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SME DEVELOPMENT AND DCFTA IN GEORGIA



Textile and Apparel in Georgia An Industry Study





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Executive Summary - Key Findings and Recommendations (July 2016)

A) General Findings

1. Building up a **textile industry** is **not recommended** as investment costs would be very high and job effects would be minimal.
2. Developing niche sectors such as **silk (or wool)** would be an option, but would require a long term approach and significant investments.
3. **Apparel** is an industry with concrete export potential for Georgia, building on four comparative advantages:
 - a. Low labor and energy costs
 - b. Qualification and skills of workers and management in the industry
 - c. Favorable Business Environment
 - d. Logistics and transport network
4. The key challenge for the apparel industry in Georgia is the lack of adherence to **international standards** – a prerequisite for European buyers to consider Georgia as a location for sourcing.

B) Strategy Recommendation for a Sustainable Apparel Industry

1. The recommended route is to introduce and implement **quality, health, safety and sustainability standards and to develop clusters practicing these standards**. This can increase Georgia's share in high quality export products, especially for the European market. In order to attract European buyers, quality, health, safety and sustainability standards must be introduced and rolled out.
2. Skills: The existing apparel VET system in the country is good, but must be adjusted to fulfill market requirements (curricula, setup). Existing government support (tuition subsidy) should be continued.
3. Existing investment promotion policies and incentives should be continued and focused on European markets (quality, standards).
4. The current security situation in many leading apparel producing countries (e.g. Bangladesh) may constitute a unique "window of opportunity" for Georgia.

C) Options for Implementation/Next Steps

1. Establish a **National Code of Conduct (NCoC)** for the Georgian apparel industry based on international standards. – November 2016
2. Establish a **National Association of Apparel Producers and Exporters** – Dec 2016
3. **Pilot Project** on Standards in 3 factories – November 2016 to Jan 2017
4. **National Conference** on Sustainable Apparel Industry "Made in Georgia", development of a vision and mission statement of the National Association – January 2017



5. **Survey** of selected Factories (Members of the Association interested in raising their standards), development of corrective **action plans** – February 2017
6. **Trainings** in selected Georgian Factories (minimum 10): roll-out and implementation of standards of the National CoC on the ground – March to May 2017
7. **Advisory to develop sustainable apparel clusters** (including design houses, fully finished quality fashion) in relevant regions of Georgia (Kutaisi, Batumi and Tbilisi) – Jan to June 2017 (and beyond)
8. Recommendations to increase the market orientation, effectiveness and sustainability of the existing **VET system**. – February to May 2017
9. **Visit of potential buyers** from Germany/EU to create market linkages – June 2017



Background Overview

Objective of Study

The objective of this Textile and Apparel Industry study was to conduct an actionable, comprehensive industry analysis of the industry in Georgia, and to highlight opportunities for increased trade and integration with EU and other international markets.

Market Analysis

Apparel production has increased significantly from 2008, with production of approximately GEL 23 million, to 2015 with over GEL 140 million (about USD 60 million) in production, representing a compound annual growth rate (CAGR) of about 30.3% for the period. Overall, exports increased from USD 24.0 million in 2009 to USD 86.7 million in 2015, representing a CAGR of 23.9%, which is less than the CAGR for total production, suggesting that the excess growth in production is being driven by domestic demand, which reduces the Georgian consumers' reliance on imported apparel.

Value Chain Assessment

Currently all apparel producers in Georgia are at the CMT (Cut, Make, Trim) stage. It is noteworthy, that two major buyers for the local producers practice Outward-Processing Trade (OPT, i.e., buyers export fabrics, or parts of garments, to be further processed in a third country, which are then re-imported and then sold as finished garments in an EU country). It is possible to stimulate further development of the industry into the upper stages such as ODM (Original Design Manufacturing) and OBM (Original Brand Manufacturing, see section 2.1 of the report for an explanation of these stages). Based on interviews with Georgian designers, there are initiatives to establish the first Georgian OBMs.

