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One Step Closer – Georgia, EU Integration and the Conflict Settlement?

GRASS
REFORMANDA



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Tbilisi 2019

About GRASS

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

Disclaimer

The authors of the paper support the territorial integrity of Georgia within its internationally recognised borders. The terms that are used in the text (such as, for example, "de facto minister," "Abkhaz exports/imports," etc.) are used to explain the positions/perspectives of the de facto authorities and do not express the positions/opinions of the researchers.

Executive Summary

Eleven years after the five-day war between Russia and Georgia in 2008, the conflict still remains unresolved as the Kremlin continues to occupy Georgia's Abkhazia and the Tskhinvali/South Ossetia region while further enhancing its military presence on the ground and impeding the establishment of international security mechanisms in the occupied regions. Despite the Kremlin's illicit efforts, Georgia has tried to implement its engagement policy that aims to promote interaction among the divided populations of Georgia and ensure that the residents of Abkhazia and the Tskhinvali/South Ossetia region enjoy the rights and privileges available to every citizen of Georgia, including those enshrined in the EU-Georgia Association Agreement. To this end, Tbilisi has tried to engage with the communities in the occupied regions as well as the de facto authorities in Sokhumi and Tskhinvali through various channels of communication. In 2018, the Georgian government proposed a new initiative, entitled A Step to a Better Future, which provides the instruments to enhance inter-community relations in the fields of trade and education.

In view of the EU-Georgia Association Agreement and the A Step to a Better Future initiative, this paper analyses the potential influence that trade relations between Tbilisi and Sokhumi could have on confidence building and the reconciliation process. To a lesser extent, the paper highlights new opportunities for cooperation in the education field and proposes corresponding recommendations. In addition, it discusses how Abkhazia could benefit from the overall process of Georgia's Europeanisation, including the possibility of applying the benefits of the EU-Georgia Deep and Comprehensive Free Trade Area (DFCTA) to businesses and consumers in Abkhazia.

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Introduction

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

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

This paper focuses on Abkhazia, analysing the potential influence that trade relations between Tbilisi and Sokhumi could have on confidence building and reconciliation. It discusses how Abkhazia could benefit from the overall process of Georgia's Europeanisation, including the possibility of applying the benefits of the EU-Georgia Deep and Comprehensive Free Trade Area (DFCTA) to businesses and consumers in Abkhazia. To a lesser extent, the paper briefly highlights new opportunities of cooperation in the education field and proposes corresponding recommendations.

Confidence building measures by themselves cannot ensure a political settlement of the conflict but in view of what has happened in Moldova and Cyprus, it can be fairly argued that deepening relations in the fields of trade and education could be instrumental to building a meaningful degree of trust at the elite and community levels. Complexities created by the three dimensions of the conflict - between Russia and

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

the West, Russia and Georgia, and the Abkhaz and Georgian communities² - have marginalised cooperation; however, progress could still be achieved. Eventually, economic factors can play a significant role in contributing to mutually beneficial relationships between the conflict affected communities.

This research does not cover the Tskhinvali region/South Ossetia.³ The information provided in this paper is based on desk research and interviews conducted with experts and high-level authorities both in Tbilisi and Sokhumi. The paper also benefits from a number of track 1.5 discussions on trade and other issues, bringing together stakeholders from Abkhaz and Georgian communities. The paper has its limitations due to the lack of reliable economic data in Abkhazia and falls short of proposing a precise economic forecast in numbers on how much exactly Sokhumi is going to benefit from selling products on Georgian-controlled territory and beyond it. In this regard, the aim of the paper is also to push a discussion on developing more in-depth and comprehensive analysis about the benefits that this cooperation can bring about for the residents in the occupied regions.

Background Information

During the dissolution of the Soviet Union, two conflicts erupted in Georgia, one in the Autonomous Oblast of South Ossetia and one in the Autonomous Republic of Abkhazia.⁴ The armed conflict in 1992-1993 led to large scale human suffering and destruction. The fighting left about 8,000 people wounded and at least 12,000 people killed.⁵ About 300,000 ethnic Georgians were expelled from Abkhazia,⁶ an expulsion that has been recognised as ethnic cleansing by the Organization for Security and Co-operation in Europe (OSCE).⁷ Serious violent clashes ended in 1993 when the Abkhaz forces, backed by Russian forces and North Caucasian volunteers, drew Georgian troops out of the region. As a result, Tbilisi lost its control of Abkhazia.

² As acknowledged in the 2010 Strategy on Occupied Territories: Engagement through Cooperation. Retrieved from [http://gov.ge/files/225_31228_851158_15.07.20-StateStrategyonOccupiedTerritoriesEngagementThroughCooperation\(Final\).pdf](http://gov.ge/files/225_31228_851158_15.07.20-StateStrategyonOccupiedTerritoriesEngagementThroughCooperation(Final).pdf)

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

⁴ They were formally called by these names during the Soviet Union.

⁵ History: Georgian-Abkhaz Conflict. Conciliation Resources. Retrieved from <http://148.251.69.135/where-we-work/caucasus/history-georgian-abkhaz-conflict>

⁶ Protection of Internally Displaced Persons in Georgia: A Gap Analysis, UN High Commissioner for Refugees (UNHCR), July 2009. Retrieved from <https://www.unhcr.org/4ad827f59.pdf>

⁷ Budapest Summit Declaration, OSCE, 1994. Retrieved from <https://www.osce.org/mc/39554?download=true>
Lisbon Document, OSCE, 1996. Retrieved from <https://www.osce.org/mc/39539?download=true>
Istanbul Document, OSCE, 1999. Retrieved from <https://www.osce.org/mc/39569?download=true>

The Sochi Agreement of 1993⁸ and the Moscow Agreement⁹ signed one year later formalised the ceasefire between the conflict sides. As a part of these agreements, CIS peacekeeping forces¹⁰ and a UN Observer mission (UNOMIG) were established to monitor the situation on the ground and work towards reaching a political settlement. Despite the engagement of the UN, Russia went beyond its agreed role in the peace process and sought to instrumentalise the conflict to strengthen its influence and position as the only organised and functioning military and political force in the region. One of the reasons why Georgia agreed to join the Commonwealth of Independent States (CIS) in 1993 was related to Tbilisi's hope to solve the conflict.¹¹ However, this did not yield any significant positive outcome. On the contrary, the vastly superior political and military weight of Russia toppled the balance and prevented Tbilisi and its two breakaway regions from coming to a durable arrangement.¹² The hundreds of meetings and documents signed in the 1990s between Tbilisi and Sokhumi were in vain.

