup>14</sup>

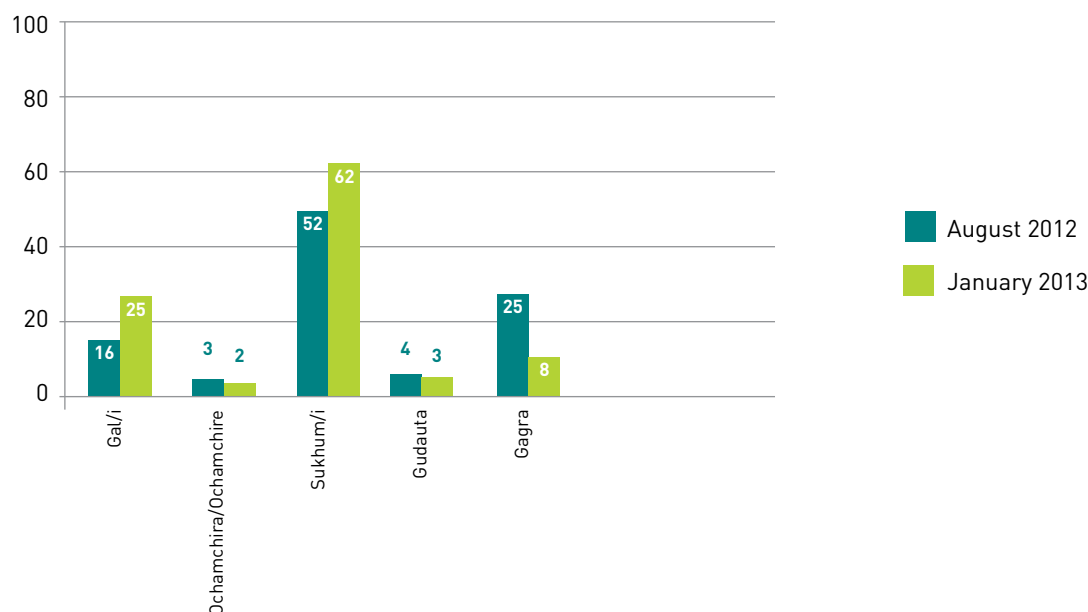
### Distribution of goods from the Georgian side onto Abkhaz markets

The supply of goods from Georgian to Abkhaz markets takes place through the Gal/i market. Since the Gal/i market operates only three days a week – Wednesday, Friday and Sunday – up to two-thirds of the weekly volume of goods from the Georgian side falls on these days, while the other days of the week witness less than one-third of all weekly supplies. It should be noted, that a portion of goods, albeit minor, is supplied under direct orders to shops, markets and individual customers, bypassing the Gal/i market. The monitors did not record this form of trade, which is why the rest of the monitoring process was conducted in markets and several shops (building materials, furniture and home appliances) across all of Abkhazia in order to get a complete picture of the range and volume of the goods supplied from Georgia.

Gal/i market is not the final destination in trade flows from Georgia to Abkhazia despite the widespread belief that trans-Ingur/i trade satisfies only the needs of the local Gal/i population. The monitoring survey of goods brought from Georgia to Abkhaz markets from Ingur/i to Psou demonstrates that the largest volume of these goods is in fact transported to Sukhum/i and Gagra, the cities with the highest purchasing capacity of the local population, as well as the highest number of visitors. We can assume that, during the tourist season, small-scale wholesale buyers purchase goods in the Gal/i market and take them back to their hotels and cafes to provide tourist services, bypassing markets in Sukhum/i and Gagra. Therefore, the ratio of relative capacity of Gal/i market in the tourist season is high, whereas in January it falls to 8 percent, with 87 percent of goods being transported to Sukhum/i and Gagra (where more solvent customers are based).

14 The Customs Committee of Abkhazia. See: [http://customsra.org/customs\\_statistics\\_of\\_foreign\\_trade/](http://customsra.org/customs_statistics_of_foreign_trade/)

**Figure 4: Distribution of goods from across Ingur/i into Abkhaz markets (percentage from all goods inflow)**

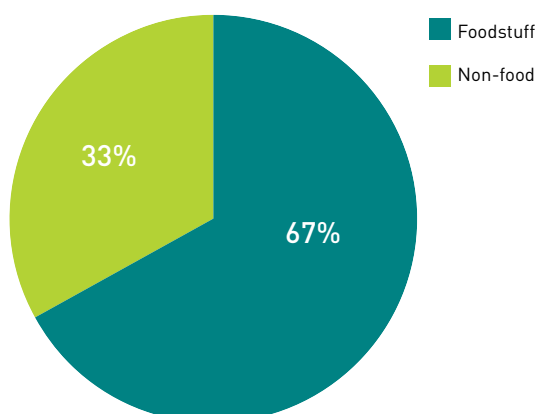


However, this picture does not show the degree of dependence of local markets on the inflow of Georgian goods. The Gal/i market sells from 8 to 25 percent of the goods brought from Georgia; however, this volume amounts to almost 100 percent of all goods in the Gal/i market. Meanwhile, the share of Georgian products is insignificant in the Sukhum/i market (where more than 50 percent of all goods are sold), except for some agricultural products (see below).

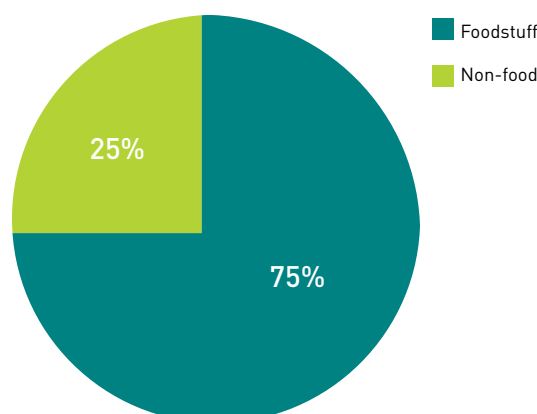
## Commodity composition

As of the beginning of the monitoring period, approximately 50 tonnes of cargo were delivered from Georgia to Abkhazia every week, two-thirds of which were agricultural products, the majority of which was of Georgian origin. About 15 tonnes (just over one-third of the total volume of goods) per week were brought to Abkhazia in the form of industrial products (furniture, home appliances, clothes, shoes and perfumes). Assessments of trade on the Abkhaz and Georgian sides differ slightly.

**Figure 5: Composition of goods taken to Abkhaz markets from Georgia (tonnes), assessment of the trade on Abkhaz side, average estimates in all markets, including Gal/i**



**Figure 6: Composition of goods taken to Abkhaz markets from Georgia (tonnes), assessment of the trade on Georgian side**



Average commodity composition is represented in the figures below.

Figure 7: Foodstuff (% USD), inflow across Ingur/i, average estimates, August 2012–January 2013, Abkhazia

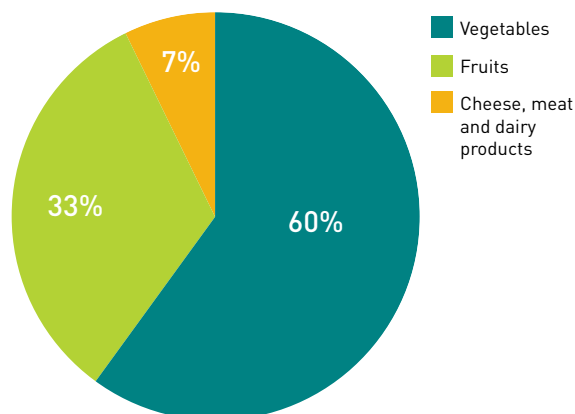


Figure 8: Foodstuff (% USD), outflow across Ingur/i, average estimates, August 2012–January 2013, Zugdidi

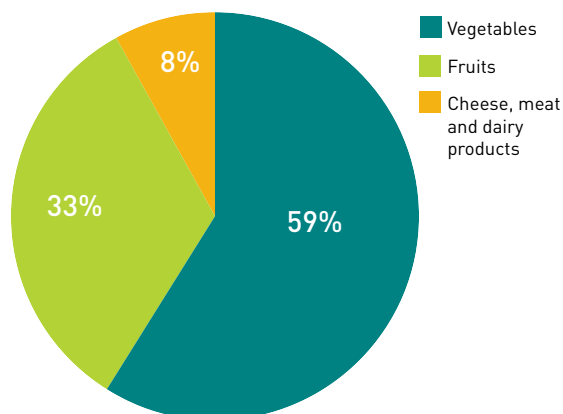


Figure 9: Foodstuff (% tonnes), inflow from across Ingur/i, average estimates, August 2012–January 2013, Abkhazia

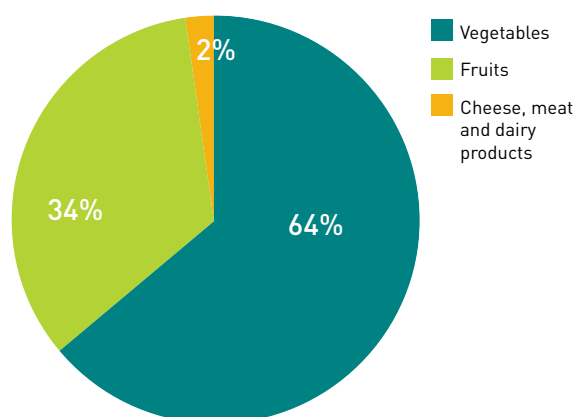


Figure 10: Foodstuff (% tonnes), inflow from across Ingur/i, average estimates, August 2012–January 2013, Zugdidi

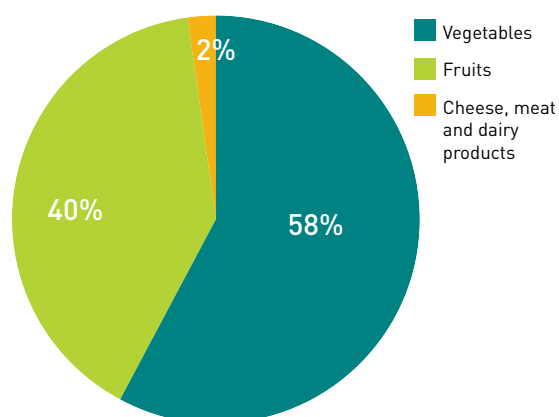


Figure 11: Non-foods (% USD), inflow from across Ingur/i, average estimates, August 2012–January 2013, Abkhazia

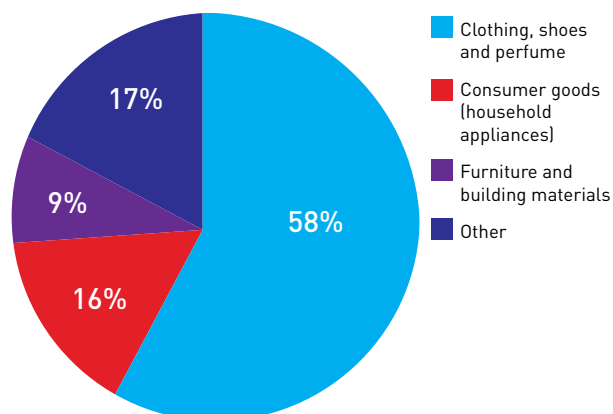
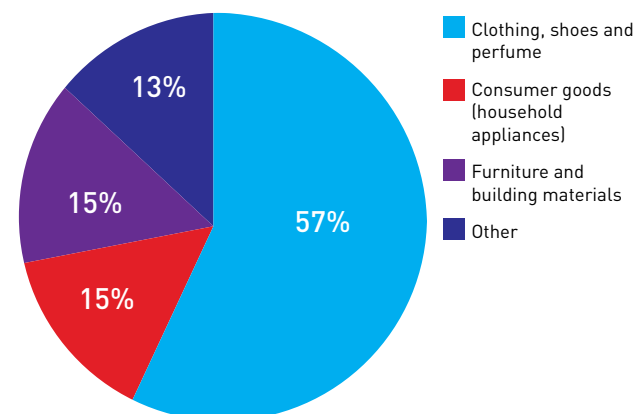


Figure 12: Non-foods (% USD), outflow from across Ingur/i, averages, August 2012–January 2013, Zugdidi

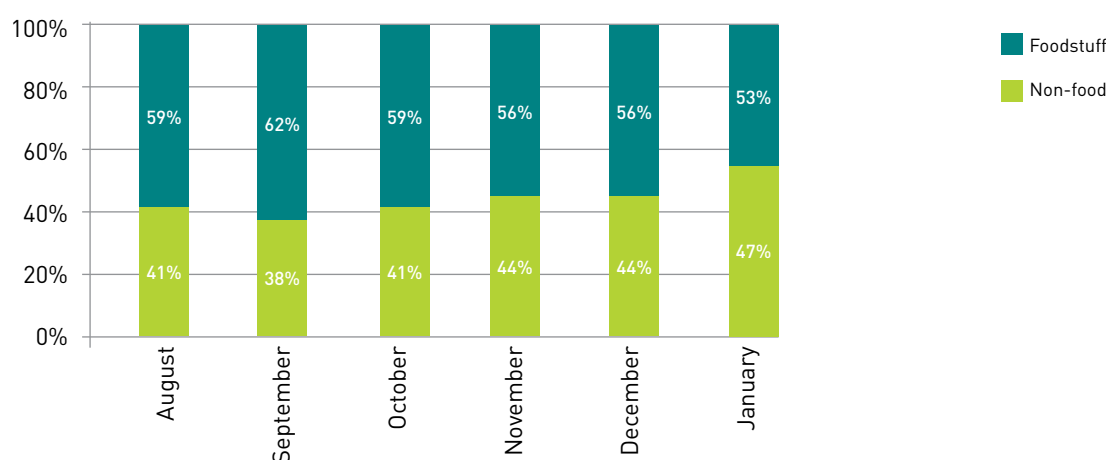


However, it is worth reviewing the commodity composition of trans-Ingur/i trade in detail to account for and assess seasonal market variation.

## The dynamics of trans-Ingur/i trade, August 2012–January 2013

The ratio of foodstuffs and non-foodstuffs brought to Abkhaz markets from across Ingur/i varied slightly throughout the monitoring period. As stated previously, agricultural goods were the most common. Foodstuffs accounted for approximately 60 percent of goods transported from the Georgian side.

**Figure 13: Percentage of foodstuff and non-foods in the trans-Ingur/i trade, August 2012–January 2013**



In absolute terms, the dynamics of imported goods from Georgia is shown in Tables 3 and 4:

**Table 3: Comparative table of the volume of goods transported from Zugdidi market to Abkhazia – Monitoring survey in Zugdidi market (ZM) and Abkhaz markets (AbM) (Thousands US\$)**

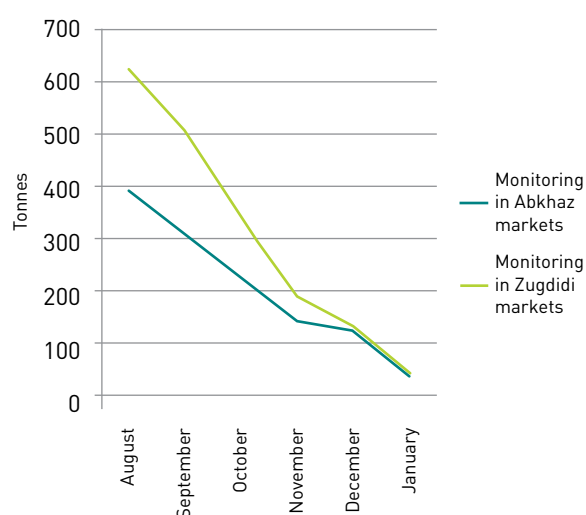
	August		September		October		November		December		January	
	AbM	ZM	AbM	ZM	AbM	ZM	AbM	ZM	AbM	ZM	AbM	ZM
<b>Foodstuffs, total</b>	1008	1330	881	1265	711	979	512	715	560	774	324	419
<b>Vegetables</b>	668	877	563	824	423	582	306	419	304	418	120	136
<b>Fruit</b>	287	379	263	365	237	324	158	220	204	271	158	205
<b>Cheese, meat and dairy products</b>	53	74	55	76	51	73	48	76	52	85	46	78
<b>Industrial commodities, total</b>	705	685	547	514	496	465	402	448	448	457	293	254
<b>Clothes, shoes, perfumes</b>	441	355	352	283	312	253	284	322	302	249	195	161
<b>Day-to-day goods (home appliances)</b>	121	104	74	64	93	75	58	46	107	81	78	65
<b>Furniture and building materials</b>	143	113	121	103	91	97	60	52	39	35	20	17
<b>Various</b>	127	113	92	64	83	40	71	28	107	92	28	12



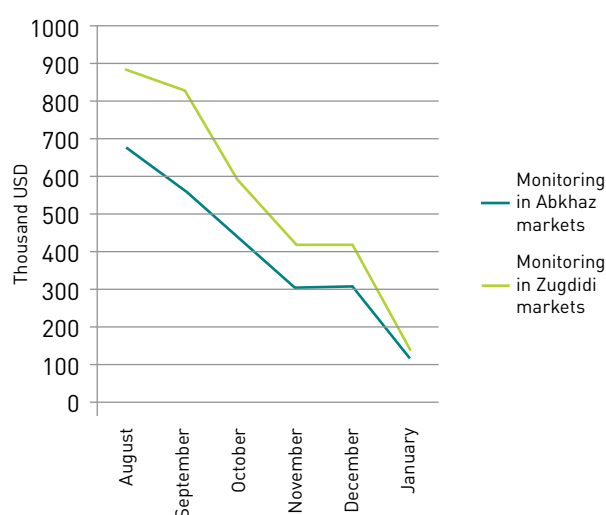
**Table 4: Comparative table of the volume of goods transported from Zugdidi market to Abkhazia – The monitoring survey in Zugdidi market (ZM) and Abkhaz markets (AbM) (tonnes)**

	August		September		October		November		December		January	
	AbM	ZM	AbM	ZM	AbM	ZM	AbM	ZM	AbM	ZM	AbM	ZM
<b>Foodstuffs, total</b>	591	978	474	800	348	598	215	358	204	162	93	167
<b>Vegetables</b>	392	621	312	506	222	344	145	190	121	138	41	46
<b>Fruit</b>	287	345	263	282	237	242	158	155	204	149	158	109
<b>Cheese, meat and dairy products</b>	8	12	8	12	7	12	6	13	7	12	6	12