Market Outlook

- To penetrate major apparel buyer markets (e.g., the EU) and increase production and sales in these markets, it is critical for Georgian producers to not only choose the right product mix, but also to conform with international health, safety, and labor requirements.
- Georgia can develop clusters to represent an “export base” to have access to large consumer markets such as the US and EU.
 - Stage 1: Clusters of apparel producers in Kutaisi, Batumi and Tbilisi.
 - Stage 2: Further producers for fully finished fashion and services added to the cluster.
 - Stage 3: Design houses should complete the apparel cluster.
- Clustering requires the formation of a strong industry association that bundles and coordinates the interests of apparel companies and marketing activities in Georgia, as well as in the potential export markets.
- Immediate implementation a textile value chain would require high investments into machinery and would create only few working places. Specific limitations on introducing large textile investments include:
 - Mills for yarn spinning, weaving and knitting, as well as dyeing and printing are highly mechanized.
 - Experience with machinery in this field in Georgia is missing.
 - Domestic demand for textiles is not sufficient to justify production.
 - Competitors with long-term and high volume experience are Turkey, China and Turkmenistan. Competitors in high-quality and specialties are France, Italy and Switzerland.
- To support the apparel industry, is essential to support VET institutions in Georgia to ensure the skills development in a market oriented way.

- Georgia needs internationally accepted framework conditions to be competitive with other markets and attract foreign investors and buyers. The objective should be to receive a license for apparel export “Made in Georgia”.

Therefore, it is recommended to develop a National Code of Conduct (CoC) for apparel production in Georgia. This Code should cover working conditions including wages and working time, safety, and other requirements related to ILO standards. Most international brands have developed their own CoC and implemented it into their supply chain. The CoC should also address environmental and energy efficiency issues, covering the protection of water quality and the reduction and/or elimination of harmful substances within production processes.

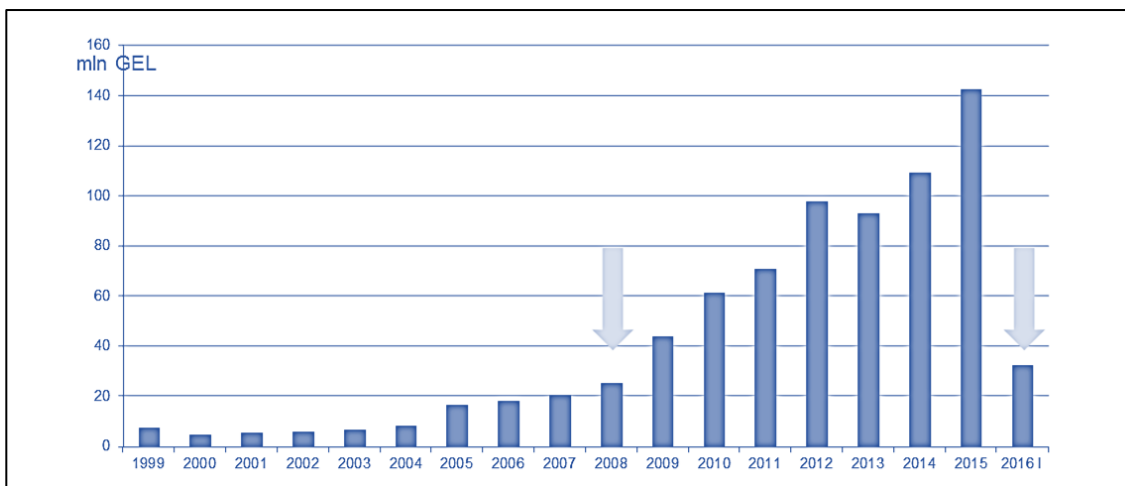
1.0 Sector Assessment

1.1 Market Analysis

Production in Georgia

While there is no current textile production in Georgia, apparel production has increased significantly from 2008, with production of approximately GEL 23 million, to 2015 with over GEL 140 million (about USD 60 million) in production, representing a compound annual growth rate (CAGR) of about 30.3% for the period, as demonstrated in Figure 1 below. This long-term growth trend is further highlighted by the production figure for 2016 in Q1 (about GEL 32 million), which is greater than total production in 2008.