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

New Reality: Consequences of the August 2008 War

The Kremlin became deeply concerned as Georgia deepened its ties with the West. In 2006, Russia imposed an economic embargo on Georgia and forcibly deported a large number of Georgians residing in

⁸ Agreement of Cease-Fire in Abkhazia and Arrangements to Monitor its Observance, July 1993. Retrieved from https://peacemaker.un.org/sites/peacemaker.un.org/files/GE_930727_AbkhaziaCeasefireAndArrangementsToMonitorObservance.pdf

⁹ Agreement on a Cease-Fire and Separation of Forces, May 1994. Retrieved from https://peacemaker.un.org/sites/peacemaker.un.org/files/GE_940514_AgreementCeasefireSeparationOfForces.pdf

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

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

¹² Independent International Fact-Finding Mission on the Conflict in Georgia, Official Journal of the European Union, September 2019. Retrieved from https://www.echr.coe.int/Documents/HUDOC_38263_08_Annexes_ENG.pdf

¹³ Tracey German, June 2006, Abkhazia and South Ossetia: Collision of Georgian and Russian Interests, French Institute of International Relations. Retrieved from <https://www.ifri.org/sites/default/files/atoms/files/germananglais.pdf>

Russia, an action based solely on their ethnic origin and nationality.¹⁴ Moreover, Russia gradually prepared itself for military intervention, heavily militarising Georgia's breakaway regions. After the NATO Bucharest Summit, when Georgia and Ukraine were promised they "will become" members of the alliance,¹⁵ the Kremlin launched a full scale war against Georgia to curb its integration process with NATO and the EU. The war also served to send a message to the West that the country belonged to the Kremlin's "sphere of privileged interest" - and that the increased presence of Western structures in Georgia would not be tolerated. Following the war, and in grave violation of the six-point cease-fire agreement of 2008 brokered by the then-French EU presidency, Moscow recognised the independence of Abkhazia and the Tskhinvali/South Ossetia region which fundamentally changed the landscape of the conflicts: Russia was formally a mediator in the peace process until 2008 but has openly become a party to the conflict since August 2008.

The August 2008 war has exacerbated existing challenges and severely deteriorated the security environment in Georgia. Soon after the war, the Kremlin launched an active campaign to "convince" other states to recognise Abkhazia and the Tskhinvali/South Ossetia region as independent states. These efforts were successfully countered by Georgia's non-recognition policy which garnered strong international support. As a result, to date only Nicaragua, Venezuela,¹⁶ Nauru, and Syria have recognised Abkhazia as independent, while Tuvalu and Vanuatu have withdrawn their recognition.

The war has allowed Russia to further increase its grip on Abkhazia and station over 5,000 troops and heavy military equipment in the region. In 2010, Moscow signed a deal with Abkhazia's de facto authorities whereby Russia formalised its military presence for a period of 49 years.¹⁷ In addition, it built 22 military settlements and stationed a S-400 missile system in Abkhazia. Moscow is further stepping up the pressure on Sokhumi with Russian officials appointed to high ranking positions in the security services and various "ministries" and "municipalities." Russia also runs an active disinformation campaign in Abkhazia through *Sputnik* and other propaganda outlets, wrapping the region in an information vacuum.¹⁸ Russia's over-dominance in Abkhazia, symbolised by the huge embassy building in the centre of Sokhumi,¹⁹ also instils resentment among some part of Abkhaz elites and citizens who increasingly try to push against Russia's total control and look towards new alternatives.

¹⁴ It later lost the case on this issue to Georgia in the European Court of Human Rights in Strasbourg which found it liable to pay EUR 10 million to the victims of the illegal deportation. Retrieved from [https://hudoc.echr.coe.int/eng#{%22itemid%22:\[%22001-189019%22\]}](https://hudoc.echr.coe.int/eng#{%22itemid%22:[%22001-189019%22]})

¹⁵ Bucharest Summit Declaration, NATO, 3 April 2008. Retrieved from https://www.nato.int/cps/en/natolive/official_texts_8443.htm

¹⁶ Venezuela will likely revoke its recognition of Georgian occupied regions if the opposition led by Juan Guido secures power. According to Carlos Vecchio, Venezuela's interim representative to the USA, his government intends open relations with Georgia and will recognise it as having sovereignty over Abkhazia and the Tskhinvali region/South Ossetia.

¹⁷ "Russia Gains Military Base in Abkhazia," *Radio Liberty*, 17 February 2010. Retrieved from: https://www.rferl.org/a/Russia_Gains_Military_Base_In_Abkhazia/1960545.html

¹⁸ GRASS interviews, de facto officials from Sokhumi, October 2018.

¹⁹ Thomas De Waal, *Enhancing the EU's Engagement with Separatist Territories*, Carnegie Europe, January 2017. Retrieved from <https://carnegieeurope.eu/2017/01/17/enhancing-eu-s-engagement-with-separatist-territories-pub-67694>

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

In November 2014, Russia signed the so-called Agreement on Alliance and Strategic Partnership with Sokhumi.²¹ This agreement implies the full integration of Abkhaz defence, security and customs into the Russian legal area. Most importantly, high officials of the Russian Federation linked the agreement to financial aid which made it impossible for the Sokhumi representatives to reject it. By signing it, Russia has demonstrated that it is pursuing a policy of de facto annexation, putting the security in the area at further risk. The agreement raised serious concerns, not only in Tbilisi but also among the Abkhaz community. A major part of the Abkhaz public expressed a negative attitude to the first draft of the treaty which foresaw even greater Russian control. The Abkhaz demonstrated particularly strong opposition to simplifying the granting of citizenship to Russian citizens which would then pave the way for them to acquire property in Abkhazia.²² A significant part of Abkhaz elites, having no desire to become part of Russia, feared that it would allow Moscow to further increase its grip on their land and become a “legal owner” of Abkhazia.²³ While the initial text of the treaty was eventually revised, the resentment about the final agreement has remained strong in some parts of Abkhaz society.