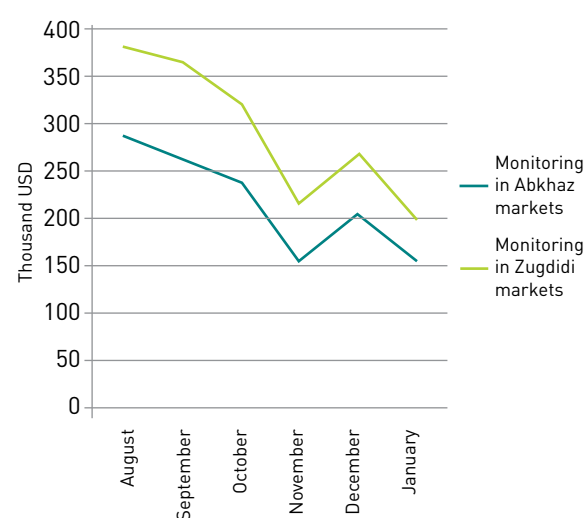
**Figure 14: Estimates of the volume of vegetables crossing Ingur/i, August 2012–January 2013**



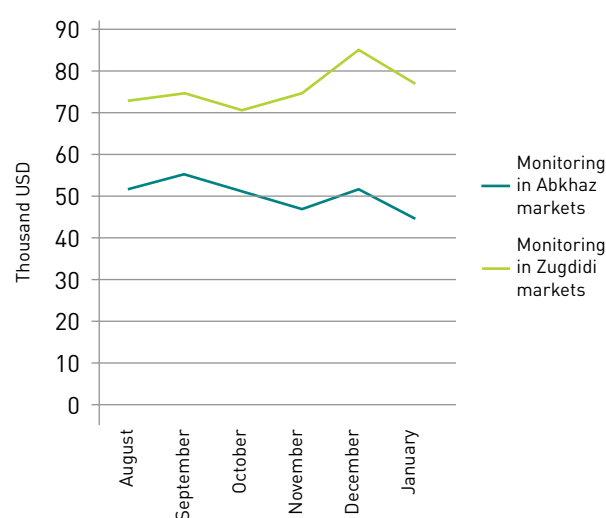
**Figure 15: Estimates of the volume of vegetables crossing Ingur/i, August 2012–January 2013**



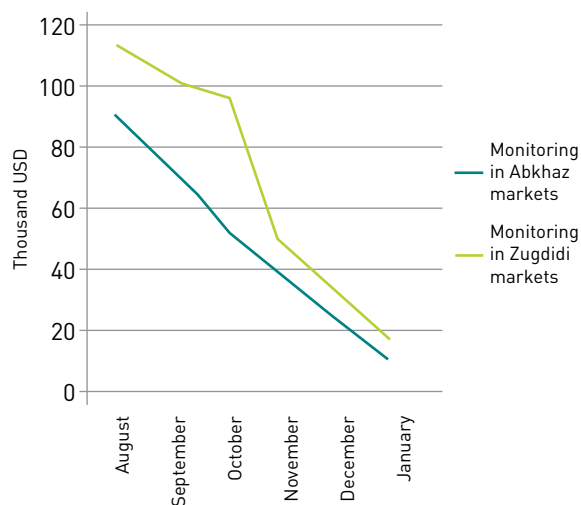
**Figure 16: Estimates of the volume of fruits crossing Ingur/i, August 2012–January 2013**



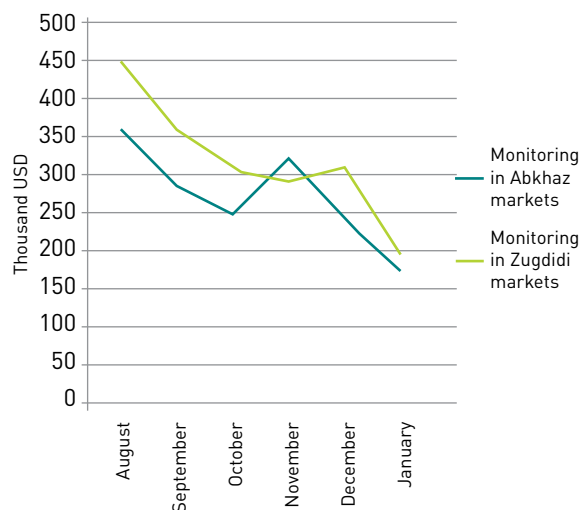
**Figure 17: Estimates of the volume of meat and dairy products crossing Ingur/i, August 2012–January 2013**



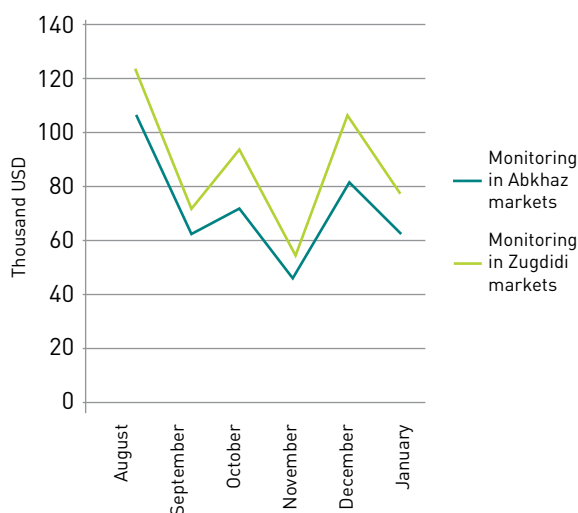
**Figure 18: Estimates of the size of furniture crossing Ingur/i, August 2012–January 2013**



**Figure 19: Estimates of the size of clothes, shoes and perfume crossing Ingur/i, August 2012–January 2013**



**Figure 20: Estimates of the size of household appliances crossing Ingur/i, August 2012–January 2013**



Such fluctuations in volume and structure can be explained not only by seasonal factors, but also by intensified controls on the boundary along the Ingur/i river. This was noted by both experts and those directly engaged in cross-boundary trade. The limited timeframe for the research and the lack of statistics for previous years did not allow the researchers to identify the importance of each factor in defining negative trade dynamics. According to those directly engaged in trans-Ingur/i trade, the main reason for reduced commodity flows was stricter control, as well as the risk of crossing the boundary by bypassing the checkpoint. The fact that the minibus ticket fee from Zugdidi to Gal/i via the Lower zone dropped twofold by the beginning of 2013 from 400 RUB (US\$10) to 200 RUB (US\$5) is proof that there is a lower number of people crossing for commercial purposes.

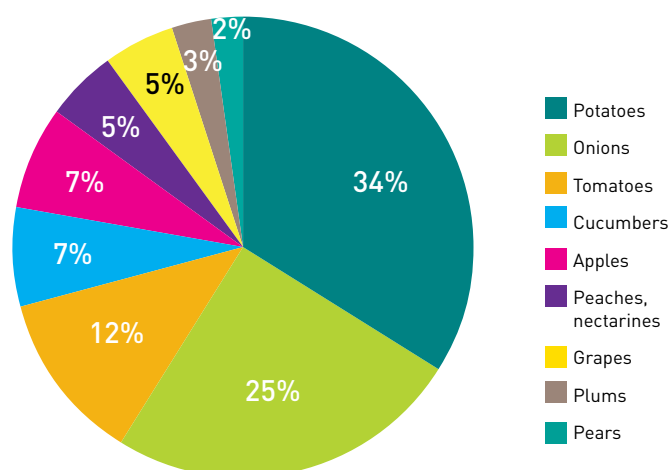
The key share of foodstuffs transported from Georgian into Abkhaz markets is vegetables. At the beginning of the research, their share exceeded 75 percent. Regardless of the season, domestic vegetables cannot satisfy the needs of the Abkhaz market. This is also aggravated by an inflow of numerous tourists from June to September. In such a situation, growing prices for vegetables in the Abkhaz market encourage the inflow of vegetables, including those grown by Georgian producers. In summer and autumn the range of products brought from Georgia to Abkhazia is extensive. When demand is particularly high, agricultural products of non-Georgian origin, primarily Turkish tomatoes and cucumbers, are also traded across the Ingur/i. The other substantial share of imported agricultural goods from Georgia was fruit (20–25 percent), namely peaches, nectarines, apples, pears and plums. From August to September, the 3:1 ratio of imported vegetables to fruit remained constant, explained by the fact that the research period covered the fruit-picking season in Abkhazia. Once fruit is supplied by the domestic producers, prices fall and, consequently, the need to bring fruit from Georgia decreases.

In September 2012 the following products were transported from Georgia to Abkhazia on a weekly basis:

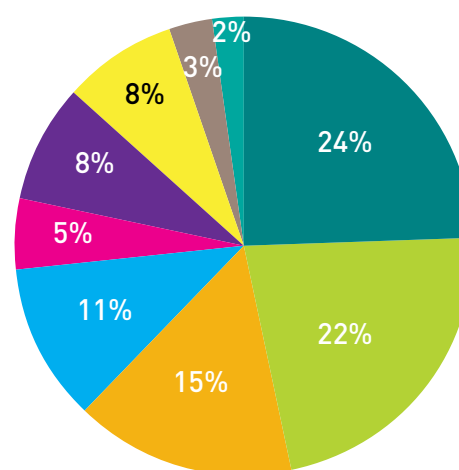
Vegetables:	Potatoes – 12–13 tonnes (US\$10,000–13,000 )
	Onions – 8–10 tonnes (US\$10,000–12,000)
	Tomatoes – 4–5 tonnes (US\$7,000–8,000)
	Cucumbers – 2–3 tonnes (US\$5,000–6,000)
Fruit:	Apples – 2–3 tonnes (US\$2,000–3,000)
	Peaches, nectarines – approximately 2 tonnes (US\$4,000)
	Grapes – 1.5–2 tonnes (US\$4,000)
	Plums – 1 tonne (US\$1,500)
	Pears – 0.5–1 tonne (US\$1,000)

The calculated composition of imported agricultural products in September 2012 is shown in figures 21 and 22. This is average data is given for all Abkhaz markets, including Gal/i.

**Figure 21: Composition of agricultural products taken to Abkhaz markets from across Ingur/i (in tonnes), September 2012**



**Figure 22: Composition of agricultural products taken to Abkhaz markets through Ingur/i (in USD), September 2012**



According to the information gathered during the research, alongside vegetables and fruit, up to 1.5 tonnes of suluguni cheese, about 1 tonne of frozen fish, 1 tonne of beef and 0.5 tonnes of pork were brought into Abkhazia each week. In rare cases live goats were transported, supposedly for various Abkhaz rituals. It is almost impossible to determine the quantity of live goats as they are purchased on order and do not reach the markets monitored.

Among non-foodstuffs the dominant product group is seasonal clothes and footwear for children and adults (50 percent). An interesting aspect is that the majority of sellers questioned (the overwhelming majority being women) answered that all their products were shipped not from Zugdidi, but directly from Lilo wholesale market in Tbilisi where they had purchased the goods. During the research period, particularly August, the researchers witnessed more school goods being sold. Beside the products purchased in Lilo (mostly of Chinese and Turkish origin), there were also Russian-manufactured products (notebooks, pens, pencils, etc.).

For the minibus drivers and shuttle traders, the summer season sees an increased volume of building materials and furniture (15 percent of non-foodstuffs). It should be underlined that most products in this product range (paints, varnishes, wallpapers, laminate, etc.) are manufactured in Russia and Ukraine. Recently, some shrewd Gal/i businessmen have begun to place wholesale as well as one-off private orders for manufacture and supply flat-pack furniture for both homes and offices to be transported from Zugdidi to Abkhazia.

Interviews with individuals engaged in the retail and wholesale trades stated that large volumes of supplies of home appliances (produced in Turkey, China and South Korea) had been shipped to the Abkhaz consumer market though Georgian dealers (8–10 percent of brought non-foodstuffs).

The growth in ownership of vehicles throughout Abkhazia has resulted in increased demand for automotive spare parts. Gal/i automotive spare parts shops receive orders for automotive parts and accessories from all over Abkhazia. The main channel for acquiring these goods is the Eliava wholesale/retail market in Tbilisi. Medical supplies are also brought into Abkhazia, the sale of which is allowed only via Sukhum/i drug warehouses in compliance with current legislation. Nevertheless, in view of the significant difference in wholesale and retail prices, a considerable amount of medical supplies are shipped across the Ingur/i.

It is worth mentioning that typical non-foodstuffs brought from Georgia are of low quality and therefore cheaper compared to the products imported from Russia and Turkey and are thus popular among low-income customers.

The list of commodity groups recorded in the October–November 2012 research period was subject to minor amendments due to the seasonal substitution of several agricultural products. Nevertheless, some changes within the product range are of interest:

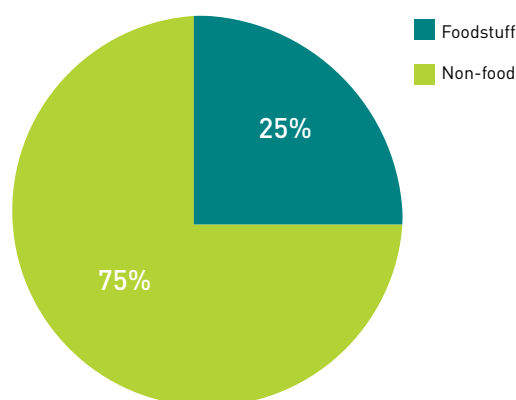
- a) Vegetables, primarily fresh greens, carrots, cauliflower and others, are supplied from greenhouses, so-called “closed ground”, from the middle of October. In October–November the price for these products typically exceeds the price for the same goods in the summer period (“open ground”) by 30–40 percent. A gradual price increase is generally observed until the end of the year, when prices relatively stabilise. It is an interesting fact that, beside the fresh greens supplied to Gal/i market from greenhouses in the Imereti district (Samtredia, Tshaltubo, Kutaisi), the remaining greenhouse-grown vegetables are of Armenian and Turkish origin.
- b) At the beginning of November the most commonly sold vegetables (potatoes, onions, beets) start to be supplied from vegetable storage facilities located in Gori, Kaspi, Tbilisi, Akhalkalaki and Tsalka. This period sees a decrease in the volume of potatoes supplied from Turkey. The prices for the products in question are more or less stable and are not subject to any fluctuations.

From October to November 2012 Zugdidi wholesale market sees a considerably reduced quantity of sellers from Kaspi, Gori and the Imereti district. This period is characterised by a traditionally higher volume of vegetables imported from Turkey, Iran and Armenia. Therefore, the demand for local products, which are 15–25 percent more expensive, declines.

During the last monitoring stage (December 2012–January 2013) no fundamental changes were observed with regard to the composition of products, despite the substantial drop in the flow of goods in comparison with the same period in 2011–2012. 70–80 percent of the overall flow of goods was foodstuffs, and the other 20–30 percent was non-foodstuffs.

In December 2012–January 2013 the share of vegetables in the total volume of imported agricultural products fell to 40 percent. This is, on the one hand, due to decreased demand for vegetables at the end of the holiday season in Abkhazia. On the other hand, the prices for vegetables rose in Georgia in connection with the seasonal transition to greenhouse production. Moreover, at the early stage of the research Abkhazia had witnessed the delivery of vegetables primarily of Georgian origin, while at the final stage of the research the majority of vegetables brought from Georgia were of Armenian and Turkish origin.

**Figure 23: Composition of goods transported to Abkhaz markets from across Ingur/i, December 2012–January 2013, assessment of the trade based on the monitoring of Abkhaz markets**



### General tendencies observed

During the research period, the composition of fruit brought to Abkhazia from across the Ingur/i was subject to fundamental changes. By the end, peaches, pears and plums of Georgian origin almost disappeared from the counters of Abkhaz markets. The share of apples, however, increased significantly, as did the share of grapes and pomegranates. This is explained by the traditional inflow of winter-variety apples from Georgia and grapes and pomegranates from Armenia and sometimes Azerbaijan.

Suluguni cheese (fresh and smoked) constitutes the greatest demand in the meat and dairy products group (8–10 percent of foodstuffs brought into Abkhazia). According to the research, the share of suluguni of local origin accounts for only 30–40 percent of the total volume of suluguni on the Abkhaz markets. The price for cheese in Gal/i is twice the price of Zugdidi, with Sukhum/i having the highest prices.

The non-foodstuffs group includes clothes and footwear (60 percent), automotive spare parts (8–10 percent), and household goods, medical supplies and perfumes (less than 10–15 percent). The remaining 15–20 percent covers a range of miscellaneous non-foodstuffs.

The period under review saw substantially reduced inflow of non-foodstuffs: from US\$700,000 in August 2012 to US\$300,000 in January 2013. Outflow patterns were also subject to minor changes: clothes and footwear made up more than half of non-foodstuffs brought into Abkhazia.

Inflow of home appliances and building materials to Abkhazia has shrunk due to the appearance of special shops in Abkhazia selling home appliances and providing warranty services, as well as goods on credit. This trend can be observed in the trade of building materials. The emergence of wholesale depots with direct shipments from Russian and Turkish manufacturers, along with the higher competition, has led to a drop in prices. The construction boom in Abkhazia in recent years has required a large volume of building materials. Building materials brought from Georgia cannot satisfy the needs of growing Abkhaz demand, as supplies from Georgia are unstable and there are no major market players able to import wholesale supplies. Moreover, large-scale construction companies do not purchase goods smuggled into Abkhazia in order to avoid issues with the authorities.

Despite the problems related to crossing the boundary, the labour market is operating without any obvious decline. Small groups of builders from Gal/i district, Zugdidi and other regions of Georgia continue to fulfil orders for various construction works as per usual.

During the research period, everyone noted a drop in goods transported via the Lower and Upper zones due to enhanced control on the Abkhaz side and winter weather conditions. However, with the unexpected problems for Gal/i residents to receive one-time entry passes in early January, an increase in commodity flows through trails in the non-controlled areas was witnessed. It has to be mentioned, however, that this had no immediate impact on consumer prices in Gal/i.

### Price gradient

The movement of goods and agricultural products is determined by supply/demand patterns, as well as differences in market prices.

During the monitoring period, agricultural products were principally brought across the Ingur/i from Georgia to Abkhaz markets. The price for tomatoes on the Georgian side was 50 RUB (US\$1.7), compared to 80 RUB (US\$2.7) in Sukhum/i; the price for cucumbers were 40 RUB (US\$1.33) and 60 RUB (US\$2) respectively; the price for apples was 30–35 RUB (US\$1–1.2), compared to 50–60 RUB (US\$1.7–2). In August the price for one kilogram of fresh suluguni was 9–10 GEL (US\$5.5) in Zugdidi; in Gal/i it cost over 220 RUB (US\$7.3); in Sukhum/i it was 280 RUB (US\$9.3).