Figure 1 - Apparel Production, 1999-2016 ¹



¹ GeoStat.



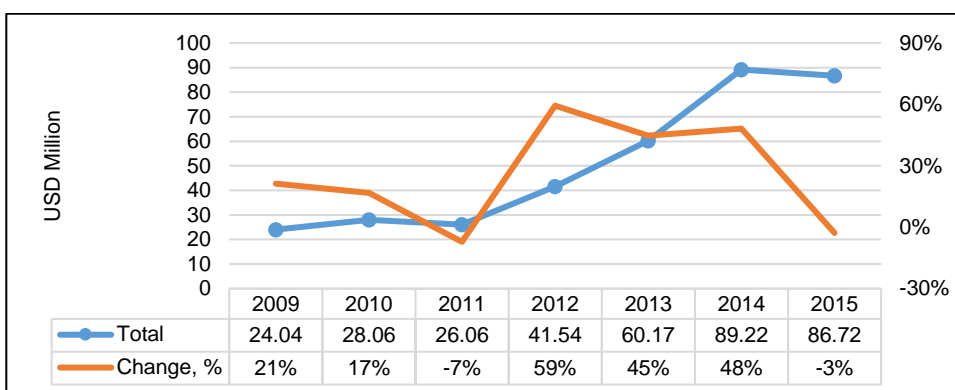
International Trade

Apparel Exports

With an active inflow of FDI into Georgia’s apparel sector since 2009, the export of apparel produce has seen dynamic growth, increasing 3.6x by 2015. However, growth rates been rather volatile, ranging as high as 48-60% in 2012 and 2014, to -3/-7% in 2011 and 2015, as demonstrated in Figure 2.

Overall, exports increased from USD 24.0 million in 2009 to USD 86.7 million in 2015, representing a CAGR of 23.9%, which is less than the CAGR for total production, suggesting that the excess growth in production is being driven by domestic demand, which reduces the Georgian consumers’ reliance on imported apparel.

Figure 2 - Apparel Exports, 2009-2015²



The structure of apparel exports in 2009 was rather simple, with Turkey and Germany’s export markets absorbing over 98% of total exports. Out of USD 20.6 million of exports to Turkey, the primary products exported included the following product categories:

- Suits, ensembles, jackets, blazers, trousers, etc. – 47%
- Shirts, blouses, etc. – 37%
- T-shirts, singlets and other vests – 8%
- Track suits, ski suits and swimwear – 6%

Exports to Germany were USD 2.5 million in 2009, which can be broken down into the following product categories:

- Overcoats, car coats, capes, cloaks, etc. – 56%
- Suits, ensembles, jackets, blazers, trousers, etc. – 27%
- Shirts, blouses, etc. – 16%

Reflecting the significant growth in both foreign and domestic investment since 2009, the structure of 2015 exports was significantly more diverse, as demonstrated by Figure 3, indicating that Georgia’s factories are diversifying not only their order streams, but also diversifying employee skills to produce many different garments that require different skillsets.³

² Ibid.

³ Ibid.



Figure 3 - Structure of 2015 Apparel Exports

Products	USD '000 Total	2015				
		Turkey	Italy	Arm	Germ	Azer
Overcoats, car coats, capes, cloaks, etc.	13,298	7%	75%	3%	12%	2%
Suits, ensembles, jackets, blazers, trousers, etc.	18,691	76%	1%	9%	4%	6%
Shirts, blouses, etc.	7,145	77%	0%	10%	3%	6%
Underpants, briefs, slippers, nightshirts, pyjamas, etc.	749	17%	0%	44%	0%	21%
T-shirts, singlets and other vests:	41,811	98%	0%	1%	0%	0%
Jerseys, pullovers, cardigans, waistcoats, etc.	2,380	6%	33%	30%	8%	14%
Babies' garments	634	0%	0%	27%	0%	21%
Track suits, ski suits and swimwear	851	53%	0%	16%	7%	7%
Garments, made up of fabrics, other garments	40	0%	30%	53%	0%	14%
Panty hose, tights, stockings, socks and other hosiery, knitted or crocheted	376	37%	0%	43%	0%	16%
Brassieres, girdles, corsets, braces, and similar articles, and parts thereof	235	4%	0%	72%	0%	24%
Handkerchiefs	0.1	0%	0%	52%	0%	0%
Gloves	52	0%	0%	42%	0%	15%
Other made up clothing accessories and parts, knitted or crocheted (including Shawls, scarves and the like)	212	0%	0%	32%	0%	39%

Georgia's primary export market has been, and continues to be, Turkey, which usually further processes Georgia's exported apparel products further (a "value added" contribution) and integrates them into EU value chains as a Turkish product.

