

Oral Testimony

Government of Georgia

January 24, 2012

The Government of Georgia (GoG) appreciates the opportunity to respond to the Petition dated September 10, 2010, which was submitted by the AFL-CIO pursuant to 19 USC 2462(d) of the Generalized System of Preferences (GSP) statute.

General Overview

Georgia is a young democracy in the making that has continued to undertake numerous reforms in order to show its zeal to uphold the principles of democracy. **The reforms have accelerated at an unparalleled pace after the Rose Revolution** of 2003, when the Government, resting on an unprecedented public trust, launched a series of wide-ranging reforms addressing virtually all aspects of public life.

Before the Rose Revolution, **Georgia was one of the poorest performing economies of Eastern Europe and Central Asia**. The country's reforms since then have yielded spectacular results, which have been translated in a restructured, resilient and fast-growing economy, accompanied by extremely low levels of corruption. **Georgia can be seen as an exemplary, maturing democracy within the region** in terms of maintaining public order and trust in its law enforcement bodies, and the judiciary visibly maturing in parallel year-after-year.

These achievements have been attained despite the challenges Georgia faced in those years. They include a complete, **de-facto trade embargo from its then principal trade partner**, the Russian Federation. The embargo was imposed in 2006 and is still in effect. The most serious challenge was Russia's **full-scale military intervention in August 2008** and consequent occupation of Georgia's territories.

Georgia has weathered these crises successfully, **recording economic growth of more than 6% in the last two years and a decline in unemployment**. Georgia's unemployment is largely 'structural' as some of the expanding sectors have difficulty finding workers with the skills they need and have to wait an inordinately long time to fill their vacancies.

Although Georgia's export growth rate has grown at about the same pace as its gross domestic product (GDP), the overall trade share of its GDP has remained below that of the country's competitors. **Georgia continues to export less** than what would be predicted by a simple gravity model **to large markets, such as the United States**¹.

The availability of GSP has been an essential tool to increase the country's international trade with the United States, Canada, the European Union, Switzerland, Norway and Japan. Georgia's

¹ The World Bank. Republic of Georgia: An Agenda for Sustainable Growth. Report No. 63500-GE. August 11, 2011

exports into the U.S. market under GSP have grown from \$17.3 million in 2002 to more than \$186.5 million in 2010. As for 2011, on 1st of January, 2011 GSP program lapsed.

To support employment, the Georgian payroll tax was decreased from 33% to 20% in 2007, and later merged with the income tax (flat 20%) in 2008, **making the country's tax wedge one of the lowest in the wider region**. The reformed labor markets facilitated economic restructuring, promoted productivity, increased competitiveness, and cushioned the economy against supply and demand shocks. Nominal earnings in all sectors rose on average by 375% (2003-2010) while the consumer price index rose only by 63%, **resulting in a large increase in real earnings**. In 8 sectors nominal earnings rose by more than 400%, and in 5 of those sectors, by more than 500%.

Grant of GSP in 2001 and Worker Rights in this Period

Georgia inherited from its soviet past highly defunct and corrupt labor relations in which freedom of association to form labor unions was effectively and legally blocked through the existence of a 'silent' conspiracy between the executive government and the sole trade union. The conspiracy 'deal' involved the government granting petty privileges to local union leaders, coupled with more significant privileges and immunities being given to national union leaders, in exchange for their loyalty to the government.

A vivid demonstration of this was that despite the fundamental overhaul of Georgia's laws in the 1990's, which aimed at departing from the legal system of the Soviet Union, the **Government of Georgia and the union failed to change the Soviet labor legislation**. This was legislation that deprived non-union members of the right to strike. It also allowed the union to approve the dismissal of employees without compensation. Despite these significant shortcomings in its protection of internationally recognized worker rights, **Georgia was granted GSP by the United States on July 5, 2001**.

Strengthening of Worker Rights and Tripartite Cooperation

Since then, **Georgia has addressed a number of major issues**, such as liberalization of association regulations, which facilitated trade union formation, and adoption of labor regulations implementing the GoG's commitment under all of the core ILO conventions.

The GoG has restricted itself from interfering in union activities. Evidence of this occurred in the 2005 and 2009 union elections, which marked the first time in Georgia's history in which union leader elections were freely held. These elections selected national leaders of the Georgian Trade Unions Confederation (GTUC), the heir of the Soviet Profsoyuz (Trade Union).

In 2006 Georgia adopted a new Labor Code, which replaced the soviet term Labor Code and brought the legislative framework to a higher level of compliance with the international standards.