**Table 5: Price differentials between Zugdidi, Gal/i and Sukhum/i for various foodstuffs**

Market Goods (kg)	Location		
	Zugdidi (US\$)	Gal/i (US\$)	Sukhum/i (US\$)
Tomatoes	1.7	2.3–2.5	2.7
Cucumbers	1.3	1.5–1.65	2
Apples	1	1.35–1.5	2
Cheese	5.5	7.3	9.3



## Goods from Georgia in relation to external trade turnover of Abkhazia

Russia and Turkey are the two leading foreign trade partners. Inflows into Abkhazia exceed outflows over fivefold. Inflow patterns of goods into Abkhazia from Russia and Turkey are depicted in figures 24 and 25.<sup>15</sup>

Figure 24: Import of goods from Russian Federation

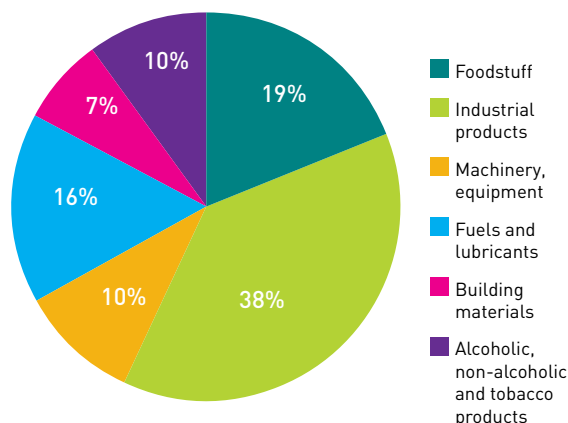
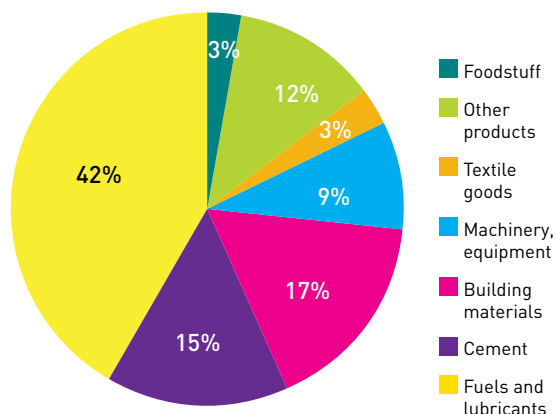


Figure 25: Import of goods from Turkey



The share of goods brought in from Georgia amounts to only 4 percent of overall imports in monetary terms. In order to compare trans-Ingur/i trade with trade with Russia and Turkey, the researchers itemised identical products in inflow patterns from various sources. Comparing similar groups of commodities imported from Russia, Turkey and Georgia, the researchers created the figures below.

Figure 26: Inflow of fruits and vegetables from Russia

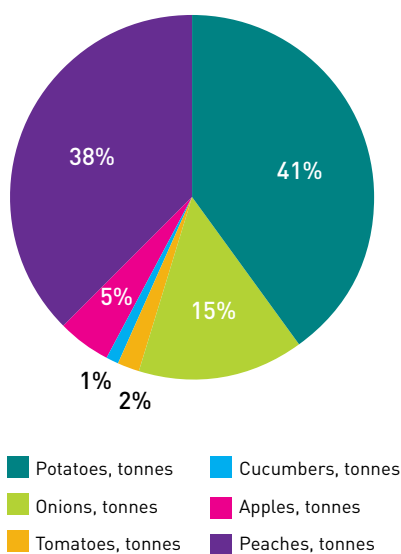


Figure 27: Inflow of fruits and vegetables from Turkey

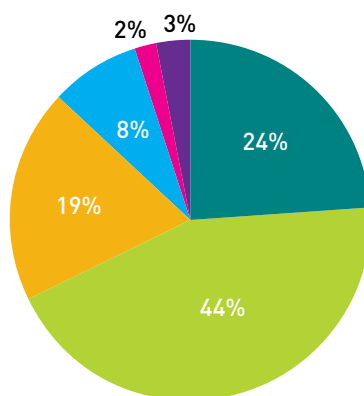
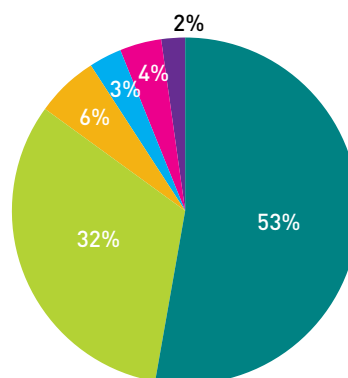
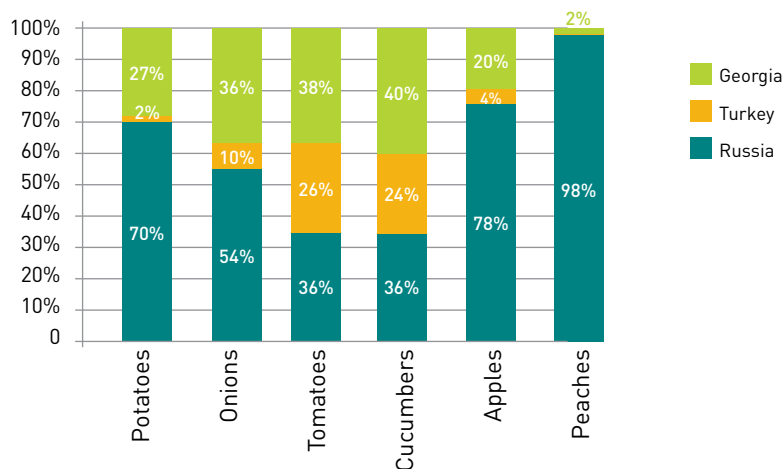


Figure 28: Inflow of fruits and vegetables from Georgia

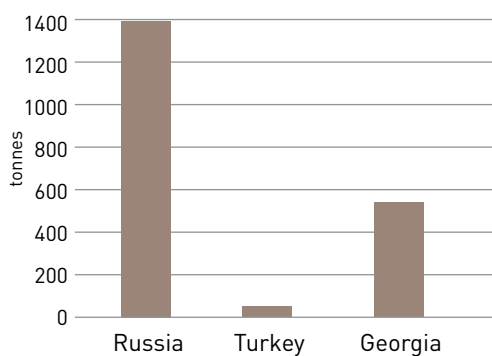


15 The data for the first six month of 2012 were taken from the website of the Customs Committee of Abkhazia, which is available at [http://customsra.org/customs\\_statistics\\_of\\_foreign\\_trade/](http://customsra.org/customs_statistics_of_foreign_trade/). The prices were recalculated in US\$.

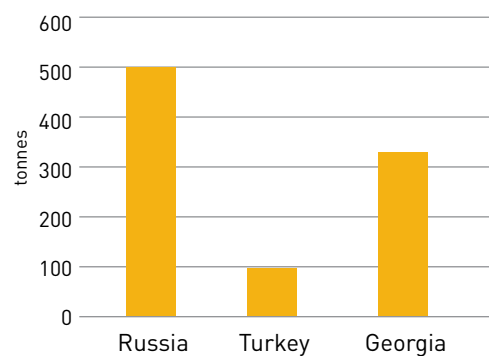
**Figure 29: Proportion of the volumes of some vegetables and fruits taken to Abkhazia from Russia, Turkey and Georgia**



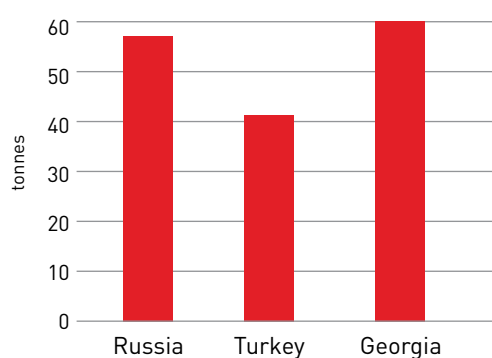
**Figure 30: Inflow of potatoes to Abkhazia**



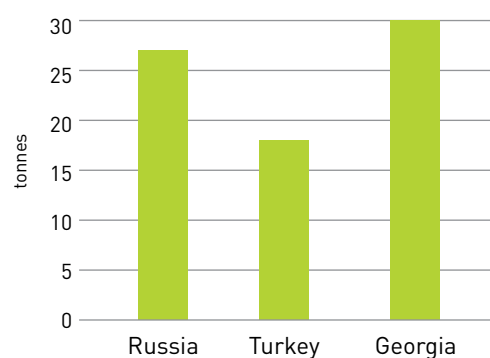
**Figure 31: Inflow of onions to Abkhazia**



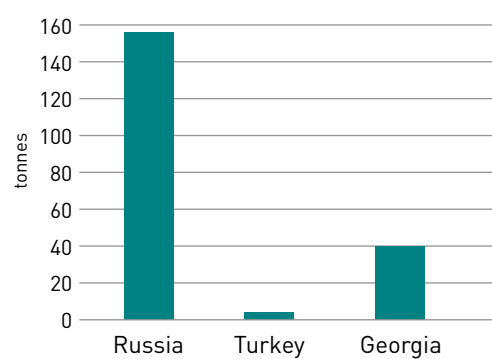
**Figure 32: Inflow of tomatoes to Abkhazia**



**Figure 33: Inflow of cucumbers to Abkhazia**

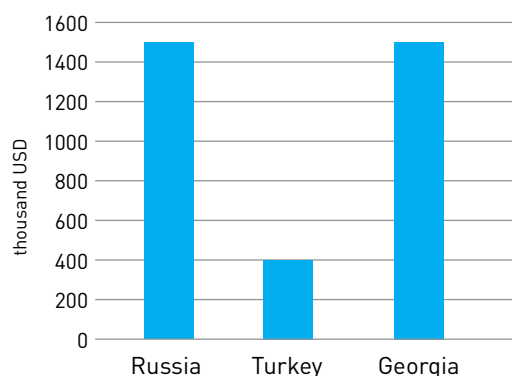


**Figure 34: Inflow of apples to Abkhazia**



Furniture from Georgia also occupies a special place in the furniture inflow pattern.

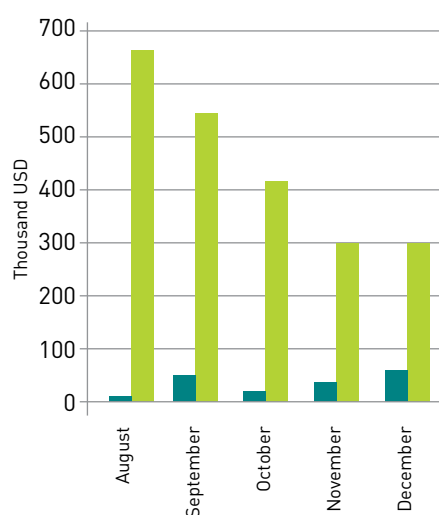
**Figure 35: Inflow of furniture to Abkhazia**



## Goods transported to Abkhaz markets in relation to official exports of Georgia

When comparing the monitoring data of the inflow of selected commodity groups to Abkhazia with Georgian export statistics,<sup>16</sup> the researchers found that the aggregate volume of Georgian potatoes, onions, tomatoes and cucumbers (referred to as vegetables) and apples, pears, grapes, peaches and plums (referred to as fruits) in Abkhaz markets exceeds the aggregate exports of the same products from Georgia tenfold. In the holiday season, Abkhazia becomes the key destination for fruit and vegetables outflows.<sup>17</sup>

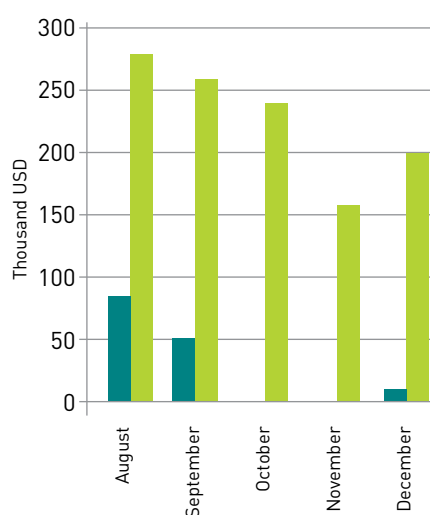
**Figure 36: Overall volume of vegetables\* exported from Georgia and vegetables from Georgia to Abkhaz markets**



\* Potatoes, onions, tomatoes and cucumbers

■ Vegetables exported from Georgia  
■ Vegetables from Georgia on the Abkhaz markets

**Figure 37: Overall volume of fruits\* exported from Georgia and fruits from Georgia to Abkhaz markets**



\* Apples, pears, grapes, peaches, plums

■ Fruit exported from Georgia  
■ Fruit from Georgia on the Abkhaz markets

<sup>16</sup> Outflow of goods to Abkhaz markets obviously does not figure in the Georgian export statistics nor is it monitored as such as it is considered internal trade.

<sup>17</sup> The data by the Statistics Service of Georgia, [http://geostat.ge/?action=page&p\\_id=136&lang=geo](http://geostat.ge/?action=page&p_id=136&lang=geo)

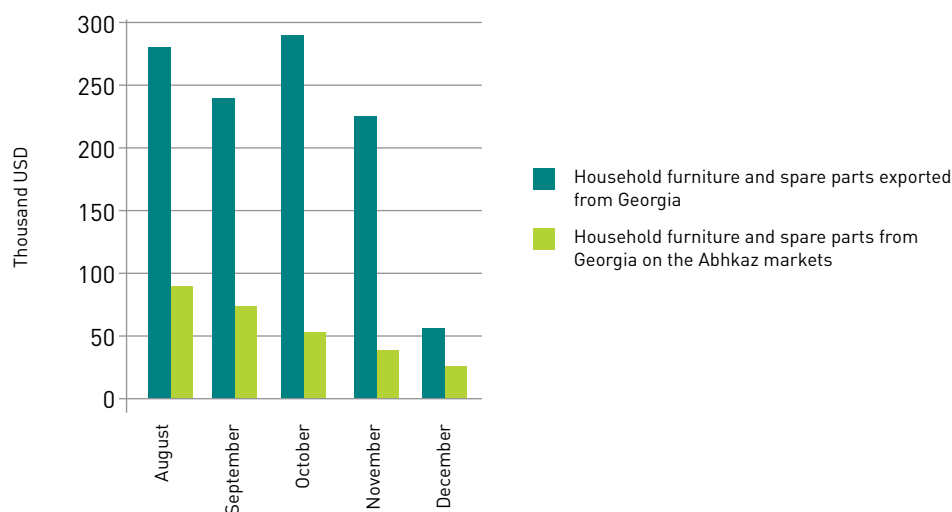
The outflow volumes of meat and dairy products from Georgia into Abkhaz markets and markets elsewhere are roughly equal.

**Figure 38: Volume of meat and dairy products taken from Georgia**



Furniture inflow into Abkhaz markets is significantly lower compared to the total export of furniture from Georgia.

**Figure 39: Overall size of household furniture and spare parts export from Georgia, and household furniture and spare parts from Georgia on the Abkhaz markets**



## 2. Legal review<sup>18</sup>

### International documents and mechanisms

#### Negotiation processes

The Georgian-Abkhaz negotiation process started at the end of 1993, several months after the end of the war. Security and guarantees of non-resumption of hostilities have been themes on the agenda throughout the many years of negotiations. Furthermore, documents developed through the negotiation processes simultaneously demonstrate the conflict parties' recognition of the importance and urgency of the social and economic aspects of their post-war relationship.

The first stage of the negotiation process took place within what was described as the “Geneva format”. This included a number of meetings under the aegis of the UN and assisted by Russia, in which representatives from the Conference for Security and Cooperation in Europe (CSCE) and the representative of the United Nations High Commissioner for Refugees (UNHCR) participated.

Listed below are all the references to the social and economic aspects of the relationship between the conflict parties in the resolutions, agreements and other documents developed during the course of these negotiations.

**The first round of negotiations took place in Geneva on 30th November–1st December 1993.** The negotiations took into account UN Security Council resolutions 849 (9th July 1993), 858 (24th August 1993), 876 (19th October 1993) and 881 (4th November 1993). This resulted in the signing of the **Memorandum of Understanding between the Georgian and the Abkhaz Sides at the Negotiations held in Geneva**. This document specified, among other things, that:

‘6. The parties express the wish that for purposes of promoting economic recovery in the conflict zone an international commission be established with the participation of international and national organisations.’<sup>19</sup>

This stage therefore laid the legal foundations for the institutionalisation of economic relations between the conflict parties.

**The second round of negotiations was held in Geneva on 11th–13th January 1994.** The negotiations took into account UN Security Council resolutions 849 (9th July 1993), 854 (6th August 1993), 858 (24th August 1993), 876 (19th October 1993), 881 (4th November 1993) and 892 (22nd December 1993).

However, while these negotiations were ongoing, an international commission on economic issues, which had been proposed at the first Geneva meeting, had still not been established. Therefore, the parties detailed their intentions and reflected them in the final communiqué:

‘6. The parties expressed their interest in the establishment no later than 15 February of an international commission to assist in economic recovery in Abkhazia with the participation of international and national organisations. Among its highest priorities must be the restoration of vital facilities, transport, communications, airports, bridges and tunnels.’<sup>20</sup>

<sup>18</sup> Please note that the preferred spelling, terminology and framing of the Georgian and Abkhaz authors has been retained throughout Part 2.

<sup>19</sup> UN Security Council (1993). *Appendix. Memorandum of understanding between the Georgian and the Abkhaz sides at the negotiations held in Geneva*. Geneva. p.6.

<sup>20</sup> UN Peacemaker (1994). *Communiqué on the Second Round of Negotiations between the Georgian and Abkhaz Sides in Geneva*. Geneva. p.2.

The third round of negotiations took place on 22nd–25th February, 7–9 and 29–31 March 1994. The negotiations took into account UN Security Council resolutions 849 (9th July 1993), 854 (6th August 1993), 858 (24th August 1993), 876 (19th October 1993), 881 (4th November 1993), 892 (22nd December 1993), 896 (31st January 1994), 901 (4th March 1994) and 906 (25th March 1994). This round of negotiations resulted in the signing of the **Declaration on Measures for a Political Settlement of the Georgian/Abkhaz conflict** on 4th April 1994 in Moscow.