However, Georgian producers have been diversifying its export markets and reducing its reliance on Turkish end buyers, which is represented by the share of products exported to Turkey declining from 86% in 2009 to only 72% in 2015. For example, since 2012, Georgian factories have begun to export to Italy and Armenia at USD 0.87 million and USD 1.9 million, respectively, culminating in exports of USD 11.3 million and USD 5.3 million in 2015, respectively, as indicated in Figure 7.

Germany, as an export destination, has grown at an average annual rate of 6% in 2009-2015, however, that indicator is mostly composed of irregularities, such as y-o-y 51% growth in 2011, followed by decrease of 32% and then again increase of 11% in 2013, which later receded into 11% and 3% for 2014 and 2015, respectively.

Figure 4 - Breakdown of Apparel Exports by Major Trading Partner⁴

2009	Turkey	Italy	Armenia	Germany	Azerbaijan
Export of Apparel to the Country (USD million)	20.6	0	0.1	2.5	0.1
Country's share in Total export of Apparel (%)	86%	-	-	12%	-
2015	Turkey	Italy	Armenia	Germany	Azerbaijan
Export of Apparel to the Country (USD million)	62.3	11.3	5.3	3.0	2.7
Country's share in Total export of Apparel (%)	72%	13%	6%	3%	3%

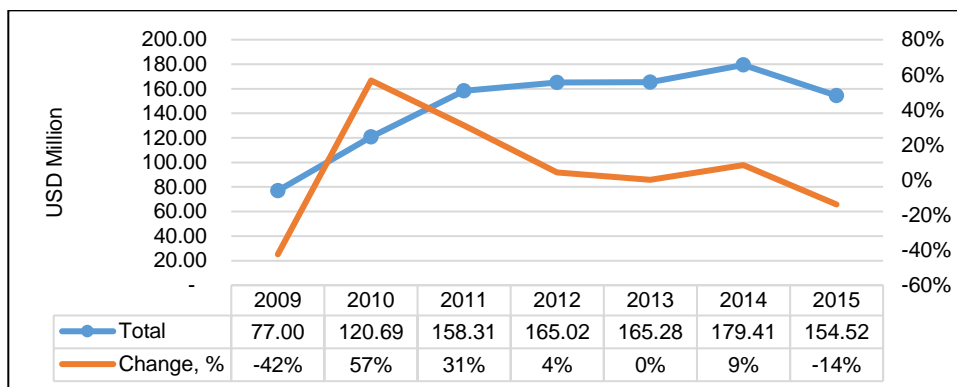
⁴ Ibid.



Apparel Imports

Apparel imports to Georgia grew rapidly from 2009 to 2011 at 57% and 31% in 2010 and 2011, respectively. Import volumes remained stagnant and actually declined from 2012 to 2015, as demonstrated in Figure 4. Combined with the increased export growth and the still higher production growth, this trend suggests that apparel factories in Georgia are substituting imports with locally-produced garments.

Figure 5: Apparel Imports, 2009-2015⁵



Apparel imports increased by 133% from USD 77 million in 2009 to USD 179 million in 2014 before declining to USD 154 million in 2015. In fact, imports did not change from 2012 to 2013 and saw a 9% increase in 2014 (compared to a 4% increase for textile imports) before declining by 14% in 2015. The reason for this may be the decreasing value of money in Georgia or may also suggest a saturation of consumer demand, which, apart from brands from Great Britain, Italy, and Spain, concerns jeans from Turkey, as well as jackets and winter outfits from China.