Another important issue is the restrictions on the freedom of movement which divide conflict-affected communities and complicate efforts to build confidence between them. Of the six crossing points that were operational after the August 2008 war, only one - the Enguri bridge - is currently open and even that is the subject to arbitrary shutdowns from time to time. The current restrictions exact a high humanitarian and human cost. Communities living adjacent to the ABL are affected through decreased opportunities for education, trade, medical treatment, livelihood development, etc. These restrictions also have more severe consequences, allowing the “Russian border guards” to detain people for “illegal trespassing of the border.” According to the State Security Service of Georgia, there were 1,864 instances of the illegal detention of Georgian citizens for illegally crossing the so-called border of occupied Abkhazia in the period

²⁰ “Ten Years after the War – Russian Occupation in Numbers,” *FactCheck.ge*, 9 August 2018. Retrieved from <https://factcheck.ge/en/story/36821-ten-years-after-the-war-russian-occupation-in-numbers>

²¹ “Moscow, Sokhumi Sign Treaty on Alliance and Strategic Partnership,” *Civil.ge*, 24 November 2014. Retrieved from <https://civil.ge/archives/124178>

²² “Vladimir Putin Signs Treaty with Abkhazia and Puts Tbilisi on Edge,” *Financial Times*, 24 November 2014. Retrieved from <https://www.ft.com/content/24239f90-73e8-11e4-82a6-00144feabdc0>

²³ Thomas De Waal, *Enhancing the EU’s Engagement with Separatist Territories*, Carnegie Europe, January 2017. Retrieved from <https://carnegieeurope.eu/2017/01/17/enhancing-eu-s-engagement-with-separatist-territories-pub-67694>

of 2008 to 2018 while kidnappings have become a part of the practice.^{24 25} The lack of predictability and the absence of an agreed “code of conduct” regarding the crossings, detentions and kidnappings across the ABL comprise an acute humanitarian challenge that must be addressed more thoroughly, including by the international community.

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

Conflict Settlement Formats and Instruments

The Geneva International Discussions (GID) comprise the major international format launched in the aftermath of the August war to address the consequences of the 2008 conflict in Georgia. The discussions are co-chaired by the Organization for Security and Co-operation in Europe (OSCE), the European Union (EU) and the United Nations (UN). The GID also brings together representatives of Georgia, USA, Russia and Georgia's occupied Abkhazia and Tskhinvali/South Ossetia regions to discuss relevant issues within two working groups dealing with: (1) security and stability in South Ossetia and Abkhazia, including the

²⁴ “Ten Years after the War – Russian Occupation in Numbers,” *FactCheck.ge*, 9 August 2018. Retrieved from <https://factcheck.ge/en/story/36821-ten-years-after-the-war-russian-occupation-in-numbers>

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

²⁶ Thomas Hammarberg and Magdalena Grono, *Human Rights in Abkhazia Today*, July 2017. Retrieved from <https://www.palmecenter.se/wp-content/uploads/2017/07/Human-Rights-in-Abkhazia-Today-report-by-Thomas-Hammarberg-and-Magdalena-Grono.pdf>

²⁷ “Abkhazian Human Rights Commissioner Condemns Treatment of Gali Georgians,” *OC Media*, 5 February 2019. Retrieved from <https://oc-media.org/abkhazian-human-rights-commissioner-condemns-treatment-of-gali-georgians/>

non-use of force and international security arrangements as well as confidence building measures and (2) the return of IDPs/refugees, humanitarian aid and human rights issues.²⁸

Due to the irreconcilable interests between Russia, on the one hand, and Tbilisi and international partners, on the other, the GID has not delivered on its mandate to secure the fulfilment of the Six-point Cease-Fire Agreement that ended the August 2008 war. In addition, as claimed by an EU official on the condition of anonymity,²⁹ the GID has become hostage to the geopolitical situation. As a result, the discussion process has stagnated and entered a stalemate, in large part due to Russia's policy of promoting political status issues of Georgia's occupied regions within the GID. Despite these limitations, it is crucial that the GID continues its work as it remains the only functioning and sustainable platform for international engagement and dialogue.

The major achievement of the discussions so far is the establishment of the Joint Incident Prevention and Response Mechanism (IPRM) with a 24-hour hotline in 2009. The aim of the mechanism is to ensure a timely and adequate response to the security situation, including incidents and their investigation, ensuring effective access for humanitarian aid and any other issues that could affect stability and security on the ground. The IPRMs allow for regular contact between the structures responsible for security and public order in the areas of tension. The IPRMs also engage representatives of the UN, the EU and the OSCE. Although there are frequent obstructions and interruptions, IPRM meetings have been taking place since 2009. It is noteworthy that the establishment of the IPRM was the result of political will and the successful application of a status-neutral approach to negotiations embroiled by their focus on status. While it still needs to reach its full potential; for instance, when it comes to effective follow-up to incidents and their investigation, the IPRM continues to play an indispensable role.

The experience with the establishment of the IPRM mechanism can also be replicated in the area of freedom of movement of people and eventually goods. A great deal of energy should be invested into setting up some kind of "code of conduct" which, while leaving the underlying status-related questions untouched, could at least facilitate a civilised and dignified way of crossing for the people. The set of measures proposed by the co-chairs of the GID for facilitating freedom of movement need to be discussed in good faith and, eventually, adopted by consensus through replicating the practices that were used in the case of the establishment of the IPRM.

In order to address the security challenges in the region and make a contribution to conflict resolution, the EU established an unarmed civilian monitoring mission (EUMM) which has been deployed since September 2008 in the areas adjacent to Abkhazia and the Tskhinvali region/South Ossetia. The major goal of the EUMM is to report on developments and ensure that there is no return to hostilities. But the mission is denied access to the occupied regions,³⁰ even though its mandate is to cover the whole territory of Georgia. On a conceptual level, the EU developed the so-called Non-Recognition and Engagement Policy (NREP) in 2009 which seeks to de-isolate the conflict regions without recognising their sovereignty. The policy has been instrumental in terms of resisting Russia's attempts to gain the support of other countries

²⁸ About Geneva International Discussions. Retrieved from <https://smr.gov.ge/en/page/26/geneva-international-discussions>

²⁹ GRASS interview, EU official, Tbilisi, February 2019.

³⁰ European Union Monitoring Mission (EUMM) mandate. Retrieved from https://eumm.eu/en/about_eumm/mandate

for the recognition of Abkhazia. In addition, the EU has been supporting the implementation of different status-neutral projects in the framework of the NREP and has spent around EUR 40 million in Abkhazia since 2008 in order to contribute to improving healthcare, education, infrastructure, etc. Although the EU's policy is embedded in the NREP, the latter is sometimes forgotten in policy discussions³¹ and the ambitious goals of the NREP have not been achieved. Moreover, in recent times the EU has suffered from a lack of optimism, or even fatigue, that has reduced its enthusiasm for dealing with Abkhazia. The EU needs to update its approach and revamp its activities as its role has been largely outweighed by both Russia's economic influence and its military and political presence in Abkhazia.