In this document the parties detail the vectors of cooperation for the first time, with the format of cooperation to be determined at a later date (by the time the agreement was signed discussions had been held on this issue). Some of the vectors were directly connected to economic cooperation:

‘7. The parties held discussions on distribution of powers on the understanding that any agreement on this issue is part of a comprehensive settlement and will be reached only once a final solution to the conflict has been found. At this stage, the parties have reached a mutual understanding regarding powers for joint action in the following fields:

- a) Foreign policy and foreign economic ties;
- b) Border guard arrangements;
- c) Customs;
- d) Energy, transport and communications;
- e) Ecology and elimination of consequences of natural disasters;
- f) Ensuring human and civic rights and freedoms and the rights of national minorities.’<sup>21</sup>

Paragraph 8 is also of special importance:

‘... The parties will set up an appropriate committee, which will work on a standing basis, taking into account the decisions of the Security council under the chairmanship of the United Nations, with participation of representatives of the CSCE and the Russian Federation with the involvement of international experts. This body will meet alternately in Moscow and Geneva. Its first meeting will be held in Geneva on 19 April 1994. A phased actions programme will be worked out and proposals on the re-establishment of state and legal relations will be elaborated.’<sup>22</sup>

The last sentence of this paragraph acknowledges that there were neither state nor legal relations between Georgia and Abkhazia at the time, as well as no economic relations.

The **Report of the UN Secretary General** (3rd May 1994, S/1994/529) and **Proposals for political and legal elements for a comprehensive settlement of the Georgian/Abkhaz conflict** (Annex II to Report S/1994/529) also acknowledge this fact, stating that:

‘Abkhazia will be a subject with sovereign rights within the framework of a union State to be established as a result of negotiations after issues in dispute have been settled. The name of the union State will be determined by the parties in the course of further negotiations. The parties acknowledge the territorial integrity of the union State, created as indicated above, within the borders of the former Georgian Soviet Socialist Republic on 21st December 1991.’<sup>23</sup>

Therefore, the UN suggested that Abkhazia and Georgia establish a new union state, with the name of the state to be agreed at a later date.

21 UN Security Council (1994). *Annex I. Declaration on measures for a political settlement of the Georgian/Abkhaz conflict signed on 4 April 1994*. Geneva. pp.2–3.

22 Ibid. p.3.

23 UN Secretary General (1994). *Report of the Secretary-General concerning the situation in Abkhazia, Georgia*. Geneva. p.11.



At the same time, the international NGO “Association of lawyers for cooperation in the Asian Pacific region” produced an independent legal opinion of the declaration (4th April 1994) on the initiative of the Abkhaz leadership. The **Legal opinion and the opinion on the essence of the Declaration on Measures for a Political Settlement of the Georgian/Abkhaz conflict**, prepared by the organisation, notes that the declaration states the absence of state and legal relations between the parties. The opinion also states:

‘It is clear from the text of the declaration, that the parties reached an understanding on joint activity in the spheres of foreign policy, border guard arrangements, customs, energy, transport, communications, ecology and human rights provision. These spheres of state activity are the attributes of sovereign states only ... Therefore the parties to the conflict recognised, that each party has those attributes ...’<sup>24</sup>

Therefore, the fact that Abkhazia has “powers”, the attributes of a sovereign state, was, according to this opinion, recognised not only by the Georgian side, but also by the UN, Russia and the Organization of Cooperation and Security in Europe (OSCE), which signed the declaration.

Based on this analysis, some other experts came to the conclusion that the **declaration** was an international agreement (i.e. an agreement between states). For example, Driessen states that the declaration was an international legal agreement signed by two states.<sup>25</sup>

In the three years following the **declaration** the parties held negotiations on the issue of the possible restoring of state and legal relations. By June 1997 a draft **Protocol on the Georgian-Abkhaz settlement** had been prepared, according to which two equal parties were to have established a common state, based on the equality of the subjects. However, the Georgian side refused to sign this document.<sup>26</sup>

The **Quadrupartite Agreement on the Voluntary Return of Refugees and Internally Displaced Persons (IDPs)** was signed on 4th April 1994 in Moscow. This document ought to have served as a starting point for the creation of legal conditions for the return of the refugees and IDPs. The decision was made to set up a special Committee to oversee the return process and to act as a guarantor for the relevant conditions for the return of refugees and displaced persons. The Commission also envisaged the establishment of a working group of experts to assess the amount of damage caused to the economic and social infrastructure in Abkhazia, the availability of housing and the need for rehabilitation/restoration in the areas to which people returned, and to determine a mechanism for financial compensation.<sup>27</sup> It is stated that a quadripartite commission would be established to resolve the issue of compensation. Compensation would be made within a reconstruction/restoration project with financial assistance from the United Nations Voluntary Fund.<sup>28</sup> In particular, it is stated that the Russian Federation would ensure unhindered transit of humanitarian goods intended for the implementation of this agreement. An important aspect of the agreement is the paragraph on free transport communications. This includes the free use of air space, authorised air strips and airports, and exemption from taxes and duties of all goods intended for the implementation of the repatriation programme, as well as the expedition of customs procedures.

24 V. Tuzhba (2003). ‘Pravovye aspekty gruzinsko-abkhazskogo konfliktak [Legal aspects of the Georgian-Abkhaz conflict]’, accessed 4th May 2013. Available at [http://www.abkhaziya.org/books/prav\\_konflikt.html](http://www.abkhaziya.org/books/prav_konflikt.html)

25 B. Driessen (1997). *Legal opinion on the validity and interpretation of the 4 April 1994 Georgian-Abkhaz agreements*. UNPO, p.15, cited in V. Chirikba (1999). ‘Georgia and Abkhazia: Proposals for a constitutional model’, in B. Coppitiers, D. Darchiashvili and N. Akaba (eds) (1999). *Federal practice; Exploring alternatives for Georgia and Abkhazia*. VUB University Press. pp.233–278.

26 V. Tuzhba (2003). *Op. cit.*

27 For instance, the agreement provides that ‘g). The returnees shall, upon their return, get back their movable and immovable properties they left behind, and should be helped to do so, or to receive whenever possible an appropriate compensation for their lost properties if return of property appears not feasible’. UNHCR (1994). *Quadrupartite Agreement on the Voluntary Return of Refugees and IDPs*. Moscow. p.2. Available at <http://peacemaker.un.org/georgia-quatripartiteagreement94>

28 UN Security Council (1994). *Op. cit.*

Meetings between the Georgian and Abkhaz parties resumed in Geneva on 17th–19th November 1997 under the aegis of the UN. Representatives of the Russian Federation participated as a facilitating party, as did the OSCE and member states of the Group of Friends of the UN Secretary General (established in 1994, including France, Germany, the Russian Federation, the United Kingdom and the USA) as observers. The Concluding statement of the meeting notes the need for the ‘Intensification of efforts in the economic, humanitarian and social areas...Elaboration of a programme of future activities and mechanisms for their implementation’.<sup>29</sup>

An important achievement of the meeting was the decision on the establishment of a Coordinating Council and, within its framework, working groups in the following areas:

1. Issues relating to the lasting non-resumption of hostilities and security;
2. Refugees and internally displaced persons;
3. Economic and social problems.

The work of the Coordinating Council and working groups was to be chaired by the Special Representative of the UN Secretary General or his assignees with the participation of the Russian Federation as a facilitating party, as well as the OSCE and the Group of Friends of the UN Secretary General. It was stipulated that the working groups would start their activity in December 1997. This provision was fulfilled with the **first meeting of the Coordinating Council, which took place on 18th December 1997 in Sukhum/i under the aegis of the UN and chairmanship of Liviu Bota, Special Representative of the UN Secretary General**. The Georgian side was represented by Vazha Lordkipanidze, Revaz Adamia and Tamaz Khubua; the Abkhaz side was represented by Tamaz Ketsba, Sergei Tsargush and Victor Khashba.

The Special Representative of the UN Secretary General welcomed the arrival of the Georgian delegation members, appointed by President Shevardnadze, to Sukhum/i. They represented exclusively the Georgian side of the Coordinating Council, representatives of the Russian Federation as an assisting party, the OSCE and France, Germany, Russian Federation, United Kingdom and the USA, members of the Group of Friends of the UN Secretary General, in an observer capacity. The meeting participants adopted the Provision on Coordinating Council, after which the meetings of the working groups were convened, chaired by the Special Representative of the UN Secretary General. These meetings outlined the activities of specific programmes to be undertaken by the working groups.

According to the adopted Provision, the working groups constituted the executive bodies of the Coordinating Council. They each had two representatives from the Georgian side and two representatives from the Abkhaz side. The meetings of the working groups were chaired by the Special Representative of the UN Secretary General or his assignees, with the participation of representatives of the Russian Federation as an assisting party, the OSCE and the Group of Friends of the UN Secretary General. The working groups covered the following areas:

1. Working Group I – Issues relating to the lasting non-resumption of hostilities and security;
2. Working Group II – Refugees and IDPs;
3. Working Group III – Economic and social problems.

<sup>29</sup> UN Peacemaker (1997). *Concluding statement on the outcome of the resumed meeting between the Georgian and Abkhaz parties*. Geneva. p.1. Available at <http://peacemaker.un.org/georgia-concluding-outcome97>

The remit of Working Group III was set out as follows:

‘Deliberating the issues, pertaining to the mutual interests of the parties (energy, transport, communications, ecology); Deliberating the proposals to eliminate obstacles to normal economic and social development; Working Group III developed proposals and recommendations to establish effective cooperation of the parties in agreed spheres.’<sup>30</sup>

**A planned meeting between the Georgian and Abkhaz sides took place in Geneva on 23rd–25th July 1998** under the aegis of the United Nations. During the course of the meeting an exchange of opinions took place regarding the following items of the agenda:

- Analysis of the state of negotiations on the main aspects of the comprehensive settlement of the conflict and discovering the areas where real political progress was possible;
- Development of effective mechanisms to preserve the ceasefire and specified guarantees of the non-resumption of military action;
- Issues surrounding the return of refugees and IDPs;
- Strengthening economic, humanitarian and social areas.

All these areas corresponded to the working groups’ specialisations within the Coordinating Council.

During the course of the meeting the Georgian side stated that special conditions were needed to swiftly implement the process of returning refugees and the IDPs. For this purpose the Georgian side proposed the establishment of a new working group, in which representatives of both conflict parties, the UN, the Russian Federation and member states of the Group of Friends of the UN Secretary General would participate. The working group would then develop and implement a plan for the voluntary, safe and dignified return of refugees and IDPs, primarily to Gal/i district (within its old borders). Measures for the economic restoration of the region and the normalisation of border and customs regimes would have to be directly linked to this process.

**Another meeting between the Georgian and the Abkhaz sides took place in Athens on 16th–18th October 1998** under the chairmanship of Liviu Bota, devoted to confidence building. The Athens meeting was convened in accordance with the Concluding statement adopted at the first Geneva meeting, held on 17th–19th November 1997, which, in particular, notes: ‘The parties have agreed, that progress towards strengthening trust, mutual understanding and cooperation between them could be achieved through direct bilateral contacts and other means’.<sup>31</sup> In this context, such measures cover a wide range of areas: political settlement, security, the return of refugees, **economic cooperation**, and cultural and humanitarian interaction. In the meeting both parties put forward specific proposals, some of which needed to be developed in more detail. Having affirmed the importance of dialogue on the development of trade and economic relations, the parties agreed to facilitate the conclusion of direct working contracts in the spheres of energy, trade, agriculture and construction.

**On 7th–9th June 1999 a meeting between the Georgian and Abkhaz sides took place in Istanbul to promote measures for confidence building** under the chairmanship of Liviu Bota as part of the Geneva process. Confidence building is a key aspect of a peace process, as it allows parties to more effectively approach a comprehensive conflict settlement. The delegation of the Georgian side was headed by Vazha Lordkipanidze, the State Minister; the delegation of the Abkhaz side was headed by Sergey Bagapsh, the Prime Minister of Abkhazia.

The main foci of the meeting were the return of refugees and IDPs and economic issues. The

30 A. Kuchuberua (2006). ‘V Tbilisi vozobnovilas’ rabota Koordinatsionnogo Soveta Abkhazii i Gruzii pod egidoi OON?’ [In Tbilisi have the operations of the Coordinating Council of Abkhazia and Georgia been resumed under the auspices of the UN?], *Kavkazskii Uzel*, 15th May 2006. Available in Russian at <http://www.kavkaz-uzel.ru/articles/94662>

31 UN Peacemaker (1997). Op. cit. p.2.

parties agreed to resume the activities of the working groups within the Coordinating Council, including Working Group III. This permanent working group was tasked with facilitating the establishment of economic relations between the economic subjects. It was mandated to deal with various projects, including the uninterrupted functioning of the Ingur/i hydroelectric station and Ingur/i dam. The financing of the permanent working group was to be provided by the UN Development Programme.

**The third meeting of the Georgian and Abkhaz sides to promote measures for confidence building within the Geneva peace process took place in Yalta on 15th–16th March 2001 under the aegis of the UN, chaired by Special Representative of the UN Secretary-General Dieter Boden.**

The parties adopted the **Action programme to build confidence between the Georgian and Abkhaz sides**. Paragraph 12 of the action programme revolves around establishing cooperation between the parties on viniculture. However, the 1997 Decree of the President of the Republic of Abkhazia restricted the import of dry, fortified and sparkling wines into Abkhazia from Georgia. At the same time Abkhaz wines in the late 1990s–early 2000s were supplied to the Russian market, with labels on the bottles reading “Made in the Republic of Abkhazia”, with a Georgian barcode on the boxes. This mechanism was developed without any connection to the Boden plan, the details were not publicised within the two societies and circumvented the issue of the impossibility of export of licensed goods (primarily spirits) from Abkhazia to elsewhere. However, the sides never reached the wine production cooperation point proposed in the Boden plan.

**On 6th–7th March 2003 the President of the Russian Federation, Vladimir Putin, and the President of Georgia, Eduard Shevardnadze, met in Sochi, Russia.** A delegation from Abkhazia, headed by Gennady Gagulia, the Prime Minister of Abkhazia, also took part in discussions on a number of practical issues. During the course of negotiations the presidents of Russia and Georgia discussed further opportunities to develop bilateral cooperation, to reach a comprehensive conflict settlement of “Abkhazia within Georgia”, and to resolve urgent international and regional issues of mutual interest. It was stressed that concrete steps needed to be taken to resolve the most urgent problems concerning the dignified and secure return of refugees and IDPs, and the economic rehabilitation of the conflict zone. Key areas for action were identified: the return of refugees and IDPs to Gal/i district, the opening of the Sochi–Tbilisi rail link, the modernisation of the Ingur/i hydroelectric station’s cascade and potential prospects for other hydroelectric waterworks on the upper Ingur/i river, including the possibility of foreign direct investment (FDI). It was envisaged that the opening of the direct rail link between Sochi and Tbilisi would be implemented in parallel with the return of refugees and IDPs to the Gal/i district. Upon reaching an agreement, relevant working groups/committees were to be established. These provisions were to be based on the previously adopted resolutions and recommendations of the international community. The presidents of the Russian Federation and Georgia expressed their conviction that the implementation of economic projects would facilitate confidence building between the Georgian and Abkhaz sides, stabilise the situation, and resume negotiations for a comprehensive settlement of the conflict.<sup>32</sup>

## **Blockade of Abkhazia (Russia, the CIS)**

### **CIS blockade and border regime with Russia**

The international and legal context in which Abkhazia found itself after hostilities ceased significantly impeded the process of rebuilding the economy.

32 ‘Itogovoe zaiavleniie o vstrechakh Prezidenta Rossiiskoi Federatsii V.V. Putina i Prezidenta Gruzii E.A. Shevardnadze’ [Concluding statement on the meetings between the President of the Russian Federation, V.V. Putin and the President of Georgia, E.A. Shevardnadze], Official website of the President of Russia, 7th March 2003. Available at <http://archive.kremlin.ru/text/docs/2003/03/156501.shtml>

On 3rd November 1995 in Moscow the Council of the CIS Heads of Government deliberated the Statement of the Georgian Delegation led by Bakur Gulua, Minister of Agriculture and Food.<sup>33</sup> The operative part of the document contained an appeal to the Council of the Heads of States of the CIS to ask the UN Security Council to adopt a resolution including the following provisions:

1. Support of measures for political and economic isolation of, and refusal to provide financial and military assistance to, the existing regime in Abkhazia, and recommendations to all states (particularly members of the CIS) to adhere to this measure as a means for peaceful settlement of the conflict;
2. Widening the mandate of the UN Observer Mission in Georgia (UNOMIG) by empowering it with control over the Abkhaz regime and compliance with the aforementioned measures within the cooperation framework between the UN and the CIS to overcome regional conflicts.

Georgia expressed its readiness to prepare a draft resolution for the CIS Heads of States, a draft UN resolution and a draft petition to the UN Security Council.

In fewer than three months – on 16th January 1996 – the CIS Heads of States Council took a decision to declare a blockade of Abkhazia in Moscow. With regard to economic sanctions, the parties agreed the following (without the consent of the Government of Georgia):

- a) Not to carry out trade, economic, financial, transport and other operations with the Abkhaz authorities;
- b) Not to enter into official contact with the institutions operating on the Abkhaz territory or with the armed regiments formed by them.<sup>34</sup>

The member states of the CIS announced that they would not allow the functioning of offices of the Abkhaz authorities and relevant representatives and officials in their states. The document also contained an appeal to the UN Security Council, asking for support for the adopted measures and recommended that all UN member states act in a similar fashion. As a member of the CIS, Russia endorsed the blockade.

Russia had been ahead of the CIS countries to seal its Abkhaz border with Georgia in December 1994; however, under the pressure applied by the parliament (State Duma), the Russian government had been making decisions that eased the blockade experience for the Abkhaz, which went against general CIS determination to make the sanctions work.

On 19th December 1994 the Russian Federation government adopted a decree that introduced a ban on crossing the state border of the Russian Federation along the river Psou by persons (apart from those returning to their permanent residence), vehicles, freight and goods travelling from the Republic of Georgia.<sup>35</sup> This document saw the start of a total blockade of Abkhazia.

The same document contained the instruction to the Ministry of Transport of the Russian Federation to temporarily cease all air and sea lines of communication with the Republic of Georgia. The Ministry of Railways and the Ministry of Transport of the Russian Federation were instructed to temporarily suspend passenger and cargo rail and road lines between Russia and the Republic of Georgia, excluding the transport of goods and personnel for Russian forces stationed in Georgia.

33 CIS Heads of States Council (1995). *Protocol resolution of the CIS Heads of States Council 'On measures to settle the conflict in Abkhazia'*. Moscow.

34 The 'Resolution on measures to settle the conflict in Abkhazia, Georgia' was adopted by the CIS Heads of States Council on 19th January 1996 in Moscow.

35 Government of the Russian Federation (1994a). *Decree number 1394 'On measures of temporary restriction of the border crossing between the Russian Federation and the Republics of Azerbaijan and Georgia'*. Moscow.