This raises the question whether these goods could be produced domestically for the local market and/or for export. Currently, this question can be answered “no”, as China produces these products at very favourable conditions for the global market. The raw material chains (e.g., down feathers or man-made fibres) are all available in China, while machine technology in China is highly developed and skills levels are high as well.

The situation for denim products in Turkey is similar. Furthermore, highly-developed design know-how is available in these countries. The structure of apparel imports to Georgia, however, has remained generally unchanged from 2009 to 2015, with the most imported item being “Suits, ensembles, jackets, blazers, trousers, etc.” followed by “Jerseys, pullovers, cardigans, waistcoats, etc.”, as demonstrated in Figure 5.

⁵ Ibid.



Figure 6 - Breakdown of Items Imported, 2009-2015 ⁶

	2009		2015	
USD '000	76,997		154,516	
Overcoats, car coats, capes, cloaks, etc.	7,106	9.2%	16,947	11.0%
Suits, ensembles, jackets, blazers, trousers, etc.	25,478	33.1%	48,085	31.1%
Shirts, blouses, etc.	7,328	9.5%	17,517	11.3%
Underpants, briefs, slippers, nightshirts, pyjamas, etc.	4,922	6.4%	7,110	4.6%
T-shirts, singlets and other vests:	6,650	8.6%	16,223	10.5%
Jerseys, pullovers, cardigans, waistcoats, etc.	7,469	9.7%	16,864	10.9%
Babies' garments	4,088	5.3%	4,471	2.9%
Track suits, ski suits and swimwear	4,493	5.8%	6,738	4.4%
Garments, made up of fabrics, other garments	978	1.3%	2,803	1.8%
Panty hose, tights, stockings, socks and other hosiery, knitted or crocheted	5,501	7.1%	9,910	6.4%
Brassieres, girdles, corsets, braces, and similar articles, and parts thereof	1,042	1.4%	3,127	2.0%
Handkerchiefs	76	0.1%	130	0.1%
Gloves	779	1.0%	2,366	1.5%
Other made up clothing accessories and parts, knitted or crocheted (including Shawls, scarves and the like)	1,079	1.4%	2,218	1.4%

For apparel products, there has been a change in the structure of countries exporting to Georgia. While Turkey and China have maintained the top two positions from 2009 to 2015 (with an average combined share of 60%), the other major players changed from France and Azerbaijan⁷ (respectively 6% and 4% in 2009) to Spain (11%) and UK (6%) in 2015. Italy is another major trading partner, which managed to maintain its position as a major exporter to Georgia over this time period the years, as can demonstrated in Figure 7 below.

Figure 7 - Breakdown of Apparel Imports by Major Trading Partner

2009	Turkey	China	France	Italy	Azerbaijan
Imports of Apparel from the Country (USD million)	35.0	9.5	4.9	4.1	2.9
Country's share in Total Import of Apparel (%)	45%	12%	6%	5%	4%
2015	Turkey	China	Spain	Italy	UK
Imports of Apparel from the Country (USD million)	62.7	24.7	17.5	11.2	9.3
Country's share in Total Import of Apparel (%)	39%	17%	11%	7%	6%

While most of the average annual growth rates of the top 5 countries were boosted by exceptionally high growth rates in 2010-2011, the expansion of imports from Spain continued well into 2012. Since 2013, all

⁶ Ibid.

⁷ While in 2009 U.S. had briefly outpaced Azerbaijan with 6% share in imports, starting 2010 it returned to the usual position of about 0-1%, thus indicating that 6% share was an outlier and therefore is not considered as contributing to the observations of overall tendencies



top exporters to Georgia struggled to maintain its growth rates, with the first to lose market share being Italy, with an 11% decrease in 2015.

Figure 8 - Trends in Apparel Imports, 2010-2015

YOY Change in Imports from:	2010	2011	2012	2013	2014	2015
Turkey	157%	125%	108%	89%	105%	91%
United Kingdom	641%	250%	174%	137%	144%	70%
China	291%	147%	71%	93%	115%	80%
Italy	49%	47%	9%	17%	10%	-11%
Spain	-17%	148%	250%	37%	4%	4%

The tables below present the shares of major importer countries of the year 2015 in each of the imported apparel product.