Tbilisi's Approach to Confidence Building

Following the August war, perhaps Georgia had more of an isolationist attitude towards the occupied regions. But since 2010, it has gradually been shifting its approach towards a policy of engagement. As a part of this approach, Georgia introduced its State Strategy on Occupied Territories: Engagement through Cooperation in 2010.³² The major goal of the strategy and its action plan was to reduce the isolation of the populations residing in Abkhazia and the Tskhinvali region, enable their greater access to benefits and participation in wider civic life and, thus, lay the foundation for reconciliation between the divided communities.

The Georgian Dream government that came to power in 2012 has followed the 2010 strategy on engagement. It has continued the Georgian State Referral Programme initiated in 2011 which allows residents of Abkhazia³³ to travel to Georgian-controlled territory and access medical services free-of-charge. The number of residents of Abkhazia taking advantage of this programme has steadily increased over the years. In 2014-2017, a total of 6,188 patients (including from the Tskhinvali region/South Ossetia) benefited from this service at a cost of nearly GEL 17 million.³⁴ The programme is especially important in view of the lack of material and human resources in Abkhazia where even simple medical care is often not available. Although the programme has its own limitations (needs related to accommodation, including for accompanying family members, patient post-treatment rehabilitation are not included), it continues to assume a positive role in the process of confidence building. In addition to the referral programme, Georgia has provided material and technical support to Abkhazia's medical service on several occasions and is working on the extension of the Hepatitis C Elimination Programme to the region.

In recent years, Georgia has also been promoting cooperation opportunities in the field of education. In 2018, the government introduced an initiative covering the fields of trade and education called A Step to

³¹ Thomas De Waal, Enhancing the EU's Engagement with Separatists Territories, Carnegie Europe, January 2017. Retrieved from <https://www.palmecenter.se/wp-content/uploads/2017/07/Human-Rights-in-Abkhazia-Today-report-by-Thomas-Hammarberg-and-Magdalena-Grono.pdf>

³² State Strategy on Occupied Territories: Engagement through Cooperation, 27 January 2010. Retrieved from [http://gov.ge/files/225_31228_851158_15.07.20-StateStrategyonOccupiedTerritories-EngagementThroughCooperation\(Final\).pdf](http://gov.ge/files/225_31228_851158_15.07.20-StateStrategyonOccupiedTerritories-EngagementThroughCooperation(Final).pdf)

³³ Abkhaz, Armenian, Georgian communities residing in Abkhazia.

³⁴ Medical Care Expenses of Patients Living in the Occupied Territories, Institute for Development of Freedom of Information, April 2018. Retrieved from https://idfi.ge/en/medical_care_expenses_of_patients_living_in_occupied_territories

a Better Future. The education initiative aims at expanding education opportunities for residents of Abkhazia and the South Ossetia/Tskhinvali region in Georgian-controlled territory as well as abroad.³⁵ The initiative addresses the challenges in Abkhazia's educational system which suffers from institutional underdevelopment, non-professionalism and a lack of human-resources and technical capacities. There is a particular problem with the low level of preparation of youth in post-secondary education (as well as the absence of the knowledge of foreign languages), a fact identified by GRASS during its conversations with Abkhaz stakeholders and also addressed in the government initiative, A Step to a Better Future-Enhancing Educational Opportunities for Residents of Abkhazia and the Tskhinvali Region/South Ossetia.

New Opportunities in Education

Among others, the main goals of this initiative are to ensure native-language education, protect and develop the Abkhaz language, enhance and simplify the possibilities for engaging in the education system and support vocational education and scientific work. The initiative also sets out a plan to facilitate the participation of Abkhaz students in international education programmes, including the Erasmus+ Programme, Visegrad countries scholarships fund, UK Chavering scholarships, German DAAD, etc. In addition, the initiative foresees the creation of an Education Preparation Centre and relevant needs-oriented programmes to prepare students from Abkhazia and the Tskhinvali region for post-secondary education. The centre will focus on a set of key subjects such as critical thinking and study skills, computer programmes, foreign languages, national exams, international programmes, etc. Since it is less likely that the residents of Abkhazia will receive education on Georgian-controlled territory at this stage, establishing such centres abroad in partnership with European educational institutions is clearly a more feasible option. A four-to-six month training programme in European countries³⁶ could contribute to the education of around 15 students annually from Abkhazia. Following the training programme, participants will be prepared for continuing studies in higher education institutions in Europe through the Erasmus+ Programme or other scholarship opportunities. This could make a significant difference for a small community such as Abkhazia.³⁷

Abkhazia – Economic Background

Since the August 2008 war, Abkhazia has remained isolated from the outside world and its dependence on Russia's economic and financial aid has steadily increased. Russia remains the main trading partner if not a "trade patron" of Abkhazia where its products comprised 80% of Abkhaz "imports" in 2015-2016

³⁵ Enhancing Educational Opportunities for the residents of Abkhazia and Tskhinvali Region/South Ossetia, Office of the State Minister for Reconciliation and Civil Equality of Georgia, 2018. Retrieved from https://smr.gov.ge/uploads/prev/Education_9dd0e9dc.pdf

³⁶ Educational institutions in the Baltic states could be a good destination for launching the training center. Since a large part of the population in Baltic countries speaks Russian, students from Abkhazia will find it easier to socialise with peers.

³⁷ GRASS discussed this idea with representatives of the National Erasmus+ Office (NEO) Georgia, the Georgian Government, the EU Delegation to Georgia, representatives of the US Embassy to Georgia and stakeholders from Abkhazia. All expressed initial support for this idea.

while Abkhaz “exports” to Russia amounted to 60% in the same period. The products exported to Russia include citrus, nuts, fish, alcoholic beverages, raw wood and lumber while Moscow’s “imports” to Sokhumi are oil, tobacco, flour and other consumer goods.³⁸

Despite isolation, the economy in Abkhazia has improved in the last decade as compared with the 1990s conflict affected situation. However, this improvement is largely due to Moscow’s budgetary assistance which is transferred in two ways — a so-called “investment programme” and through “socio-economic development aid.” The “investment programme” is mainly focused on building and renovating infrastructure. The socio-economic component covers regular expenditures of government activities, including education, health and police. Therefore, Abkhazia is heavily dependent on Russia’s financial support and features little, if at all, economic growth without any significant institutional and structural development.

In the last five years, Abkhazia has experienced a decrease in Russian subsidies. In 2013, 75% of the Abkhaz budget consisted of Russian financial support but this figure plummeted to 50% in 2018.³⁹ In numerical terms, the 2017 budget amounted to RUB 10.2 billion (around USD 155 million USD) of which Russian subsidies made up around RUB 5.3 billion (around USD 80 million).⁴⁰ The de facto authorities explained that the decrease of the Russian share in the Abkhaz budget was because of the increase of local income in the budget. However, the truth is that the decreased Russian inflows were related to Russia’s economic and political challenges such as the drop in oil prices and sanctions, the war in Syria, expenses related to the annexation of Crimea and Russia’s ongoing aggression in eastern Ukraine. As long as these factors remain unchanged, the trend of declining revenue from Russia will likely persist.