However within one week, some restrictions were lifted in relation to Abkhazia.<sup>36</sup> These new developments, which exempted Abkhazia from Decree 1394, provided for:

- Passage from the Russian Federation into Abkhazia for foreign nationals and stateless persons, and for vehicles and the personnel servicing them, which lawfully entered the Russian Federation prior to 21st December 1994;
- Passage for vehicles returning to the Russian Federation or belonging to Russian nationals, foreign nationals, stateless persons with the right of abode in the Russian Federation, legal entities registered in the Russian Federation, and goods transported in the aforementioned vehicles;
- Passage across the state border of the Russian Federation for residents of border districts travelling for family reasons (e.g. weddings, serious ailments or death of next of kin, etc.), provided they are in possession of documents which confirm their identity, place of residence and the relevant circumstances for travel.

Despite this, Russian parliamentarians still saw this border crossing regime as “stifling” for the population of Abkhazia and, in their opinion, the list of people allowed to cross the border required urgent extension. The State Duma of the Russian Federation recommended that the government deliberate the issue of relaxing the border regime for the Abkhaz, citing the following priority measures:<sup>37</sup> simplified border crossing procedures for pensioners and women; opening of a humanitarian corridor to supply the population of Abkhazia with food and essentials under the Russian Federation Red Cross, international and Russian charitable organisations, NGOs and religious organisations. Parliamentarians even proposed re-establishing air links with Abkhazia, using the airport in Sukhum/i.<sup>38</sup>

As a result, yet another step towards lifting the restrictions on crossing the border with Russia was taken in the summer of 1995, which allowed:<sup>39</sup>

- Passage for residents of the Russian Federation and the Republic of Georgia of pension age and women (irrespective of age), provided they are in possession of documents confirming their identity and place of residence, children under 16, and Russian nationals who own properties in the Republic of Georgia, provided they have proof of ownership documents;
- Passage for humanitarian cargo, food and construction materials sent to Abkhazia as emergency assistance and disaster relief.

In 1997 the Russian Federation lifted all restrictions on air and sea links with Georgia.<sup>40</sup>

In 1998 the Russian Federation State Duma announced the need to lift the blockade on Abkhazia and to normalise the border and customs regime on the Abkhaz side of the border of the Russian Federation. This was also proposed for other sections of the state border of the Russian Federation with other CIS member states regarding the passage of vehicles and citizens, and the transport of goods.<sup>41</sup> It was also suggested that entities in the Russian Federation make more active efforts to conclude agreements on economic and cultural cooperation with Abkhazia.

36 Government of the Russian Federation (1994b). *Decree 'On lifting certain restrictions as per Government of the Russian Federation decree 1394*. Moscow; Government of the Russian Federation (1994c). *On measures of temporary restriction of the border crossing between the Russian Federation and the Republics of Azerbaijan and Georgia* 1419. Moscow.

37 State Duma of the Russian Federation (1995a). *Decree of the Russian Federation State Duma 'On humane treatment of the needs of Abkhazia population'* 555-1 GD. Moscow.

38 State Duma of the Russian Federation (1995b). *Decree of the Russian Federation State Duma (Parliament) 'On assistance to the population of Abkhazia'* 1006-1 GD. Moscow.

39 Government of the Russian Federation (1995a). *Decree of the Russian Federation Government 'On lifting, within Krasnodar krai, of some restrictions on crossing the Russian-Georgian border, set out by the Russian Federation Government Decree 1394'* 707. Moscow.

40 Government of the Russian Federation (1997a). *On lifting restrictions set out by the Russian Federation Government Decree 1394 'On measures of temporary restriction of the border crossing between the Russian Federation and the Republics of Azerbaijan and Georgia'* 316. Moscow.

41 Russian Federation State Duma (1998). *Decree of the Russian Federation State Duma 'On the need to normalise the border and customs regimes at the Abkhaz section of the Russian Federation State Border'* 2680-II GD. Moscow.



To further this resolution of the State Duma, sanctions on Abkhazia adopted by the Russian government from 1994 to 1997 were lifted in autumn 1999.<sup>42</sup>

The blockade had been extremely harsh and strictly implemented. However, on some occasions, economic considerations forced exceptions to be made. Additionally, against this harsh policy background of isolation, the Russian Federation made some decisions that went against the underlying trend. For example, in 1995 the Russian government, for the purposes of satisfying the demand of the Russian population for citrus fruits, permitted the Federal Border services, the State Customs Committee, the Ministry of Transport and the Ministry of Railways of the Russian Federation to allow the passage of 15,000 tonnes of citrus fruit across the Russian border from Abkhazia in November–December 1995, to be transported by Russian vehicles.<sup>43</sup> The Ministry of Railways and the Ministry of Transport of the Russian Federation were instructed to ensure the necessary amount of rolling stock for transportation of the cargo.

This relaxation of the customs regime in 1995, which coincided with the citrus fruit harvest, served as an economic precedent. In 1996 a similar Russian government decree was adopted, which allowed passage across the Russian border in November–December 1996 and in January–March 1997 for:<sup>44</sup>

- 10,000 tonnes of tangerines
- 500 tonnes of hazelnuts
- 2,000 tonnes of tea
- 300 tonnes of bay leaves
- 200,000 jars of fruit juice, jams and preserves.

Then, in 1997, the Russian government adopted a decree, which allowed passage across the Russian border in November–December 1997 and in January–March 1998 for:<sup>45</sup>

- 10,000 tonnes of tangerines
- 500 tonnes of hazelnuts
- 2,000 tonnes of tea
- 300 tonnes of bay leaves
- 1.5 million litres of fruit juice, jams and preserves.<sup>46</sup>

Russian vehicles were permitted to carry the cargo.

To export the produce within the set quotas, certificates of origin (CT-1 forms) were required. Due to the fact that the Russian Federation deemed the Abkhaz Republic an integral part of Georgia at that time, customs duty privileges applying to Georgian goods were applied to Abkhaz products.<sup>47</sup> In 2004 the decree on the application of privileges was cancelled;<sup>48</sup> however, the actual reason for this was unknown. It is possible that it was a consequence of the meeting between presidents Putin and Shevardnadze in 2003.

<sup>42</sup> Government of the Russian Federation (1999). *Decree of the Russian Federation Government 'On declaring invalid the Russian Federation Government Decree' 1029*. Moscow.

<sup>43</sup> Government of the Russian Federation (1995b). *Decree of the Russian Federation Government 'On allowing passage of citrus fruit into the Russian Federation' 1144*. Moscow.

<sup>44</sup> Government of the Russian Federation (1996). *Russian Federation Government Decree 'On passage of goods of citrus fruit and some other types of agricultural produce to the Russian Federation' 1336*. Moscow.

<sup>45</sup> Government of the Russian Federation (1997b). *Russian Federation Government Decree 'On passage of goods of citrus fruit and some other type of agricultural produce to the Russian Federation' 1397*. Moscow.

<sup>46</sup> It is impossible to compare volumes between the two decrees as the units of measure are different (litres in the second instance and "jars" in the first).

<sup>47</sup> Russian Federation State Customs Committee (1995). *Letter of the State Customs Committee of the Russian Federation 'On application of privileges in paying customs duty in relation to the goods, originating from the territory of the Republic' 01-13/251*. Moscow; Russian Federation State Customs Committee (1994). *Agreement on the establishment of a free trade zone within the CIS*. Moscow.

<sup>48</sup> Russian Federation State Customs Committee (2004). *Order of the Russian Federation State Customs Committee 'On declaring invalidity of some legal acts of the Russian Federation State Customs Committee' 308*. Moscow.



In 1997 the Russian Duma adopted a Statement ‘On inadmissibility of violation of general principles and norms of international humanitarian law in relation to the suffering population of Abkhazia’.<sup>49</sup> The document affirmed Russia’s commitment to Georgia’s territorial integrity; however, it is very critical of the blockade imposed on Abkhazia:

‘The restriction and ban of trade and economic relations, financial operations, transport or other economic links/communications, of which the Russian Federation is a participant, as well as the disconnection of telegraph and telephone communications, and the interruption of postal service, represent indiscriminate measures. It is the civilian population in Abkhazia who suffers most of all from the application of these measures – people of various nationalities and citizenships, including Russian citizens, which is a gross violation of the mutually recognised principles and norms of international humanitarian law.’<sup>50</sup>

The operative part of the document concludes with the need to lift the blockade, which did not correspond to the ‘national interests of Russia and mutually recognised principles and norms of humanitarian law’.

The Duma also approved a number of recommendations to the President of the Russian Federation:

- a) Not to allow the tendency of unilateralism on the part of the Russian government in its peacekeeping practices,<sup>51</sup> which was counter-productive for Russia, and to put an end to the violations of mutually recognised principles and norms of international humanitarian law in relation to the population of Abkhazia;
- b) To propose that the Russian government abstain from placing sanctions on Abkhazia, bearing in mind the suffering of the Abkhaz population;
- c) To cancel all adopted normative documents, on the basis of which the Russian Federation Federal Customs Service denied entry to or leaving Abkhazia;
- d) To establish, instead of the applicable, yet limited, approved list of products, goods and objects, a new list of banned objects for import into Abkhazia only of a military nature;
- e) To propose to the head of the Federal Border Service of the Russian Federation to abstain from any attempts to hinder entry and exit to and from Abkhaz ports of non-military vessels, which were not based on the norms of international law;
- f) To carry out inspections of non-military vessels in relevant Abkhaz ports.

Ensuring *de facto* approval of trade relations with Abkhazia caused a sharply negative reaction in Georgia, which accused Russia of supporting separatism and of breaching CIS agreements.

The 1997 Decree of the Russian Federation State Duma, which established quotas for imports from Abkhazia and opened the seasonal trade corridor, differed from previous similar documents because it contained the condition that the passage of products was viewed as ‘charitable social economic assistance to the Russian nationals, residing in Abkhazia (Georgia)’ and it was carried out through the International Fund for the Support of Fellow Citizens abroad “Rossootech”.<sup>52</sup> The decree states:<sup>53</sup>

49 Russian Federation State Duma [1997]. *Decree of the Russian Federation State Duma on the Statement of the Russian State Duma ‘On inadmissibility of violation of general principles and norms of international humanitarian law in relation of the suffering population of Abkhazia’ 1640-II GD. Moscow.*

50 Ibid.

51 In favour of Georgia.

52 ‘O zaiavlenii gosudarstvennoi Dumy Federal’nogo Sobraniia Rossiiskoi “V sviazi s reaktsiei rukovodstva Respubliki Gruzii na postanovleniie Pravitel’sva Rossiiskoi Federatsii ot 7 noiabria 1997 1397 “O propuske gruzov tsitrusovykh i nekotorykh drugikh vidov produktsii sel’skogo khoziaistva v Rossiiskuiu Federatsiiu” [Russian Federation Duma statement in connection with the reaction of the leadership of the Republic of Georgia to the Decree of the Russian Federation Government of 7th November 1997 1397 “On the transit of citrus goods and other particular types of agricultural products to the Russian Federation”], *Semerka*, 22nd December 1997. Available at <http://law7.ru/base48/part1/d48ru1487.htm>

53 Ibid.

- ‘1. The Russian Federation Government Decree, being of humanitarian nature, is fully in line with the norms of international law, the Constitution of the Russian Federation, and the standards of the Council of Europe, of which the Russian Federation is a member. The adoption of the Decree is engendered by the natural duty of care towards fellow Russian citizens, and its implementation cannot be made dependent on the state of relations between the Republic of Georgia and Abkhazia.
2. The Resolution of the Council of the Heads of States of the CIS ‘On measures to settle the conflict in Abkhazia, Georgia’ dated 19th January 1996, to which the leadership of Georgia refers, cannot be accepted as a legitimate international act, as it has not been ratified and is therefore not subject to be fulfilled, which the State Duma noted in its appeal to the President of the Russian Federation, Boris Yeltsin, on 19th January 1996. Moreover, this resolution cannot apply to the International Fund for the Support of Fellow Citizens Abroad “Rossootech”, through which, according to the Russian Federation Government Decree, this humanitarian act is being carried out, because the fund is not a state body of Abkhazia.
3. Taking into consideration clear human rights breaches by the leadership of the Republic of Georgia, the State Duma calls on the President of the Russian Federation and the Government of the Russian Federation to take all required measures to ensure full and unconditional respect of political, social and economic rights of Russian Federation nationals by birth and of Russian compatriots/fellow-citizens residing in Abkhazia in accordance with the norms of international law.’

On 16th September 2004 the Council of CIS Heads of States affirmed its commitment to the previously adopted resolutions in relation to the issues of territorial integrity of Georgia and measures of economic isolation in relation to Abkhazia in Astana.<sup>54</sup>

On 6th March 2008 the Russian Ministry of Foreign Affairs sent an official note to the Executive Committee of the CIS Heads of States Council, in which it advised that Russia no longer considered itself to be bound by the provisions of the 1996 CIS Heads of States Council Resolution ‘On measures to settle the conflict in Abkhazia, Georgia’. The document contained an appeal from the Russian Ministry for Foreign Affairs to other CIS member states to join Russia and to abandon the regime of sanctions against Abkhazia.

## World Trade Organization (WTO) agreement

This section contains an analysis of the **Agreement between the Government of Georgia and the Government of the Russian Federation on the basic principles for a mechanism of customs administration and monitoring of trade in goods**. The Agreement between the Government of Georgia and the Government of the Russian Federation was signed on 9th November 2011 in Geneva.

### Legal terms used in the agreement

The text of the agreement does not provide definitions of legal terms; however, based on the text, the terms are likely to have the following meanings, outlined in Table 6:

<sup>54</sup> The ‘Resolution to settle the conflict in Abkhazia, Georgia’ was adopted by the CIS Heads of States Council on 16th September 2004 in Astana.

Table 6: Meaning of legal terms in WTO agreement

Term	Meaning
Contracting Parties	Government of Georgia and Government of the Russian Federation.
Neutral Third Party	Confederation of Switzerland (by agreement).
Joint Committee	Committee jointly set up by the Government of Georgia, Government of the Russian Federation and the Neutral Third Party. The Joint Committee is convened on the demand of any Contracting Party no later than seven days upon receipt of the request. This is the first stage of dispute resolution in relation to interpretation, application and implementation of the agreement. At this stage all the parties appoint one expert each in order to respond quickly and try to resolve a problem, on which one Contracting Party advises.
Working Group	Two bilateral working groups established by the Contracting Parties, which will work on the issues of legal and information technology.
Neutral Private Company	A private company with relevant competence and experience proposed to the Contracting Parties by the Neutral Third Party, which the Georgian side contracts for the work in Georgia and which the Russian side contracts for the work in Russia.
Integrated Database (IDB)	Integrated WTO database, fed daily information on trade, based on the agreement.
Trade corridor	According to the agreement, there are three trade corridors, each of which is determined by Universal Transverse Mercator WGS84 coordinates. The first grid (first corridor) is composed of four points – two of them in Georgia (Zugdidi) and the remaining two in Russia (Sochi). The second grid (second corridor) consists of 10 points and covers the village of Nar in North Ossetia, the Transcaucasian highway, the Roki tunnel, Tskhinval/i and Gori. The third grid consists of four points and includes the checkpoint of Kazbegi-Verkhni Lars.
Electronic seal	Affixed by the party, with which the goods enter a trade corridor. The goods must enter a trade corridor through the terminal, and an electronic seal is affixed in the terminal.
Electronic data exchange system (EDES)	Mechanism used by the Contracting Parties to manage and register trade, commercial and logistical data.
International monitoring system (IMS)	Mechanism for monitoring, consisting of several elements: audit of data on incoming and outgoing trade in a trade corridor, carried out by the Neutral Private Company; electronic seals on any goods entering the trade corridor through the terminal; etc.
Terminal (including trade terminal)	Before entry to a trade corridor, goods must go through customs registration in the terminal, where goods are inspected and an electronic seal is affixed. The terminal uses GPS/GPRS, which allows for goods to be tracked.
Risk management	Management of risks based on GPS data and information from the electronic seals of the Neutral Private Company at the terminals.
Data audit	Audit of data based on GPS and electronic seals of the Neutral Private Company.
Arbitration (Arbitral) Tribunal	If the Contracting Parties are unable to resolve a dispute amicably within the Joint Committee, then one Contracting Party can appeal to the Arbitration Tribunal. The Arbitration Tribunal does not involve a representative of the Neutral Private Company. Members of the Arbitration Tribunal are the Contracting Parties and it is formed by one member from each Contracting Party. Members of the Arbitration Tribunal must appoint a chairman. If no agreement can be reached, then the chairman is appointed by the Secretary General of the Permanent Court of Arbitration in The Hague.

The agreement has two annexes, the first of which is highly important. The first annex concerns the data entered into goods declarations. The use of such declarations exists in WTO practice; there are also special forms to register trade declarations (developed for trade between Palestine and the EU), with the list of goods to be traded between the parties.

Over a year has passed since the conclusion of the agreement; the Russian Federation gained membership to the WTO based on this agreement. However, the entry into force of the monitoring mechanism, provided for in the agreement, has been delayed due to difficulties in identifying the specific details of implementation.

The first and second corridors determined by the grid coordinates cover the territories of Abkhazia and South Ossetia,<sup>55</sup> which are *de facto* separated from Georgia and are not recognised by either Georgia or the international community as *de jure* independent countries. After the war of 2008, the independence of Abkhazia and South Ossetia were recognised by the Russian Federation.<sup>56</sup> There is no information to suggest that the Contracting Parties approached the authorities of these Republics for information and/or consultation.<sup>57</sup> Neither were they approached by the Neutral Third Party.

Reaching the agreement was an important milestone in historically bad-tempered Georgian-Russian relations. It was concluded that economic and trade relations be regulated with the help of a monitoring and customs administration mechanism, which was designed to track the movement of goods. However, the agreement did not contain specific instructions on regulating certain situations, for example when goods enter the zone of a trade corridor and do not continue their movement along this corridor. Also, it was not prescribed what should be done in the event that the Abkhaz or the South Ossetian side prevents the passage of goods. By default, this is where the mechanism of the Arbitration Tribunal should kick in. The Abkhaz side had warned of the possibility of such a scenario and it was stressed that this would be possible if the issue were not agreed with the Abkhaz side.<sup>58</sup> Many issues surrounding the agreement remain unaddressed and resolving these issues will inevitably require the participation of the Abkhaz and South Ossetian sides. It should be noted that the agreement provides for an opportunity for review every three years and for the introduction of amendments agreed by the Contracting Parties.

Monitoring only applies to cargo transported over land and does not apply to cargo transported by air or sea.

## Internal normative documents

### Abkhazia (General norms, customs)

The formation of current Abkhaz law stems from **the Constitution of the Republic of Abkhazia**, which was adopted on 26th November 1994 at the session of the Supreme Council of the Republic of Abkhazia, and later approved after the referendum of 3rd October 1999.