Figure 9 - Detailed Structure of Apparel Imports, 2009

USD '000		2009				
Products	Total	Turkey	China	Spain	Italy	UK
Overcoats, car coats, capes, cloaks, etc.	7,106	36%	17%	2%	5%	0%
Suits, ensembles, jackets, blazers, trousers, etc.	25,479	53%	6%	2%	4%	0%
Shirts, blouses, etc.	7,329	37%	12%	2%	4%	0%
Underpants, briefs, slippers, nightshirts, pyjamas, etc.	4,922	49%	14%	0%	2%	0%
T-shirts, singlets and other vests:	6,651	55%	3%	2%	4%	0%
Jerseys, pullovers, cardigans, waistcoats, etc.	7,470	56%	4%	5%	5%	0%
Babies' garments	4,088	47%	13%	1%	1%	0%
Track suits, ski suits and swimwear	4,494	48%	18%	0%	2%	2%
Garments, made up of fabrics, other garments	978	5%	56%	4%	1%	3%
Panty hose, tights, stockings, socks and other hosiery, knitted or crocheted	5,502	27%	29%	1%	25%	0%
Brassieres, girdles, corsets, braces, and similar articles, and parts thereof	1,043	8%	35%	1%	4%	0%
Handkerchiefs	76	8%	76%	0%	4%	0%
Gloves	780	5%	65%	0%	1%	0%
Other made up clothing accessories and parts, knitted or crocheted (including Shawls, scarves and the like)	1,080	25%	15%	3%	7%	1%



Figure 10 - Detailed Structure of Apparel Imports, 2015

USD '000		2015				
Products	Total	Turkey	China	Spain	Italy	UK
Overcoats, car coats, capes, cloaks, etc.	16,947	30%	23%	18%	8%	4%
Suits, ensembles, jackets, blazers, trousers, etc.	48,085	43%	10%	13%	7%	7%
Shirts, blouses, etc.	17,518	42%	10%	14%	6%	7%
Underpants, briefs, slippers, nightshirts, pyjamas, etc.	7,110	41%	31%	2%	3%	6%
T-shirts, singlets and other vests:	16,224	59%	5%	9%	7%	4%
Jerseys, pullovers, cardigans, waistcoats, etc.	16,864	46%	8%	13%	10%	6%
Babies' garments	4,471	36%	9%	5%	3%	17%
Track suits, ski suits and swimwear	6,739	40%	23%	8%	3%	7%
Garments, made up of fabrics, other garments	2,803	25%	28%	16%	5%	7%
Panty hose, tights, stockings, socks and other hosiery, knitted or crocheted	9,910	35%	37%	1%	14%	2%
Brassieres, girdles, corsets, braces, and similar articles, and parts thereof	3,128	11%	49%	3%	7%	5%
Handkerchiefs	131	5%	80%	1%	2%	0%
Gloves	2,367	9%	66%	0%	2%	2%
Other made up clothing accessories and parts, knitted or crocheted (including Shawls, scarves and the like)	2,218	16%	19%	12%	15%	5%