Another problem concerning Abkhazia’s social and economic life is related to the high corruption rate and lack of administrative capacity. Even Russian officials (like the de facto opposition leaders) have claimed that the funds transferred from the Russian budget are not properly utilised, largely because of the unprofessionalism and corruption prevalent in the de facto institutions of Abkhazia. On 12 December 2018, Igor Koshin, the Russian Deputy Minister for North Caucasian Affairs, openly described Russian financial transfers to Sokhumi as “a waste of money” due to non-efficient spending, on the one hand, and shortcomings in its absorption, on the other.⁴¹

Despite slight improvements,⁴² Abkhazia continues to suffer from economic weaknesses and poverty with a poor standard of basic social and economic infrastructure, including market resources and job

³⁸ Abkhazia and South Ossetia: Time to Talk Trade, International Crisis Group, 24 May 2018. Retrieved from <https://www.crisisgroup.org/europe-central-asia/caucasus/georgia/249-abkhazia-and-south-ossetia-time-talk-trade>

³⁹ “People in Abkhazia Discussed How the Share of Russian Aid has Decreased in Five Years” (“В Абхазии рассказали, как снизилась доля российской помощи за пять лет”), *Ria Novosti*, 5 August 2018. Retrieved from <https://ria.ru/20180805/1525964994.html>

⁴⁰ De facto State Statistics Office of Abkhazia, State Budget 2017, published in 8 August, 2018. Retrieved from <http://ugsra.org/>

⁴¹ “Igor Koshin: Do Not Count Only on Russian Assistance” (“Игорь Кошин: Не стоит рассчитывать только на российскую помощь”), *Abkhazia Inform*, 12 October 2018. Retrieved <http://abkhazinform.com/item/7953-igor-koshin-ne-stoit-rasschityvat-tolko-na-rossijskuyu-pomoshch-reshenie-mnogikh-problem-zavisit-imenno-ot-mestnogo-naseleniya>

⁴² During 2009-2017, Russian financial aid to Abkhazia amounted RUB 44.6 million. According to the 2010 exchange rate, it amounted to approximately USD 1.5 million. However, according to the 2017 exchange rate, it amounted to

opportunities that undermine progress. The lack of economic development and the high unemployment remain the biggest challenges.⁴³ According to the data from the de facto authorities, 250,000 people live in Abkhazia⁴⁴ of whom 145,000 represent the workforce (42,000 are employed with 26,000 engaged in the public sector).⁴⁵ Salaries also remain low. According to 2017's statistics (which have not changed significantly in 2018), the average monthly salary in Abkhazia amounted to RUB 10,300 (around USD 156).⁴⁶ Due to the fact that RUB lost nearly half of its value against USD between 2013 and 2016, there was also a substantial decrease in RUB's purchasing power in Abkhazia. As of 2016, an average of RUB 162 were needed to buy what would have cost RUB 100 in 2010.⁴⁷ Therefore, household incomes have also decreased due to the high inflation rate.⁴⁸ In short, financial dependence on Russia has diminished the purchasing power of the Abkhaz population due to RUB devaluation. Abkhazia, which heavily relies on Russian imports, has consistently been confronted with an increase of basic commodity prices.

During Soviet times, Abkhazia was regarded as the *Côte d'azur* of the Black Sea and a favourite destination for Soviet political elites as well as for citizens across the Soviet Union, including for Russians. Today, tourism is considered to be a locomotive of the Abkhazian economy. According to the de facto minister of tourism and resorts of Abkhazia, tourist arrivals are increasing annually. In 2018, one million visitors came to Abkhazia, of which 550,000 were tourists, while the rest spent less than 24 hours in Abkhazia. As the de facto minister stated, the overall capacity of the tourism infrastructure includes 300 hotels with 25,000 beds.⁴⁹ Nevertheless, the sector suffers from a number of challenges, including poor infrastructure,

approximately USD 770,000. Through this aid, infrastructure, including government buildings, roads, etc., were reconstructed.

⁴³ Sonja Katharina Schiffrers, *The Intricacies of International Assistance to De Facto States Human Security and International Engagement in Abkhazia*, Centre for German and European Studies, August 2015. Retrieved from https://zdes.spbu.ru/images/working_papers/wp_2015/WP-Schiffrers1.pdf

⁴⁴ These figures are contested in Tbilisi.

⁴⁵ The de facto statistics office of Abkhazia does not provide unemployment statistics. Based on the available data, a rough calculation of the unemployment rate is the following: If we divide the number of employed, 42,000 people, by the total size of the labour force, 145,000 people, unemployment will stand at 70%. However, the calculation does not include the self-employed population whose number could equal to the number of the employed population. People involved in agriculture, taxi drivers, private teachers, etc., could be regarded as self-employed.

⁴⁶ De facto State Statistics Office of Abkhazia, *State Budget 2017*, published on 8 August, 2018. Retrieved from <http://ugsra.org/otchetnost.php>

⁴⁷ Pensions for residents holding Russian citizenship represented an important income source for thousands of households in Abkhazia before 2008. Thousands of elderly residents receive pensions from the office of the Russian Pension Fund. The closest office is located in the Russian town of Adler. Since 2012, recipients of Russian pensions living in Abkhazia were asked to update their residency status with Abkhaz addresses. Until 2014, they continued receiving pensions that on average were 40% lower than in the neighboring Southern Federal District of Russia (from an International Crisis Group Report).

⁴⁸ However, the de facto authorities managed to decrease the high inflation rate from 19.2% in 2008 to 9.1% in 2015 and finally to 4% in 2017. See de facto State Statistics Office of Abkhazia, *State Budget 2017*. Retrieved from <http://ugsra.org/otchetnost.php>

⁴⁹ "The Meeting Between the President of Abkhazia, Raul Khajimba, and the Minister of Resorts and Tourism, Avtandil Gartskia, was Held in Sokhumi" ("Встреча президента Абхазии Рауля Хаджимба и министра по курортам и туризму республики Автандила Гарцкия прошла в Сухуме"), *Sputnik Abkhaz*, 16 November 2018. Retrieved from <https://sputnik-abkhazia.ru/Abkhazia/20181116/1025651836/Million-turistov-i-problema-s-servisom-podvedeny-itogi-kursezona-2018-goda.html>

a lack of investment, its seasonal character and the low-income of Russian tourists, among others.⁵⁰ In fact, the opposition claims that — and this contradicts the statement of the de facto “minister” — that the number of tourist arrivals in Abkhazia is actually declining annually due to high crime rates, poor services and infrastructure.⁵¹ The Abkhaz tourism industry may take another hit if Airbnb removes all housing offers in Abkhazia its web site due to the lack of international recognition of territory.⁵²

Apart from tourism, agriculture is considered to be another important sector in Abkhazia’s economy. During Soviet times, there were 6,000 hectares of agricultural land used for growing citrus but today there are only 1,200 hectares.⁵³ Apart from being famous for its hazelnuts and citrus (mainly tangerines), Abkhazia has the potential to grow olives, avocados and kiwis and to produce high quality dried fruits and tea. However, the agricultural sector has also been declining due to the lack of access to financial resources and investments, processing factories, a skilled labour force and technologies.