On 27th September 1991 the Decree of the Abkhaz Supreme Council established the Customs of the Republic of Abkhazia. Later, in 1994, the President of the Republic of Abkhazia signed **the Decree to establish the State Customs Committee of the Republic of Abkhazia**, which became

<sup>55</sup> Official Georgian documents refer to South Ossetia as Tskhinvali region.

<sup>56</sup> In addition to Russia, Abkhazia was recognised by Venezuela, Nicaragua, Vanuatu, Tuvalu and Nauru.

<sup>57</sup> B. Baratelia. 'Vstupleniie Rossii v VTO: proekysii na ekonomiku Abkhazii' [Russian entry to the WTO: the impact on the Abkhaz economy], *Apsnypress*, 15th December 2011. Available at <http://apsnypress.info/analytic/4974.html>; Iu. Simonian. 'Rossiia radi VTO svoikh ne brosaet' [Russia does not abandon its own for the sake of the WTO], *Nezavisimaia*, 8th November 2011. Available at [http://www.ng.ru/cis/2011-11-08/6\\_wto.html](http://www.ng.ru/cis/2011-11-08/6_wto.html)

<sup>58</sup> 'Strasti po VTO' [The Passion of the WTO], *Ekho Kavkaza*, 14th December 2011. Available at <http://rudocs.exdat.com/docs/index-471133.html#13024972>

the central body of state administration of the Republic of Abkhazia, implementing the direct management of customs affairs and state customs policy.<sup>59</sup>

The border with the Republic of Georgia is set along the river Ingur. In 1995 work began to establish customs bodies on the border with Georgia.<sup>60</sup> In 1998 the Gal customs department was set up, which manages all customs points. Depending on the time period, there have been five to seven customs points on the border with Georgia. However, it should be noted that the establishment of customs structures on the border with Georgia was dictated not so much by economic prerequisites, since trade in this direction was of no strategic importance, but instead served the interests of state security. The presence of armed forces along the Ingur River was prohibited under the 1994 Moscow agreement of 1994;<sup>61</sup> however, customs points could be stationed legally on the border. In fact, the customs structures 'protected the state border and, being armed, fought off Georgian gangs'.<sup>62</sup> In 2012 the chairman of the State Customs Committee of Abkhazia pointed out that 'customs officials, in addition to their customs duties on the Georgian-Abkhaz border, often had to perform alien functions as border guards'.<sup>63</sup>

Today, according to official information,<sup>64</sup> the structure of the State Customs Committee of the Republic of Abkhazia is comprised of the customs departments of "Gal" and "Ingur". Regulation of the movement of cargo and goods across the Abkhaz-Georgian state border is executed within the general customs regime.

**On 1st August 1997 the President of the Republic of Abkhazia, Vladislav Ardzinba, issued the Decree 'On banning food imports from the Republic of Georgia into the Republic of Abkhazia'.** According to this document, imports of the following goods were prohibited:

- Vodka, brandy, liqueur and other spirits
- Dry, fortified and sparkling wines
- Beer
- Tobacco products
- Alcohol-free drinks and patisserie products.

Imports of goods not included in this list were, therefore, not prohibited.

**On 28th October 2005 Decree of the President (N RP-85) was issued, the aim of which was to regularise imports of humanitarian cargo into Abkhazia from Georgia.** According to this document, ministries and departments were obligated to accept cargoes imported by international organisations from the territory of Georgia, based on the recommendation of the permanent working group of the Georgian-Abkhaz Coordinating Committee. Imports of humanitarian goods from Georgia by non-international organisations were banned.

<sup>59</sup> When quoting the normative acts of Abkhazia, the terminology and transcription contained in them has been preserved.

<sup>60</sup> Office of the President of the Republic of Abkhazia (1995). *Decree of the President of the Republic of Abkhazia UP-43 'On establishing the border check point 'Ingur'.* Sukhum.

<sup>61</sup> On 14th May 1994 in Moscow, with Russia as an intermediary, the 'Agreement on ceasefire and separation of forces' between the Georgian and Abkhaz sides was signed. P. Chkheidze (1994). *Soglasheniie o prekrashchenii ognia i raz'edinenii cil, podpisannoe v Moskve 14 maia 1994 goda* [Agreement on ceasefire and separation of forces, signed in Moscow on 14th May 1994]. Moscow. Available at <http://www.un.org/ru/peacekeeping/missions/past/unomig/94-583.pdf>

<sup>62</sup> A. Kobakhia. 'Aslan Kobakhia o vozmozhnosti razmeshcheniia tamozhennoi sluzhby na KPP Ingur' [Aslan Kobakhia on the possibility of stationing a customs service at border check point Ingur], *Aiaaira*, 19th December 2011. Available at <http://aiaaira.com/index.php/sport/78-v-tsentre-vnimaniya/2826-2396374.html>

<sup>63</sup> 'Tamozhennyi komitet gotov uvelichit' chislo postov tamozhennogo kontroliia na gruzo-abkhazskoi granitse' [The customs committee is ready to increase the number of customs control points on the Georgian-Abkhaz border], *apsnypress*, 3rd February 2012. Available at <http://apsnypress.info/news/5355.html>

<sup>64</sup> More information can be found on the website of the State Customs Committee of the Republic of Abkhazia: <http://www.customsra.org/upload/structure-gtkra.png>

A total ban on the movement of commercial cargo across the state border with Georgia was established by the Decree of the President of the Republic of Abkhazia in July 2007.<sup>65</sup> It stated, in particular: ‘The State Customs Committee of the Republic of Abkhazia...is to ban import and export of industrial goods and food products from Georgia to Abkhazia and vice versa, with the exception of the import into Abkhazia of humanitarian assistance brought by international humanitarian organisations’.<sup>66</sup>

Paragraph 5 of this Decree set out general requirements in relation to the movements of people across the border with Georgia, as well as the border with the Russian Federation. These requirements were covered by the Provision ‘On the procedure of entry to the Republic of Abkhazia and exit from the Republic of Abkhazia of foreign nationals, CIS nationals and stateless persons’.

To implement this Decree, and to stop the illegal trafficking of both goods and people across the border, the State Customs Committee of the Republic of Abkhazia issued an internal order, according to which personnel of the Gal customs department had to establish points in the Papynyrkhua, Nabakia (Khurcha) and Otobaia residential areas, and reinforce the Kanal point.<sup>67</sup> It was also ordered that the Kodor police roadblock should be manned 24 hours to inspect and intercept smuggled goods from Georgia.<sup>68</sup>

On 27th September 2012 the president issued a Decree,<sup>69</sup> according to which the ban on the importing and exporting of industrial goods and food products from Georgia to Abkhazia would remain in force, but negated the other instructions contained in the 2007 Decree RP-151.

Additionally, on 27th September 2012 a temporary list of documents was approved relating to the right of entry and exit for persons crossing the Abkhaz-Georgian state border.<sup>70</sup> According to this list, the passage of persons across the state border of the Republic of Abkhazia with Georgia is allowed if the following valid documents are presented:

- a) Passport of a Republic of Abkhazia national, identifying the person as a citizen of the Republic of Abkhazia outside of the Republic of Abkhazia;
- b) General internal passport of a Republic of Abkhazia national;
- c) Passport of a USSR national with residence registration in the Gal district before 1992;
- d) Document replacing a passport (Form N.9) issued by the Interior Ministry of the Republic of Abkhazia;
- e) Birth certificate (for children under 14) indicating nationality of the Republic of Abkhazia;
- f) Passport of a foreign national, identifying the person as a foreign national outside of the country of which he/she is a national;
- g) Birth certificate (for children under 14) indicating nationality of a foreign country;
- h) Right to abode of stateless persons permanently residing in the Republic of Abkhazia.

Documents c) and d) are valid for the passage of persons across the state border of the Republic of Abkhazia with Georgia until 31st December 2013.

In certain cases specified in the legislation of the Republic of Abkhazia it is necessary to obtain an entry visa or a special permit, in addition to one of the documents from the list above, in order to

<sup>65</sup> Office of the President of the Republic of Abkhazia (2007). Op. cit.

<sup>66</sup> Ibid.

<sup>67</sup> State Customs Committee of the Republic of Abkhazia (2007). *Order of the Chairman of the State Customs Committee of the Republic of Abkhazia Enik 22*. Sukhum.

<sup>68</sup> As stated by the Road Police Service of the State Road Police Inspectorate of the Ministry of Interior of the Republic of Abkhazia.

<sup>69</sup> Office of the President of the Republic of Abkhazia (2012). *Decree of the President of the Republic of Abkhazia Ankva RP-541*. Sukhum.

<sup>70</sup> Cabinet of Ministers of the Republic of Abkhazia (2012). *Decree of the Cabinet of Ministers of the Republic of Abkhazia 125 'On approving a temporary list of documents for the right of entry of persons into the Republic of Abkhazia and exit from the Republic of Abkhazia across the state border of the Republic of Abkhazia with Georgia'*. Sukhum/i.



cross the border. Currently visas are not required for CIS member states and countries that have recognised the sovereignty of the Republic of Abkhazia:<sup>71</sup>

1. Azerbaijan
2. Armenia
3. Belarus
4. Vanuatu
5. Venezuela
6. Kazakhstan
7. Kyrgyzstan
8. Moldova
9. Nauru
10. Nicaragua
11. Transnistrian Moldovan Republic
12. Russian Federation
13. Tajikistan
14. Turkmenistan
15. Ukraine
16. Uzbekistan
17. South Ossetia

The Republic of Georgia is no longer a member of the CIS. The Georgian parliament adopted a decree on Georgia's invalidity on 14th August 2008, citing: the 'Agreement on the Creation of the Commonwealth of Independent States' (8th December 1991), 'The Resolution of the Council of the CIS Heads of States on Adoption of the Charter of the CIS' (22nd January 1993) and the 'Agreement on the creation of an economic union' (24th September 1993). The Ministry for Foreign Affairs of Georgia sent a letter to the Executive Committee of the CIS on 18th August 2008, which informed it of the resolution of the Georgian parliament and Georgia's exit from the CIS. The formal exit procedure of Georgia from the CIS was completed on 18th August 2009. Therefore, for Georgian nationals, visas are required to enter the Republic of Abkhazia.<sup>72</sup>

Before Georgia's exit from the CIS, Georgian nationals did not require visas to visit Abkhazia. However, in order to cross the border, it was necessary to show a special pass issued by the State Security Services of the Republic of Abkhazia.

The current procedure to **obtain a visa for the Republic of Abkhazia** is as follows:

- An applicant sends by email a copy of the passport that is going to be used for travel to the country and a completed application form. The passport must be valid for no fewer than six months before the planned entry to Abkhazia.
- The consular service takes five working days to process an application.
- The permit (confirmation) for entry to Abkhazia is then sent to the email address of the applicant or to the fax number listed on the application form.

According to official data at the start of 2012,<sup>73</sup> 300–350 people cross the Abkhaz border with Georgia at the border checkpoint every day. According to the same source, the number of people crossing the Abkhaz-Georgian border in October of 2012 was 700–800 people per day.<sup>74</sup> It is also noted that Georgian nationals have to have a special permit to enter the territory of Abkhazia.

71 More information can be found on the official website of the Ministry for Foreign Affairs of the Republic of Abkhazia: <http://mfaapsny.org/council/visa.php>

72 'Chetvero chlenov ekipazha sukhogruza "Khakki Chillioglu" peredany gruzinskoi storone' [Four crew members of the cargo ship "Khakki Chillioglu" are handed over to the Georgian side], *apsynpress*, 31st March 2012. Available at <http://apsynpress.info/news/5880.html>

73 'Na mostu cherez Ingur' [The bridge over the river Ingur], *Respublika Abkhaziia*, 17th January 2012. Available at [http://gazeta-ra.info/index.php?ELEMENT\\_ID=2620](http://gazeta-ra.info/index.php?ELEMENT_ID=2620)

74 'KPP na Ingur obustraivaetsia' [The border checkpoint on the Ingur is being set up], *Respublika Abkhaziia*, 2nd November 2012. Available at [http://gazeta-ra.info/index.php?ELEMENT\\_ID=5025&phrase\\_id=7061](http://gazeta-ra.info/index.php?ELEMENT_ID=5025&phrase_id=7061)



As far as transport is concerned, only vehicles of representatives of international organisations and employees of the Ingur hydroelectric station are allowed passage across the bridge.

Based on the analysis of the nature and content of the bylaws adopted by the State Customs Committee of the Republic of Abkhazia, which are regulatory and not prohibitive in character, the conclusion can be made that, prior to entry into force of the 2007 Decree of President Bagapsh RP-151, the movement of goods and cargo for commercial purposes could be carried out legally within existing customs rules.

The Order of the State Customs Committee of the Republic of Abkhazia (16th January 2006) is proof of this.<sup>75</sup> In paragraph 1, addressing the Gal customs department, a ban is introduced on imports of poultry and poultry products from Georgia. Therefore, it can be supposed that, up until the adoption of this Decree, imports of poultry products were carried out legally and were not viewed as smuggling. At the same time, imports of other products are also not considered as contraband, as the Decree only bans the import of certain types of products. This means that there is no default ban on importing other products.

Despite all the bans on the movement of goods across the border along the River Ingur, trans-border trade continues. Those who are interested manage to find opportunities to establish supply channels to the Abkhaz market. The State Customs Committee of the Republic of Abkhazia officially recognises the existence of contraband from the territory of Georgia.<sup>76</sup>

### Customs affairs in the Republic of Abkhazia: General provisions

In 2000 the People's Assembly of the Parliament of the Republic of Abkhazia adopted the **Customs Code**.<sup>77</sup> The code set out the legal, economic and organisational foundations of customs affairs, and guaranteed the protection of economic sovereignty and the economic security of the Republic of Abkhazia, while stepping up links with the world economy. It appointed the Cabinet of Ministers of the Republic of Abkhazia as responsible for the overall management of customs affairs.

The central body of the state administration of the Republic of Abkhazia, which directly manages the customs affairs of the Republic of Abkhazia, is the State Customs Committee of the Republic of Abkhazia. **Customs bodies of the Republic of Abkhazia** are the law-enforcement bodies comprising one system, which encompasses: the State Customs Committee of the Republic of Abkhazia; the Customs Departments of the Republic of Abkhazia; and the Customs Points of the Republic of Abkhazia.

The following types of **customs regimes** have been established to regulate/administer customs:

1. Release for free circulation
2. Re-import
3. Transit
4. Bonded warehouse
5. Duty-free shop
6. Processing on customs territory
7. Processing under customs control
8. Temporary import (export)
9. Free customs zone
10. Free warehouse
11. Processing outside customs territory
12. Export
13. Re-export
14. Destruction
15. Refusal in favour of the state

<sup>75</sup> The order was issued following the 'Instruction of the Cabinet of Ministers of the Republic of Abkhazia 03' (9th January 2006).

<sup>76</sup> Iu. Kuraskua. 'Za Ingur – Marshrutom prodovol'stvennym, marshrutom lechebnym' [Beyond Ingur – the road to food, the road to treatment], *Respublika Abkhaziia*, 8th June 2011. Available at [http://gazeta-ra.info/index.php?ELEMENT\\_ID=957&sphrase\\_id=7061](http://gazeta-ra.info/index.php?ELEMENT_ID=957&sphrase_id=7061)

<sup>77</sup> State Customs Committee of the Republic of Abkhazia (2000). *Customs Code of the Republic of Abkhazia 594-c-XIII*. Sukhum.

When clearing customs for goods imported into the Republic of Abkhazia by road and released under the regime of free circulation (import), the declaring parties must present **the following set of documents**.<sup>78</sup>

- International economic contract (if available);
- Waybills, as per the Instruction of the Cabinet of Ministers of the Republic of Abkhazia 319 (30th June 2003);
- If necessary, permits of state bodies (licences), certificates of quality and certificates of conformity.

For customs clearance/processing of goods exported from the Republic of Abkhazia by road under the export regime, the declaring parties must present the following set of documents:

- Certificate of the Ministry of Taxes and Duties of the Republic of Abkhazia (if required);
- International economic contract (if available);
- Waybills (for legal entities);
- If necessary, permits of state bodies (licences), certificates of quality and certificates of conformity.

In 2003 the Cabinet of Ministers of the Republic of Abkhazia introduced **licences of imports and exports for goods and services**.<sup>79</sup> Licences are issued by the Ministry of Economy and Foreign Economic Relations of the Republic of Abkhazia.<sup>80</sup> Exported goods that require licences are listed in Annex 1.<sup>81</sup> Imported goods that require licences are listed in Annex 2.<sup>82</sup>

When importing goods into the customs territory of Abkhazia for non-commercial purposes, for example, construction materials to upgrade one's own property, Form TD-6 is used for customs clearance and customs control. The senior inspectors of the Department of the Customs Inspection and the Department of Customs Clearance and Control jointly decide if the purpose of the import is commercial or non-commercial, based on the nature of the goods and frequency of movement.

When physical entities (persons) have no documents confirming the cost of the transported goods, customs clearance is done using the declared cost with a corresponding adjustment (this is applied in relation to simplified declaration forms using customs declaration Form TD-4).

Physical entities importing the following goods are exempt from making customs payments when importing these goods in the listed amount/volumes below.<sup>83</sup>

78 State Customs Committee of the Republic of Abkhazia (2005). *Order of the Chairman of the State Customs Committee of the Republic of Abkhazia Enik 'On documents required for customs clearance/customs processing'* 10. Sukhum.

79 Cabinet of Ministers of the Republic of Abkhazia (2003). *Decree of the Cabinet of Ministers of the Republic of Abkhazia 106 'On licensing of export and import of goods (words, services) in the Republic of Abkhazia (with changes of August 1st 2003 343, 21st June 2005 131, 27th August 2009 153, and 16th October 2009 183)*. Sukhum.

80 At the moment this ministry is called the Ministry of Economy of the Republic of Abkhazia.

81 Cabinet of Ministers of the Republic of Abkhazia (2003). *Decree of the Cabinet of Ministers of the Republic of Abkhazia 291*. Sukhum.

82 Cabinet of Ministers of the Republic of Abkhazia (2005). *Decree of the Cabinet of Ministers of the Republic of Abkhazia 127*. Sukhum.