Notably, according to the most recent data of the ILO,² the percentage of trade union members among wage and salaried earners (**Union Density Indicator**) in Georgia was **47.7% in 2007, which is the highest union density among all lower middle-income countries**³. Georgia's union density out-performs 19 countries in Europe such as Austria, the Czech Republic, France,

² The ILO. "Trade Union Density and Collective Bargaining Coverage, International Statistical inquiry 2008-09". ILO's Industrial and Employment Relations Department (DIALOGUE) 2010

³ Georgia's gross national income (GNI) per capita (2010) was \$2,690.

Germany, Latvia, Lithuania, and Hungary. It is also higher than that in the United States, Canada, Mexico, and Chile.

From the perspective of the **Collective Bargaining Coverage Rate, which is 25.9% in Georgia according to this 2010 study⁴, Georgia's percentage is higher** than, for example, the United States, Mexico, Chile, Armenia, Estonia, and Poland. According to the above-mentioned study, the reported proportion of the Collective Bargaining Coverage Rate is 17.0%, higher than e.g. 13.3% indicator of United States and higher than several countries in Europe.

In general there are approximately 15,000 civil society organizations registered in Georgia. This represents one of the highest civil society densities in the Post-Soviet space, and also highlights the extent and applicability of freedom of association in Georgia.

The new environment enabled emergence of the new unions as a result of the reforms. In particular, 36 new trade unions registered in the period of 2006-2011, after the adoption of the new Labor Code in 2006.

Georgia has ratified and implemented 16 ILO Conventions, among them all eight core conventions.

In 2006 Georgia ratified the Social Charter of the Council of Europe, which essentially is a document concentrated on the worker rights.

In 2009, the Government of Georgia, in close cooperation with the ILO, initiated **and installed the tri-partite dialogue mechanism first informally and subsequently formally** in 2010. The Tri-partite Commission, chaired by the Minister responsible for labor issues, provides a forum and institutional mechanism to address labor issues through agendas defined by all parties involved, including the GTUC.

The Way Forward

The over-arching aim of the GoG, as demonstrated in the present Response, is to take relevant actions to further develop and refine the labor laws of Georgia so that they are in line with the international labor standards, among others, giving maximum possible consideration to the issues raised in the Petition.

The GoG has decided to insert a special Chapter "The Way Forward" in the present Response, in order to aggregate and present in a consolidated manner all of the issues that the GoG will be addressing.

In this frame, the GoG proposes actions to encompass and address all the themes covered by the Petition, including:

- **Enhancement of the capacity of relevant actors to apply Georgia's labor laws in practice:**
 - Continuing the dialogue with the ILO and in the framework of the Tri-partite Commission

⁴ This is based on the number of workers covered by collective agreements as a percentage of all wage and salaried workers,

- Training the judges on labor issues
- Training the employers' and workers' organizations on their rights and in conducting negotiations
- **Initiating amendments to Georgia's labor laws to:**
 - a. Effective facilitation of freedom of association:**
 - Make more specific the grounds and procedures by which a union or other association could be suspended. Doing so would unambiguously limit the possibility of suspension to associations involved in criminal activities.
 - Abolish the minimum trade union membership requirement to further refine and simplify the procedures necessary for establishment of trade unions.
 - b. Further development of collective bargaining: :**
 - Enhance the collective bargaining and related provisions in Georgia's labor laws to ensure and further promote collective bargaining and bring related legislative provisions to a higher level of compliance with the international standards.
 - Ensure a clear and better articulated prohibition of discrimination based on trade union membership during pre-contractual as well as contractual labor negotiations.
 - Provide effective and dissuasive sanctions against acts of interference into trade union activities.
 - c. Further enhancement of the right to strike:**
 - Avoid misinterpretation of the Labor Code provisions regarding the voluntary character of arbitration.
 - Remove the 90-day limitation on a strike.
 - Ensure and streamline workers' rights to participate in sympathy or protest strikes.
 - d. Effective protect the rights of children:**
 - Clearly define the minimum age for employment to eliminate ambiguity.
 - Clarify the provisions regarding restrictions on working hours for child labor.
 - More precisely determine the age of allowance to undertake hazardous work.
 - e. Further ensure acceptable conditions of work:**
 - Clarify the provision on an employer's right to make "insubstantial" amendments to an employment agreement.

Thereby, the GoG manifests its genuine political commitment to address the issues regarding core labor standards and its intention to bring its labor laws to a higher level of compliance with the international labor conventions and best practices.