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

⁵⁰ “Economy in Breakaway Abkhazia: Development or Standstill,” *Business Caucasus Week*, 14 December 2015. Retrieved from <https://old.cbw.ge/economy/economy-in-breakaway-abkhazia-development-or-standstill/>

⁵¹ “Aslan Bzhania: ‘The Opposition will Consistently and Publicly Defend the Interests of Citizens, No Matter How Much Efforts it Would Take’” (“Аслан Бжания: ‘Оппозиция и вперёд будет последовательно и публично отстаивать интересы граждан, каких бы учились это ей не стоило’”), *Abkhazia Inform*, 18 December 2018. Retrieved from <http://abkhazinform.com/tochka-zreniya/item/8214-aslan-bzhaniya-oppozitsiya-i-vpred-budet-posledovatelno-i-publichno-otstaivat-interesy-grazhdan-kakikh-by-usilij-eto-ej-ne-stoilo>

⁵² “Airbnb will Remove All Listings from Occupied Abkhazia and South Ossetia,” *Commerzant.ge*, 13 February 2019. Retrieved from <https://commerzant.ge/en/post/airbnb-will-remove-all-listings-from-occupied-abkhazia-and-south-ossetia>

⁵³ “Russian Market Will not Take Abkhaz Tangerines Yet” (“Абхазских мандаринов на российском рынке пока не будет”), *AccentNews*, 10 November 2017. Retrieved from <https://easaily.com/ru/news/2017/11/09/abkhazskih-mandarinov-na-rossiyskom-rynke-poka-ne-budet>

⁵⁴ Socio-economic system of Abkhazia and problems of its development, International Alert. Retrieved from <https://www.international-alert.org/blogs/socio-economic-system-abkhazia-and-problems-its-development>

⁵⁵ De facto Statistics Office of Abkhazia, Retrieved from <http://ugsra.org/ofitsialnaya-statistika.php>

⁵⁶ “Aslan Bzhania: ‘The Opposition Will Consistently and Publicly Defend the Interests of Citizens, No Matter How Much Efforts it Would Take’” (“Аслан Бжания: ‘Оппозиция и вперёд будет последовательно и публично отстаивать интересы граждан, каких бы учились это ей не стоило’”), *Abkhazia Inform*, 18 December 2018. Retrieved from <http://abkhazinform.com/tochka-zreniya/item/8214-aslan-bzhaniya-oppozitsiya-i-vpred-budet-posledovatelno-i-publichno-otstaivat-interesy-grazhdan-kakikh-by-usilij-eto-ej-ne-stoilo>

Window of Opportunity

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

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

Allowing "informal" trade across the ABL demonstrates Sokhumi's need, if not desire, to open up for trade with Tbilisi. In addition, the de facto authorities allowed themselves to explicitly promote more transparent and effective management of trade across the dividing line. For example, last year the de facto "President," Raul Khajimba, publicly stated the need to "legalise" trade with Georgia.⁵⁹ In addition, in private conversations many Abkhaz⁶⁰ express their readiness to open up for trade with Tbilisi.

Economic exchange between Sokhumi and Tbilisi should be in the Kremlin's interest, too, as it could ease its financial burden. In 2018, the Deputy Foreign Minister and Russia's representative in the GID, Grigory Karasin, referred to the possibility of developing trade and education cooperation that could also be addressed in the GID while setting aside the settlement of the intractable political and security issues that are locked in a stalemate (for example, the non-use of force). It would be naïve to assume that Moscow would take a hands-off approach if trade contacts between Tbilisi and Sokhumi were opened up.

⁵⁷In addition, the Abkhaz demonstrate increased sentiments of Abkhaz and Georgians being related ethnicities and, therefore, being much closer to Georgians than Russians.

⁵⁸ GRASS interviews, de facto "officials" from Sokhumi, October 2018.

⁵⁹ "President Raul Khajimba Stands for the Legalisation of Trade on the Border with Georgia" ("Президент Рауль Хаджимба выступает за легализацию торговли на границе с Грузией"), *Commerzant*, 30 August 2018. Retrieved from <https://www.kommersant.ru/doc/4103931>

⁶⁰ During GRASS-led 1.5 Track meetings, Abkhaz interlocutors, including high ranking representatives, stated that even they could "export" Abkhaz goods with the certificates of origin issued by Georgia.

Increased trade relations may also create room for manoeuvre for international actors, such as the EU, to lobby the Kremlin to allow more trade and ensure the freedom of movement across the dividing line.

Tbilisi and Sokhumi — together with the international community and, especially, the EU — need to go beyond the political deadlock and work out their needs through the application of status-neutral instruments and formats if they wish to ultimately contribute to the welfare and security of the communities. Some Abkhaz fear that trade relations could lead to the “de-sovereignisation” of Abkhazia. As the cases of Moldova and Cyprus show, trade relations across the dividing lines have not led to a political solution of the conflicts. Nevertheless, such trade links have in fact contributed to improving living conditions for the communities residing on both sides of the conflict divide. Even in the given circumstances, the Abkhaz could take bolder steps and manage to get more freedom from Russia to engage with Georgians on trade and other important issues, bypassing status issues.

Trading with the EU – A Real Opportunity

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

Georgia signed the Association Agreement (AA), including the Deep and Comprehensive Free Trade Area (DCFTA), with the EU in 2014. It came into force in 2016. According to Article 429, the deal does not apply to the regions of Abkhazia and the Tskhinvali region/South Ossetia; however, the preamble of the same agreement explicitly states that the EU and Georgia are committed to providing the benefits of closer political association and economic integration of Georgia with the EU to all citizens of Georgia, including the communities divided by conflict.⁶² Tbilisi’s 2018 A Step to a Better Future initiative reflects the potential benefits of extending the EU-Georgia free trade agreement to the businesses and consumers in Abkhazia via status neutral modalities.