83 State Customs Committee of the Republic of Abkhazia (2006). *Order of the State Customs Committee of the Republic of Abkhazia 51 'On approving the general rules for the movement of goods by the physical entities (persons) across the customs border of the Republic of Abkhazia'*. Sukhum. Available at <http://www.customsra.org/upload/law/45.pdf>

Table 7: Goods exempt from customs payments per weight

Goods	Quantity (per physical entity)
Wheat flour	50kg
Rye flour	50kg
Sugar	50kg
Saltpetre	50kg
Petrol	20 litres
Diesel	20 litres
Liquefied gas	40kg
Compressed gas	40kg
Alcoholic drinks	2 litres
Tobacco products	200 items
Jewellery	5 items

### Banking

In 1998 the Board of the National Bank of the Republic of Abkhazia, tasked by the president, approved the resolution on the ban of bank transfers from Georgia to Abkhazia. Letters with relevant instructions were sent to all the credit organisations in the country.

## Georgia (Constitution of Georgia, the Law on Occupied Territories, Summary of Georgian laws)

### Constitution of Georgia

**Article 1.** Georgia is an independent, unified and indivisible state, as confirmed by the Referendum of 31st March 1991, held throughout the territory of the country, including the Autonomous Soviet Socialist Republic of Abkhazia<sup>84</sup> and the Former Autonomous Region of South Ossetia,<sup>85</sup> and by the Act of Restoration of the State Independence of Georgia of 9th April 1991.

**Article 8.** The state language of Georgia shall be Georgian, and in Abkhazia – also Abkhaz.

**Article 12.** Georgian citizenship shall be acquired by birth and naturalisation.

**Article 13.** Georgia shall protect its citizens regardless of their whereabouts.

**Article 22.** Everyone legally within the territory of Georgia shall, throughout the territory of the country, have the right to liberty of movement and freedom to choose his/her residence.

**Article 30.** The state shall be bound to promote the development of free entrepreneurial activity and competition.

<sup>84</sup> Across Georgia 90.79 percent of voters participated in the restoration of independence referendum; 99.08 percent voted "yes" ('Konflikt mezhdru Gruziei i Abkhaziei: istoriia voprosa [Conflict between Georgia and Abkhazia: history of the question]', *RIA Novosti*, 27th September 2007. Available at <http://ria.ru/spravka/20070927/81316995.html>). Data regarding voting in then Abkhaz SSR diverge: Abkhaz sources claim that Abkhazia did not take part in the Georgian independence referendum, while Georgian sources provide data according to which half of the population of Abkhazia voted in the referendum and unanimously supported independence (E. Partsvania [2011]. 'Gruzii: dvadtsat' let nezavisimosti [Georgia: twenty years of independence]', accessed 5th May 2013. Available at <http://eurasia.org.ru/37040-gruziya-dvadcat-let-nezavisimosti.html>). Abkhaz (except ethnic Georgians) voted in the all-union referendum on the preservation of the Soviet Union on 17th March 1991, while the rest of Georgia boycotted this referendum. According to the all-Union referendum data, out of 52.3 percent of voters in Abkhazia, 98.6 percent voted for the preservation of the Soviet Union ('Konflikt mezhdru Gruziei i Abkhaziei: istoriia voprosa [Conflict between Georgia and Abkhazia: history of the question]', *RIA Novosti*, 27th September 2007. Available at <http://ria.ru/spravka/20070927/81316995.html>).

<sup>85</sup> When quoting the normative acts of Georgia, the terminology and transcription contained in them have been preserved.

**Article 31.** The state shall take care of equal socio-economic development of the whole territory of the country.

### Analysis of the Georgian Law on Occupied Territories

The parliament of Georgia adopted the Law of Georgia on Occupied Territories on 23rd October 2008 after the five day-war between Russia and Georgia in August 2008. Before the final adoption of the law, the draft was reviewed by local experts in Georgia and actively discussed with international experts. The Venice Commission issued a statement on the draft law, which was critical of many of its aspects.

A serious discussion was also held on the subject of expediency of using the term “occupation”. Despite the fact that the discussion of this issue leads to political deliberation, it should be noted that the term “occupation” had long been used by the Georgian side before 2008. In a 1996 Decree (17th April) the parliament of Georgia noted that an integral part of Georgia – Abkhazia – had been subject to occupation, and referred to Abkhazia as “occupied Abkhazia”.

The Law declared the following territories “occupied”: the autonomous republic of Abkhazia as fully occupied; the territory of the former autonomous region of South Ossetia; based on the agreement on ceasefire (12th August 2008), the village of Perevi in Sachkheri district, Kurta, Eredvi and Azhari municipalities, and the territories of Alkhagori municipality. There are the following restrictions on the mentioned occupied territories: restriction of free movement, of economic activity, of concluding deals with immovable property and of other issues stipulated by the law.

According to the law, any activity on the occupied territory, any deal with immovable property or any decision made by the *de facto* government is illegal; in addition to economic relations, freedom of movement is restricted, including prohibition of entry into Abkhazia across the border with the Russian Federation. Movement is allowed only from the administrative territory located by the river Inguri.

As far as economic relations are concerned, a number of restrictions are in force that apply to companies, legal and physical entities. This restriction of economic activity is mentioned in article 6 of the law, according to which the following types of activity are banned on the occupied territories:

- a) Any economic (entrepreneurial or non-entrepreneurial) activity, irrespective of whether this activity is carried out for profit, income or compensation, if such activity, pursuant to the legislation of Georgia, requires compulsory licensing or permits, authorisation or registration, according to the laws of Georgia ‘On licences and permits’, ‘On entrepreneurs’, ‘On museums’, ‘On water’, ‘On public register’ and ‘On electronic communications’, the Marine Code of Georgia, or the Civil Code of Georgia, if such activity requires approval according to Georgian legislation;
- b) Import and/or export of military or dual-use products;
- c) International air and sea lines of communications, apart from cases set out by the 1982 UN Marine Law Convention;
- d) Rail communication and international carriage by road;
- e) Use of state resources;
- f) Organisation of money transfers;
- g) Financing or aiding the listed activities in other ways.

Due to the fact that it is possible, according to the legislation, to foster economic relations with the help or use of third parties, the law uses the term “related persons”, with which it is also forbidden to carry out economic activity. This category of persons includes:

- a) An entity that has a stake or over 5 percent of shares in a company that is active in the occupied territory;
- b) An entity that has a stake or over 25 percent of shares in the entity or company set out in a);
- c) An entity that has a stake or over 50 percent of shares in the entity or company set out b).

Activity in an occupied territory is permissible in two cases:

- 1. If an activity serves the state interests of Georgia, and purposes of conflict settlement, de-occupation and restoring confidence among the population who suffered as a result of the war, as well as humanitarian purposes;
- 2. If people in the occupied territory require urgent humanitarian relief to ensure the right to life, in particular, food, medicines and emergency items. Such exceptions are permissible only with prior notification of the Georgian government and subsequent permits granted for such activity.

All persons found in breach of the restrictions on carrying out economic activity pursuant to the law in the occupied territory shall be made criminally liable as per Chapter 37<sup>1</sup> of the Criminal Code of Georgia ‘Breaches of legislation regime in the occupied territories’, articles 322<sup>1</sup>-1 and 322<sup>2</sup>-2:

- **Article 322<sup>1</sup>. Breaches of rules of entry to the occupied territories**
  - 1. The entry of a foreign national or a stateless person to the occupied territories is a breach of the rule set by the Georgian law ‘On occupied territories’, and is punishable by a fine or deprivation of freedom for a term of two to four years.
  - 2. The action as per part one of this article, committed by: a) a group, b) several times, or c) violently or under the threat of violence is punishable by deprivation of freedom for a term of three to five years.
- **Article 322<sup>2</sup>. Carrying out prohibited economic activity in the occupied territories**
  - 1. Carrying out economic activity prohibited by the Georgian law ‘On occupied territories’ in the occupied territories is punishable by a fine or deprivation of freedom for a term of three to five years.
  - 2. The same action committed by: a) a group or b) several times is punishable by a fine or deprivation of freedom for a term of four to six years.

According to Georgian legislation, the sanctions set out in the Criminal Code apply to both less grave and grave types of crimes.

**Table 8: Georgian normative acts, pertaining to economic relations between the Abkhaz and Georgian parties to the conflict, movement of people and cargo across the division line, and carrying out economic activity in Abkhazia**

Date of adoption	Adopting body and name	Brief content	Excerpts	Commentary
17th March 2006	Decree of the Parliament	An international law firm is selected to work on a case in relation to the damage caused as a result of conflicts		Since a decision is taken to choose a law firm which will work on a case in relation to damage, it can be assumed that it is possible to assess the damage caused as a result of conflicts, including economic.
20th March 2002	Decree of the Parliament	Parliament of Georgia assessed the situation in Abkhazia. It was also stated that the resolution to withdraw CIS peacekeeping forces was not complied with	7. The monetary intervention which the Russian Federation carried out in Abkhazia represents the use of economic force in violation of the norms of international law. Based on this, to task the Ministry of Finance of Georgia and the National Bank, in negotiations with relevant Russian Federation institutions, to stop the mentioned intervention	It is clear from this decree that Georgia considers unlawful the economic support of Abkhazia, which is being carried out, bypassing Tbilisi. Therefore, the economic influence of Russia is considered to be an obstacle for conflict resolution/settlement.
15th October 2001	Decree of the President of Georgia	'On setting up a committee to investigate the UN aeroplane crash'		This decree is of interest, because a criminal case was opened regarding the crash which happened in Abkhazia, and the investigation started on this territory. Later this decree was annulled on 13th May 2002. <sup>86</sup>
28th May 1998	Decree of the President of Georgia	The Ministry of Agriculture of Georgia was tasked with purchasing certain resources for the population of Gali to engage in agricultural work		
17th December 1997  8th July 1998 (changes)	Decree of the President of Georgia to approve the charter of the Extraordinary Committee on Economic and Social Rehabilitation of Abkhazia, at the first stage, Gali region		In accordance with the programme of Abkhazia's rehabilitation, preparation and submission of proposals, facilitating economic dialogue between Georgians and the Abkhaz	This decree was annulled in 2005. As can be seen from these decrees, the Ministry of Agriculture of Georgia prepared a programme, which was approved by the government and the relevant committee was organised to implement the rehabilitation programme.
10th January 2001	Decree of the President of Georgia	The President of Georgia tasked a number of state officials with taking special measures in connection with illegal logging in Abkhazia and distributing this information through mass media	On measures to stop the export of timber resources illegally acquired in the autonomous republic of Abkhazia	This document draws attention because the Government of Georgia must carry out certain measures to stop illegal logging on the <i>de facto</i> uncontrolled territory of Abkhazia.

<sup>86</sup> The researchers were unable to ascertain the details of the organisation, implementation and purposes of terminating the investigation.

9th May 1999	Decree of the President of Georgia	This document sets out the procedure for the entry of vessels into the ports of the <i>de facto</i> territory of Abkhazia, and prescribes the procedure for vessel inspection, issuance of permits, issuance of preliminary warning, etc.	On the approval of temporary procedures for vessels' communications in the ports of the autonomous republic of Abkhazia 7. After completion of the relevant procedures, opening and closing of the border are done by the "Poti" border	This document is of interest because it regulates sea lines of communication; these regulations must be synchronised with the WTO agreement, as the WTO agreement between Russia and Georgia does not encompass cargo moving by sea or air. This Decree remains in force.
31st January 1996	Decree of the President of Georgia	On border and customs regimes in port points and offshore areas in the Sukhumi sea port at the section of the Russian-Georgian state border within the territory of Abkhazia (Georgia)	1. To close Sukhumi sea port, port points, offshore areas and the section of the Russian-Georgian state border within the territory of Abkhazia (Georgia) for all types of international cargo, apart from humanitarian assistance as per this Decree	This document, related to ports, must be applied later to trade relations set out by the agreement between Russia and Georgia on the WTO.
14th May 2002	Decree of the President of Georgia	On additional measures to protect the population of the Kodori gorge, Gulripshskii district of the autonomous republic of Abkhazia and social and economic development		It is important that, before the total occupation of Abkhazia in 2008, various documents were constantly being adopted for the purpose of social and economic development of the Kodori gorge.
20th March 2002	Decree of the Parliament of Georgia	The parliament of Georgia decreed unlawful all acts of privatisation in the territory of Abkhazia since 14th August 1994		Since this document concerns property in Abkhazia and is directed at international organisations, the Chernomorenergo energy company is not subject to this Decree, with which Georgia is cooperating on the Inguri hydroelectric station. As Chernomorenergo was not privatised in Abkhazia, Georgia considers it a state company.
14th February 2006	Decree of the President of Georgia	On measures carried out in connection with stock taking of titles for immovable property, located in the autonomous republic of Abkhazia and Tskhinvali region		Stock taking of the property of IDPs was carried out in Georgia. A unified computer database was created as a result. People applied to the Ministry for IDPs, which provided available documents and conducted registration.



23rd October 2008	Parliament Law on Occupied Territories	The text of the Georgian Law on occupied territories, special rules introduced for economic relations and movement of people	Article 4. Restriction of free movement in the occupied territories Article 5. Right to title to immovable property in the occupied territories Article 6. Restriction of economic activity in the occupied territories	The adoption of this Law raised a lot of questions. The Venice Commission criticised the fact that the law left the norms open to subjective interpretation, which could then be used as an instrument of political pressure. According to the law, economic activity is forbidden on the territory not under control of Georgia; however, exceptions can be made for economic activity that serves Georgian national interests, is directed at settling the conflict or is humanitarian in nature. At the same time there are no clearly defined criteria for determining various economic activities not covered by the law. According to the law, it is prohibited to own over a 5 percent stake in a company that carries out its activity in the occupied territory. At the same time, it does not say if the possession of less than 5 percent in a company that works in the occupied territory can be considered legal activity. It is forbidden to import into and export from the occupied territory any dual-use cargo. There are no clear criteria on how to determine the duality of usage.
-------------------	--	--	---	--

## Proposals of parties to the conflict and third parties

### Basic Principles for the Distribution of Competences between Tbilisi and Sukhumi ("The Boden plan")

In 2002 Dieter Boden, a German diplomat and Special Representative of the UN Secretary General, put forward a plan to settle the conflict with Georgia named 'Basic Principles for the Distribution of Competences between Tbilisi and Sukhumi'. The document contained only eight paragraphs and was based on the principle of a sovereign Abkhazia within a unified federal Georgian state.

The plan was supported by Russia and member states of the Group of Friends of the UN Secretary General, and was regularly mentioned in all UN Security Council Resolutions between 2002 and 2005 as a basis to settle the Georgian-Abkhaz conflict. However, it was rejected by the Abkhaz authorities in 2002 and subsequently by Russia on 26th January 2006, stating that the Boden plan could no longer serve as a basis for determining the status of Abkhazia.

However, in the words of Boden himself, the document did not suggest any ready-made decisions for the Georgian-Abkhaz conflict. Its purpose was rather to invite both conflict parties to the negotiating table so that they could agree conditions for a peaceful settlement. The responsibility for further action to implement the document was firmly placed on the Georgian and Abkhaz sides; the UN and the member states of the Group of Friends of the UN Secretary General would act as a moderator of the potential negotiations.

The Boden plan did not suggest sovereign status for Abkhazia. Abkhazia was to remain a part of Georgia, with which federal relations were to be established.

Even though the document assumes stepping up integration processes, it lacks criteria for and descriptions of the main mechanisms of interaction, including economic cooperation.

### “Key to the future”: Economic prospects

In 2006 the Abkhaz authorities presented a plan for the resolution of the Georgian-Abkhaz conflict, entitled “Key to the future”. The purpose of this proposal was to reach a final and comprehensive political settlement of the conflict and to redevelop good neighbourly relations between Abkhazia and Georgia.

“Key to the future” covers the following areas:

- The Abkhaz side proposes that the Georgian side re-evaluate past mistakes and apologise to the people of Abkhazia for the state policy of assimilation, war and isolation;
- To abandon methods of political and economic pressure in relation to Abkhazia;
- To cancel the economic and information blockade;
- To sign a peace treaty that would encompass the provision of land, sea and air security;
- To provide guarantees of security and non-resumption of conflict between Georgia and Abkhazia, issued by the UN Security Council and the international community;
- Consultations at the presidential level on the conditions for the further peaceful coexistence of the two countries;
- Cooperation on combatting organised crime;
- Wide regional cooperation;
- Development of modern and civilised methods of cooperation within the EU Neighbourhood Policy;
- To stop politicising economic issues, in particular, restoring direct rail links and other projects;
- The Abkhaz side considers the squeezing out of Russia from the process of peaceful settlement of the conflict between Georgia and Abkhazia as counter-productive;
- Recognition of Abkhazia would resolve security and stability issues in the whole [Caucasus] region, and would be the basis for social, economic and cultural cooperation between states.<sup>87</sup>

The first economic premise of the document is Georgia’s abandoning of the blockade of Abkhazia, i.e. Georgia’s policies directed at isolating Abkhazia from international and regional economic processes. Transforming this policy of isolation and ending the blockade would act as the condition for the second stage of the conflict settlement – economic cooperation. According to the proposal, the second stage would begin after a peace treaty with Georgia had been signed and Abkhazia’s independence had been officially recognised.

The Abkhaz side has confirmed readiness to implement confidence-building measures, as per 2003 Sochi agreements on the return of refugees, the restoration of rail links and the rehabilitation of the Ingur Hydroelectric Power Station.

An important condition of the proposal is to stop politicising economic issues, in particular, the project to restore rail links. It is argued that the absence of Georgia’s blocking tactics would allow Abkhazia to use its economic potential for the benefit of developing and establishing the institutions of statehood.

<sup>87</sup> ‘Abkhazskie parlamentarii predlozhili Bagapshu dorabotat’ “Kliuch k budushchemu” [The Abkhaz parliamentarians suggested that Bagapsh develop a “Key to the future”], *IA Regnum*, 6th May 2006. Available at <http://www.xn--c1adwdmv.xn--p1ai/news/636276.html>

### Box 1: Aspects of Abkhazia's economic isolation

The transport blockade is understood to be restrictions on transport links, including the total lack of sea and air links. The sea port of Sukhum/i, port points, offshore areas and a section of the state border with Russia within the territory of Abkhazia are closed to international freight shipping, apart from humanitarian cargo.<sup>88</sup> Vessels admitted to the ports of Abkhazia must first undergo customs and other clearance in the port of Poti in Georgia.<sup>89</sup> There have been known cases of breaching the set legal requirements, which have resulted in the arrest of the vessels, detainment of crews,<sup>90</sup> and confiscation of the vessels by the Georgian authorities.<sup>91</sup>

The Abkhaz airport of Babushara, according to the International Civil Aviation Organization (ICAO) register, is located in Georgia and is not deemed to be international. It has a Georgian UGSS code.<sup>92</sup> The official line of Georgia is that air space over Abkhaz territory is Georgian air space; international flights through this space without permission of the Georgian authorities are prohibited by international law.<sup>93</sup> In June 2008 ICAO announced that it deemed international flights from Babushara airport inadmissible in the absence of relevant control on the part of Georgia.