⁶¹ Abkhazia and South Ossetia: Time to Talk Trade, International Crisis Group, 24 May 2018, pp. 9-11. Retrieved from <https://www.crisisgroup.org/europe-central-asia/caucasus/georgia/249-abkhazia-and-south-ossetia-time-talk-trade>

⁶² EU-Georgia Association Agreement, 2014, p. 6. Retrieved from [https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830\(02\)](https://eur-lex.europa.eu/legal-content/en/TXT/PDF/?uri=CELEX:22014A0830(02))

The Moldovan case suggests that the extension of DCFTA benefits across the conflict divide could bring tangible progress without touching politically sensitive issues. In some way, Transnistria is an unlikely model for Abkhazia: first, because Moscow has not recognised Transnistria as an independent state as it has Abkhazia; second, unlike Abkhazia, Transnistria does not share a direct border with Russia. In addition, Transnistrians had much greater economic incentives to open up to the EU markets and think beyond “recognition” issues. Tiraspol has traditionally been heavily industrialised and enjoyed access to EU markets even before signing the EU-Moldova AA/DCFTA.⁶³

Although Abkhazia may not have as much to lose as Transnistria, Sokhumi still has an opportunity to get significant benefits from being able to use Georgia’s free trade with the EU. Abkhazia is one of the biggest hazelnut producers in the world and these products could reportedly fetch five times as much in the West as they do in Russia.⁶⁴ Abkhazia is also rich in mineral waters and has potential in the wine industry as well as in some other agricultural fields. In addition, there can be a stronger incentive for the Abkhaz to find cheaper “import” goods as “trade” with Russia and Turkey is expensive due to transportation costs, tariffs or other barriers, while local production is insignificant. Therefore, there is merit to discussing the prospects of extending the benefits of the EU-Georgia free trade agreement to Abkhaz businesses and consumers, particularly among the part of the Abkhaz political elite that has retained the hope of accessing Europe and its markets. The EU has started to test the ground in Sokhumi over the past few years. The Abkhaz elite’s (and general public’s) sensitivity regarding this issue is related to status as they believe it would be difficult to defend their “status” if they fulfilled EU requirements for the “export of Abkhaz goods” to the EU. Tbilisi has developed its own vision on how Abkhaz concerns can be mitigated and how trade across the boundary line, as well as a possible extension of DCFTA benefits to the Abkhaz businesses and consumers, could practically take place.

The 2018 A Step to a Better Future initiative creates the possibility for products produced or originating from Abkhazia and the Tskhinvali/South Ossetia region to access Georgia’s internal market as well as foreign markets through the privileged export opportunities available to Georgia, *inter alia* the Deep and Comprehensive Free Trade Agreement with the EU. To this end, it introduces a simplified status-neutral procedure for the Abkhaz to receive identification and register as entrepreneurs. In practical terms, and contrary to the previous regulations, Abkhaz entrepreneurs have an opportunity to engage in commercial activities under this initiative, either on Georgian-controlled territory or beyond it without surrendering their “sovereignty.” The new initiative offers the possibility for the residents in Abkhazia to receive necessary identification numbers (personal numbers) by presenting documents issued in Abkhazia and

⁶³ Looking from the Abkhaz perspective, Georgia’s trade relations with Russia should incentivise Sokhumi to launch talks about “liberalising trade” across the boundary line. Despite the fact that Russia occupies one-fifth of Georgian territories and diplomatic relations are cut off, Russia is one of the leading economic partners for Georgia. After the August war in 2008, Russia maintained and strengthened its place in the top three trading partners for Georgia; it is one of the leading markets for Georgian export products such as wine and mineral water. In 2018, Russia was third as a source of tourism in Georgia (where Russian tourists amount 23.8% of the total number). Russia is one of the top investor countries in Georgia, including in the banking sector, mobile communication, wine industry, infrastructure, energy sector, etc. In addition, the hundreds of thousands of Georgians living in Russia send around USD half-billion annually to Georgia, making Russia the number one country in terms of remittances to Georgia.

⁶⁴ Abkhazia and South Ossetia: Time to Talk Trade, International Crisis Group, 24 May 2018. Retrieved from <https://www.crisisgroup.org/europe-central-asia/caucasus/georgia/249-abkhazia-and-south-ossetia-time-talk-trade>

without the need to acquire Georgian citizenship. Any foreigner would undergo a similar procedure if he wants to conduct business activities in Georgia.⁶⁵ A number of legislative amendments to make the initiative fully functional are being developed.⁶⁶ These procedures pave the way to achieving the main goal of the initiative: allowing Abkhaz businesses to sell their products both on Georgian-controlled territory and beyond it (EU markets, for instance) without Georgian intermediaries and with tax preferences, including, for example, exemption from VAT/profit/income taxes. Businesses can also apply for grants.⁶⁷

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

If a deal between Tbilisi-Sokhumi-Brussels is achieved, Sokhumi would also be asked to fulfil similar requirements. Tbilisi's initiative provides solutions to some of those requirements, including issues related to the certifications of origin and quality (which require inspection and subsequent certification by authorised bodies). Tbilisi offers Abkhaz businesses/entrepreneurs the opportunity to obtain an appropriate quality certificate with the support of private laboratories. This provision opens up the possibility of the status-neutral set-up of inspection and quality certification. If Sokhumi would not accept quality check compliance through on-the-spot inspections from Tbilisi or in the Tbilisi-based laboratories at this stage, one alternative is to allow inspection and quality certification in Sokhumi by independent experts from EU-certified foreign companies. This would increase the costs but could certainly be an alternative possibility.

However, the issues related to the certificate of origin are more complex. As the Transnistrian or Cypriot experiences may not be fully relevant in Georgia's case, there are few, if any, available solutions for certificates of origin at this stage. While Transnistrians are more flexible and have been enjoying free trade benefits of Moldova with the EU through documents issued by Chisinau, the possibilities of this sort are limited in the Abkhaz case. Within the Step to a Better Future initiative, Tbilisi offers Abkhaz businesses

⁶⁵ Facilitation of Trade across Dividing Lines, Office of the State Minister for Reconciliation and Civil Equality of Georgia, 2018

⁶⁶ Certain amendments are envisaged to the law on the occupied territories.

⁶⁷ A Step to a Better Future, Peace Initiative Facilitation of Trade Across Dividing Lines, 2018, p. 15. Retrieved from https://smr.gov.ge/uploads/prev/Concept_EN_0eaaac2e.pdf

⁶⁸ Stanislav Secieru, "Transnistria Zig-zagging towards a DCFTA," *PISM Policy Papers*, January 2016. Retrieved from https://www.academia.edu/21052155/Transnistria_Zig-zagging_towards_a_DCFTA

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

and entrepreneurs the chance to “export” their goods as originating from Georgia. A section of the Abkhaz business and political elites would agree to such arrangement.⁷⁰ While these would represent *ad hoc* cases rather than a sustainable solution, they would nevertheless contribute to the facilitation of trade and the freedom of movement of goods and people across the dividing line (*inter alia*, by reducing the risks of arbitrarily impeding the flow of goods for political or other purposes). In other words, what is suggested here is to “liberalise contraband” at the first stage through *ad hoc* arrangements. Therefore, these *ad hoc* arrangements need to be encouraged by all stakeholders. However, the importance of a deal somewhat similar to Chisinau-Tiraspol cannot be underestimated and efforts for achieving an agreement of that kind should be maximised as it could provide a sustainable solution to meaningful trade relations.

In 2018, the International Crisis Group came up with another hypothetical option to avoid potential disagreements about treating Abkhaz goods as originating from Georgia. This option implies inviting independent international companies that could provide Abkhaz goods on the ground with the same code assigned to Georgian products in the certificate of origin (EUR.1 document). That would require Tbilisi to start talks with Brussels to allow Abkhaz goods with EUR.1 documentation into its market which, contrary to the existing structure, would not specify the country of origin and instead include the town of origin. The country of origin will only be implied under the code that is assigned to Georgia. While this option of issuing a certificate of origin may seem to be too much of a political concession⁷¹ for Tbilisi, Georgia has already expressed its readiness to use status-neutral labelling. The new initiative proposes that only the name of the producer, the name of the city/settlement (for example, Sokhumi, Gagra, etc.) and/or an address (street, number) on the Abkhaz product could be sufficient for Abkhaz goods to be traded on Georgian-controlled territory as well as beyond it. The details of this hypothetical option do require more analysis in order to avoid unintended negative consequences of a political nature.

Another problem of exporting Abkhaz goods to the EU is related to barcodes which are placed on certain products according to the contents. While the issue might seem technical at first glance, it is actually quite political in nature. In order to “export,” Abkhaz goods would need proper labelling that primarily includes the Global Trade Item Number (GTIN),⁷² a globally recognised protocol for assigning item numbers in all types of trade. During Track 1.5 discussions, while addressing the issue of barcodes, Abkhaz representatives exercised a certain degree of flexibility. Although the issue is politically sensitive, progress could be achieved. However, if other essential conditions are met but an agreement on barcodes could

⁷⁰ GRASS interviews, de facto officials from Sokhumi, October 2018.

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

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

not be achieved, Tbilisi and Sokhumi (with the EU's involvement) could also think about possibilities for attaining a status neutral barcode that does not include the Georgian prefix in the GTIN.⁷³

One thing is clear: for any trade arrangement to be agreed and succeed, the Abkhaz need to think beyond their “recognition first” formula⁷⁴ and help their own de-isolation by showing more flexibility towards ensuring the freedom of the movement of people and goods across the diving lines. As discussed above, part of the business community and the political elite in Abkhazia is ready to discuss the possibility of accepting the practices of status-neutral options as successfully tested in other conflict situations.⁷⁵ It is high time to transform these pro-business attitudes into policies. From the perspective of Abkhaz political elites, these policies could be communicated for domestic consumption as serving the following goals such as: a) improving socio-economic conditions and well-being in Abkhazia, b) creating employment opportunities by strengthening local businesses and c) enhancing administrative capacity. Seen from this perspective, Tbilisi's initiative provides a useful basis for further discussions. In the meantime, Brussels should continue its talks with Sokhumi about a possible extension of free trade benefits to Abkhaz businesses and consumers and, at the same time, provide increased support to informal channels within the Track 1.5 level format.⁷⁶

Conclusion

A status-neutral approach should be the *modus operandi* in the confidence building process. Such an approach, if taken seriously, can be successfully applied to issues such as free movement, trade, education, agriculture and livelihood programmes, humanitarian exchanges, health care and security. Tailoring the status-neutral instruments to the most pressing needs for building confidence can yield

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

⁷⁴ To nobody's surprise, de facto officials in Abkhazia publicly rejected Georgia's new initiative. As the de facto “minister of foreign affairs” commented: “The Republic of Abkhazia is an independent, sovereign state. The only step to a better future is Georgia's recognition of the independence of the Republic of Abkhazia and the construction of a full-fledged interstate dialogue between our countries in order to ensure stability and prosperity for future generations.” Likewise, the former de facto “Prime Minister,” Gennady Gagulia, said that he was “ready to trade with Georgia” but not prepared to make any political concessions to do so. He also added that Sokhumi would eagerly welcome the EU's proposal to extend DCFTA benefits to Abkhazia only if Georgia recognises Abkhazia's independence. See: <https://carnegieeurope.eu/2018/12/03/abkhazia-stable-isolation-pub-77842>

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

⁷⁶ Since 2014, GRASS has pursued confidence building activities and, in doing so, introduced a Track 1.5 level meeting format that allows official and non-official participants to meet and discuss conflict resolution issues. Brussels can also use GRASS's services in this regard.

results for years to come, improve the living conditions and well-being of communities divided by conflict and have a positive effect on the overall peace process.

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

For their part, the Abkhaz should try to come up with their own proposals and show more flexibility to cooperate on pertinent issues by applying a status-neutral approach. Lifting restrictions on trade would be an essential part of such cooperation. Increasing engagement with the Georgian community would contribute to their de-isolation and create better chances for socio-economic development. To this end, the Abkhaz should overcome existing attitudes and take a pragmatic stance towards trade with Tbilisi. The Abkhaz also need to “do their homework” and advocate for getting implicit or explicit “permission” from Moscow for such a “soft” engagement with Tbilisi.

For practical reasons, it is important to strengthen the so-called Track 1.5 dialogue formats which would bring together state and non-state actors to engage in the dialogue process, build trust and work towards the implementation of mutually beneficial initiatives. It is equally important to maintain work in between the meetings in order to develop a results-oriented dialogue platform with sustainable channels for communication. With very few exceptions, the previous experience with confidence building between Georgians and the Abkhaz supported by international donors — such as within the Schlaining Process⁷⁷ — has proven that one-off meetings without somewhat of a structured dialogue are not enough for achieving sustainable progress. Furthermore, relevant stakeholders in Georgia need to improve the quality of coordination and establish relevant formats for cooperation and the effective exchange of information.

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

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