In addition to the transport blockade, Abkhazia experiences other forms of economic isolation. Georgia is blocking the development of and introduction in Abkhazia of international financial mechanisms, for example Visa and MasterCard.<sup>94</sup> In accordance with Georgian legislation, Abkhaz banks are functioning without the licence of the National Bank of Georgia, which breaches Georgian legislation. Abkhaz banks are therefore viewed as unlawful structures. The National Bank of Georgia also monitors external channels of communications with the Abkhaz banks and does everything it can to block these channels.<sup>95</sup>

The National Bank of Georgia intended to send a letter to the FATF,<sup>10</sup> which would call on the organisation to focus its attention on illegal cooperation between commercial Russian banks with unlawful financial structures active in Abkhazia. Unlawful cooperation between Russian banks and the activities of banking institutions in Abkhazia are a serious violation of legal norms. The National Bank of Georgia intends to appeal to the European Commission and The Committee of Experts on the Evaluation of Anti-Money Laundering Measures (MONEYVAL11) for sanctions against Russia.

88 Office of the President of Georgia (1996). *Decree of the President of Georgia 'On border and customs regimes in port points and the offshore area in Sukhum sea port at the section of the Russian-Georgian state border within the territory of Abkhazia (Georgia)'* 140. Tbilisi.

89 Office of the President of Georgia (1999). *Decree of the President of Georgia 'On approving temporary procedures of vessel movements in the ports of the autonomous republic of Abkhazia'*. Tbilisi.

90 'Pogranichniki Gruzii arestoval turetskoe sudno "ISIK-3" [Border guards in Georgia arrested the Turkish vessel "ISIK-3"]', *Kavkazskii Uzel*, 29th June 2012. Available at <http://www.kavkaz-uzel.ru/articles/210436/>

91 'Gruziiia konfiskovala zaplyvshii v ee vody tanker [Georgia confiscated a tanker which entered its territorial waters]', *lenta.ru*, 15th June 2009. Available at <http://lenta.ru/news/2009/07/15/seize/>

92 ICAO (2003). *Appendix G – Missing Opmet Data – Sug Annex 1 A/Ps where no data received*. Montréal. Available at <http://www.icao.int/safety/meteorology/sadisopsg/Meeting%20Documents/SADISOPSG-8/Report/Report%20Appendix%20G.pdf>

93 'ICAO rassmatrivaet zhalobu Gruzii na polety Rossii v Abkhaziiu [ICAO considers a complaint from Georgia regarding Russian flights into Abkhazia]', *Rosbalt*, 21st April 2010. Available at <http://www.rosbalt.ru/exussr/2010/04/21/730293.html>

94 'Gruziiia: V Abkhazii nezakonno "khodit" Visa-International [Georgia: Visa-International is illegally being used in Abkhazia]', *Rosbalt*, 20th February 2007. Available at <http://www.rosbalt.ru/exussr/2007/02/20/287033.html>

95 'President Of The National Bank Georgia Discussed The Issue Of Illegal Activities Of Russian Commercial Banks In Abkhazia During His Meeting With The Authorities Of The Federal Reserve System', *National Bank of Georgia*, 26th April 2006. Available at <http://www.nbg.gov.ge/index.php?m=340&newsid=98&lng=eng>

## “State Strategy on Occupied Territories: Engagement through Cooperation” and “Action plan for engagement”

### Analysis of documents adopted by the Ministry of Reintegration of Georgia

The basic documents that form the basis of the Ministry of Reintegration of Georgia’s work in relation to Abkhazia are:

- The Law on Occupied Territories (discussed above);
- State Strategy on Occupied Territories: “Engagement through Cooperation” and the “Action Plan for Engagement”.<sup>96</sup>

The state strategy of the Government of Georgia in relation to the occupied territories – “Engagement through cooperation” and the “Action plan for engagement” – are documents developed with input from civil society, political organisations, international and local NGOs, experts and politicians. The documents cover: humanitarian issues; relations between societies; preservation of cultural heritage and identity; unhindered distribution of information; human rights, youth engagement; social issues; education; healthcare; environmental protection; economic issues; trade; joint ventures; communications; and infrastructure.

These documents focus heavily on economic relations between the Georgian and Abkhaz peoples. It is proposed that a trust fund be established, as well as a joint investments fund, a private investment fund, a cooperation agency, a financial institute, and an integrated social and economic zone.

Economic relations have been recognised as an area to pursue. The intention to facilitate enhanced trade relations between Georgians and Abkhaz has been declared through the creation of the necessary legal and logistical conditions for these relations; through making both the market and goods easily accessible for both parties; through the stimulation of financial conditions to expand trade, including the establishment of a favourable atmosphere for economic cooperation. The restoration and development of agricultural areas and productivity is envisaged, as is the stimulation and support of social and inter-community relations for the residents of Georgia and Abkhazia, and the establishment of special economic zones, including integrated social and economic and/or other types of areas which would cover both Georgia and Abkhazia. The establishment of relevant conditions to make available technologies, experience and finances for economic development is planned, as is the creation of necessary conditions to engage in joint business to stimulate profitable business activity. Principal areas include: construction of enterprises orientated towards adding value to produce through processing and packaging (principally in the agricultural sector); the establishment of purpose-set funds with the participation of the state, donors and private investors to support joint business and projects; searching for legal mechanisms to establish opportunities and facilitate the export/sale of Abkhaz and South Ossetian produce in the local, regional and international markets.

These mechanisms should facilitate the alignment of production conditions in line with international norms; regularise issues connected with quality certification, taxes and customs; find ways of improving employment in Georgia and Abkhazia; take into account unfavourable economic and security conditions, paying special attention to the territories along the border. Special criteria will be developed for these territories to implement relevant measures and to regularise the infrastructure connecting Abkhazia and South Ossetia with Georgia. In particular, the restoration of roads, water supply, telecommunications and other forms of infrastructure was envisaged. This would hopefully lead to regular, unrestricted motor transport between the divided territories; the repair and construction of schools, hospitals, sports and cultural facilities; and the facilitation of measures to protect the environment.

<sup>96</sup> Government of Georgia, ‘Action Plan for Engagement’, July 2010. Available at <http://www.smr.gov.ge/docs/doc214.pdf>

These documents, developed by the Ministry of Reintegration, cover almost all areas of economic relations, which should be supported and developed with the help of various mechanisms. However, experts (including former and current politicians) note that, despite the fact that since the beginning of the conflict various regulations, joint documents and agreements have been adopted at the Georgian parliament, presidential and international organisation level, none of these regulations is or has ever been in force. Some experts were unable to name even one document, adopted either jointly or singularly, to regulate economic relations between the conflicting parties. However, all of them acknowledged the existence of informal economic relations based on personal connections.

As far as economic relations between parties to the conflict are concerned, the adopted regulations apply to them somewhat. Currently, the new leadership of the Ministry of Reintegration is not planning to adopt new regulations or change existing norms. The new policy is aimed at the de-isolation of the Abkhaz side and stimulation of economic links within Georgian legislation. Issues regarding motor and rail links are also important. The Georgian government does not believe it necessary to adopt new regulations, since the current legislative base is sufficient. The main thing is to start negotiations on the joint support of concrete economic relations. The fact that no attempts have ever been made to regulate these informal relations is explained by the fact that no one in Georgia thought it deserved attention. On the other hand, it has also been propagated by Georgia's efforts to keep Abkhazia isolated. Many of the interviewed experts disagreed with this isolationist approach.

In our opinion, the existing legal norms are not sufficient to support these initiatives. Legal norms and regulations are compulsory to create a legal framework for all economic relations and initiatives. As this process should include all conflicting parties, it is important that both the Abkhaz and South Ossetian sides should participate in the creation of a legal and legislative framework. Agreements reached through the participation of all parties and in negotiations will work in practice and be acceptable to all conflicting parties.

With regard to the regulation of economic relations the following aspects are of significant importance: the introduction of bilateral regulations on issues related to rail transport, presumably with the participation of the Russian Federation; the regulation of road transport and the road transport corridor, which should be regulated pursuant to the Decree 'On the basic principles for a mechanism of customs administration and monitoring of trade in goods' (included in the agreement on the WTO between Russia and Georgia); sea and air trade – there are some minor regulations on the part of Georgia at the Decree level, but these regulations have not been agreed with the Abkhaz side.

## Mutual economic interests

### The Ingur/i Hydroelectric Power Station

Issues connected with the management of the Ingur/i Hydroelectric Power Station and the usage of the produced power have long been of great interest to Abkhaz and Georgian society. However, no official agency has full information on the matter; rather, this information is only possessed by those people who directly participated in the negotiation process and in signing the agreements.

At the end of 1999 a protocol was compiled that recorded the meeting of the Working Committee on Electric Power, in which the Abkhaz and the Georgian sides had participated. The Georgian side was represented by the Minister of the Heat Power Industry and the Director-General of "Sakenergo"; the Abkhaz side was represented by the Director-General of "Chernomorenergo". At this meeting the parties reached an agreement on the volume of power to be produced for the Abkhaz side, and on repair and rehabilitation work to be carried out on the Ingur/i Hydroelectric Power Station.

On 16th March 2003 the ‘Meeting on issues of the rehabilitation of electric power facilities’ was held at the Ingur/i Hydroelectric Power Station. It was a tripartite meeting, in which representatives of the INTER RAO UES company<sup>97</sup> and the Ministry of Energy of the Russian Federation took part. Georgia was represented by the Minister for Heat Power Industry, the Chief Engineer of the Ingur/i Hydroelectric Power Station, “Sakgidroproek” Institute and the “Sakrusenergo” company. The Abkhaz side was represented by the Director-General and Deputy Director-General of “Chernomorenergo”.

This meeting was important because the action plan and functions of the parties were clearly delineated. Not only were the issues concerning the Ingur/i Hydroelectric Power Station discussed, but also the condition of the Sukhum/i Hydroelectric Power Station. The parties planned a number of specific events and agreed that a joint company would be established to temporarily (for a period of 25 years) own, restore, rehabilitate and operate the Ingur/i Hydroelectric and Sukhum/i Hydroelectric Power Stations. The action plan and the parties responsible for these measures were assigned specific dates.

However, since 2003 information on the Ingur/i Hydroelectric Power Station has been virtually non-existent. Based on interviews with various officials and information in the media, the following picture emerges: the Georgian side and the INTER RAO UES company conducted negotiations on the management of the Ingur/i Hydroelectric Power Station and further usage of the produced electricity, in which the Abkhaz side participated. The Georgian side and INTER RAO UES drew up a memorandum, after which the two parties were supposed to have concluded agreements on the implementation of specific mechanisms. Some agreements were on regulating imports/exports of surplus seasonal electric power, on the cost, restoration and rehabilitation of the Vardnili Hydroelectric Power Station, and on expenditure for the repair of the Ingur/i Hydroelectric Power Station. However, the Abkhaz side (“Chernomorenergo”) was not a party to the agreement.

The official memorandum of the Georgian Ministry of Energy, drawn up between Georgia and INTER RAO UES, is commercial classified information that cannot be disclosed without the official consent of INTER RAO UES. Additionally, the ministry stated that, after signing the memorandum, no other agreement had been drawn up. Interestingly, public opinion suggests that the hydroelectric station was used to transfer electricity to Turkey, an action that has not been expressly denied by the Georgian authorities. Logically it would be correct to assume that, despite the fact that no further official documents have been drawn up and that no specific tariffs have been set following the signing of the memorandum, the system of electric power transfer is operational.

## Summary and conclusions of the legal review

### Summary of findings: Abkhazia

1. The regime for moving cargo and goods across the state border of the Republic of Abkhazia with the Republic of Georgia has undergone significant changes over the last 15 years. The dynamics of the process went as follows:
  - Since 1995 along the border on the river Ingur/i customs structures have been established and controls carried out. No restrictions or bans on the import of products and goods were introduced. Any non-restricted (i.e. internationally) objects could be carried across.

<sup>97</sup> For more information, please visit <http://www.interrao.ru/en/>



- **1st August 1997** saw the introduction of a ban on some categories of goods:
  - vodka, cognac, liqueur and other spirits;
  - dry, fortified and sparkling wines;
  - beer;
  - tobacco products;
  - alcohol-free drinks, patisserie products.
- **On 28th October 2005** a special procedure was established to enable the imports of humanitarian cargo from Georgia.
- **On 16th January 2006** a ban was introduced on the import of poultry and poultry products from Georgia.
- **On 23rd July 2007** a total ban was introduced on the import of industrial goods and food products into Abkhazia from Georgia.

Therefore, from 1995 to 2007, trans-Ingur/i trade legally existed and was regulated by the legislation of the Republic of Abkhazia.

2. The presence of a legally enshrined ban on the movement of goods and cargo across the border with Georgia did not lead to a *de facto* decrease in trans-Ingur/i trade. Instead, levels of smuggled goods rose, the existence of which has not been denied by the official authorities in Abkhazia.
3. The existing customs legislation of the Republic of Abkhazia does not contain special norms providing for a special regime in relation to goods originating in Georgia. General requirements and criteria for imported goods were applied (before relevant bans). However, when goods cross the border, it does not seem to matter if goods have been manufactured/produced in or outside of Georgia. The ban on import of goods from Georgia is in force irrespective of the customs regime and is applied to both import and transit of goods.
4. Customs structures of the Republic of Abkhazia were established almost immediately after the cessation of hostilities and the start of negotiation processes. The demilitarisation of the border zone in fact “disarmed” the eastern frontiers of Abkhazia, and customs structures along the border had to perform additional guarding and security functions.
5. All documents relating to the Georgian-Abkhaz negotiations process contain merely declarative statements of intent in the sphere of economic cooperation. None of the documents signed by the Georgian and Abkhaz parties regulates practical economic or trade issues.
6. The only concrete proposal on economic cooperation is paragraph 12 of the ‘Programmes of action on confidence building between the Georgian and Abkhaz sides/parties’ adopted at the third confidence-building meeting of the Georgian and Abkhaz parties within the Geneva peace process under the aegis of the UN, which took place in Yalta on 15th–16th March 2001 and was chaired by the Special Representative of the UN Secretary General, Dieter Boden. This paragraph provides for the establishment of cooperation on viniculture. However, as of 1997, the Decree of the President of the Republic of Abkhazia has been in force, which restricts the import of dry, fortified and sparkling wines from Georgia into Abkhazia. Therefore, the decisions/resolutions adopted within negotiation processes have not always been in correspondence with the national legislation of the parties. Since such documents do not enjoy the status of inter-state (international) agreements, their provisions do not have the primacy in the event of differences.
7. The overall dynamics of regulating passage across the Abkhaz-Georgian and Abkhaz-Russian border sections is in inverse proportion. The freer the flow of the goods across the border with Russia, the narrower the space for trans-Ingur/i trade. Table 9 below captures the reverse dynamics of trade regimes at the two borders.



Table 9: Reverse dynamics of trade regimes at the Ingur/i and Psou borders (Abkhaz perspective)

Year	Regime on the Abkhaz-Russian border	Regime on the Abkhaz-Georgian border
1994	Ban on passage of persons, vehicles, cargo and goods across the border. Total blockade of the Republic of Abkhazia.  After one week some restrictions are lifted.	
1995	Passage allowed for: - Pensioners and women irrespective of their age, children under 16 years of age, and citizens of the Russian Federation who own properties in the Republic of Georgia; - Humanitarian cargo, food and construction materials sent to Abkhazia as emergency assistance for disaster relief.  Quotas placed on imports of citrus fruit into the Russian Federation. Privileges the same as for CIS countries.	Organisational work commenced to establish functioning customs bodies along the border with Georgia.  The Ingur/i checkpoint is established.
1996	Quotas increased for the import of crop supply into the Russian Federation.  Privileges the same as for CIS countries.	
1997	All restrictions on air and sea lines of communication with Georgia (including Abkhazia) are lifted.  Quotas placed on imports of citrus fruit into the Russian Federation.  Privileges the same as for CIS countries  Statement of the Russian Federation State Duma 'On inadmissibility of the violation of general principles and norms of international humanitarian law in relation of the suffering population of Abkhazia'.	Ban placed on imports of the following types of goods from Georgia: - vodka, cognac, liqueur and other spirits; - dry, fortified and sparkling wines; - beer; - tobacco products; - non-alcoholic drinks; patisserie products.
1998	The Russian Federation State Duma states that it is necessary to lift the blockade of Abkhazia and to normalise border and customs regimes. It is suggested that similar procedures for the passage of transport, cargo and citizens be introduced, similar to other sections of the Russian border with CIS member states.  Citizens and businesses of the Russian Federation are encouraged to conclude more agreements on economic and cultural cooperation with Abkhazia.  Privileges the same as for CIS countries.	Gal/i customs department is set up, which directs the work of all customs points (between five and seven, depending on time period).  Georgia places ban on bank transfers from Georgia to Abkhazia.
1999	Sanctions against Abkhazia are cancelled by Russia.	
2004	Privileges of CIS member states are cancelled for Abkhazia. A possible reason for this is Council of the Heads of States of the CIS in Astana.	
2005		The import of humanitarian cargo from Georgia into Abkhazia is permitted.
2006		Ban placed on the import of poultry and poultry products from Georgia.
2007		Total ban placed on movement of commercial cargo across the border.
2008	Abkhazia recognised as a state by the Russian Federation.	Any commercial goods crossing the border/boundary are considered contraband.

## Summary of findings: Georgia

1. Georgia is constitutionally obliged to facilitate economic relations between Georgians and Abkhaz.
2. The policy of economic isolation is unjustified.
3. Despite the policy of economic isolation, proposals for economic relations have been consistently put forward. Proposals have been partially reflected in various agreements and memoranda.
4. Despite the fact that proposals for economic relations have been constantly referred to in various documents, at no time has a regulatory document been adopted or agreed by the parties; neither of the parties has worked on legal norms to regulate economic relations against the background of an incomplete negotiations process.
5. The basis for economic relations between the parties exists.
6. To establish regulations for Georgian-Abkhaz economic relations it is necessary to take into account existing international practice.
7. The Georgian state must review its internal legislation and develop useful norms that will not contradict bilateral, multilateral or regional economic contact on the Abkhaz side.



**International Alert.**

346 Clapham Road, London SW9 9AP, United Kingdom

Tel +44 (0)20 7627 6800, Fax +44 (0)20 7627 6900

[info@international-alert.org](mailto:info@international-alert.org)

[www.international-alert.org](http://www.international-alert.org)

ISBN: 978-1-909578-18-0