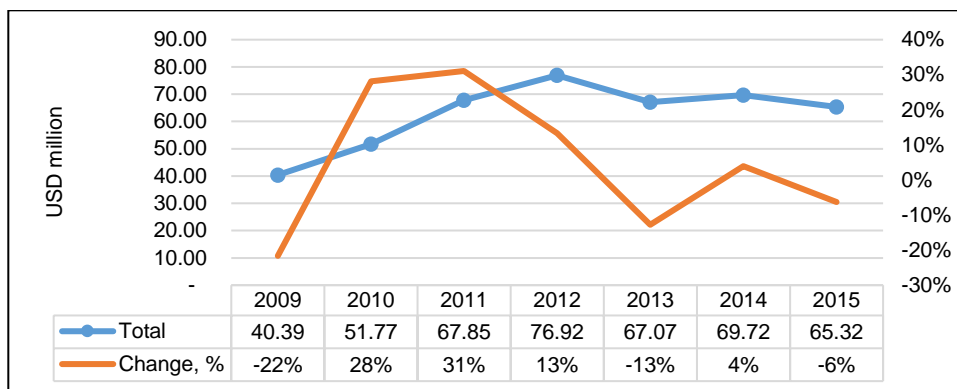
Textile Imports

Similarly, textile imports grew from 2009 until 2012, almost doubling in volume from USD 40.4 million to USD 76.9 million. From 2012 to 2015, imports actually decreased to USD 65.3 million. Overall, 2015 imports were lower than imports for 2011 (USD 67.9 million), and the majority of these goods should be fabrics and trims to feed the apparel production in Georgia, both for local demands and for export.

Since there is no textile production in Georgia and overall production is experiencing a long-term growth trend with high annual growth rates, the stagnant and decreasing import values from 2012 to 2015 suggest that either (1) factories have been able to obtain lower prices for higher volumes of textiles or (2) factories are producing higher value garments with the same amount of raw materials (textiles), generating higher margins and, potentially, increased profitability.



Figure 11- Textile Imports, 2009-2015⁸



From 2009 to 2012 the top 5 countries from which Georgia imported apparel was of textile products were Turkey, China, UAE, Germany, and Ukraine, jointly making up about on average 83% of total imports. As demonstrated by Figure 11, Turkey maintained its position as the primary exporter of textile to Georgia, at 56% over the period. China and UAE, both increased its share of imported textiles to Georgia over the period.

Figure 12 - Breakdown of Textile Imports by Major Trading Partner

2009	Turkey	Germany	Ukraine	UAE	China
Imports of Textiles from the Country (USD million)	22.6	2.7	2.1	1.8	1.4
Country's share in Total Import of Textiles (%)	56.0%	6.7%	5.1%	4.5%	3.6%
2015	Turkey	China	UAE	Italy	Germany
Imports of Textiles from the Country (USD million)	36.6	8.0	3.9	3.7	3.1
Country's share in Total Import of Textiles (%)	56.0%	12.2%	5.9%	5.7%	4.7%

Market Access

The Government of Georgia (GoG) has established advantageous trade agreements to ensure that producers in Georgia have preferential market access to key export markets, such as the EU and Turkey. Specifically, Georgia has free trade agreements with several countries representing about 900 million people's market. This includes a FTA with Turkey and CIS countries, a DCFTA (Deep and Comprehensive Free Trade Agreement) with the EU, and GSP with the US, Norway, Switzerland, Canada, and Japan. Finally, Georgia has been a member of the WTO since 2000.

The primary market for sales by the subsidiaries of Turkish firms producing apparel in Georgia is Turkey, with all sales directed to the parent company for subsequent distribution. The key brands produced by these

⁸ Ibid.



firms are Puma, Nike, Lotto, Zara, Marks & Spencer, Tommy Hilfiger, Erima, Adidas, Ted Baker, Howes & Curtis

The main three distribution networks that the Georgian producers are working with (aside of the big Turkish ones) are: Government, the German buyer Lebek and the French-Italian brand Moncler. In the first line orders for the GoG are military, police, security & uniforms. In terms of export, currently producing for Moncler and Lebek mainly. One produces for Zara, Waikiki and Gina Laura as well. Local designers produce for Georgian customers, but some are focused on export to CIS, EU and US markets.

Market Size and Capacity

Description of Georgia's Apparel Market

During the fact-finding mission in Georgia, the consultants conducted over twenty stakeholder interviews in six days, including twelve apparel factories (ten Georgian factories and the two largest Turkish-owned factories). The primary respondents were Georgian entrepreneurs, who own and operate their production sites and want to extend their size of their facilities and workforce by around 750 employees in total. Two of these factories have finalized the planning stage for constructing new buildings, with a total workforce of 300.

Currently the apparel industry is comprised of approximately 200 enterprises, with the majority being micro-enterprises, which have a workforce between 5-10 employees each. In total the apparel industry employs about 6,536 people. The main players of the industry can be divided into two categories: Georgian producers and Turkish-owned producers. The seven largest companies are Georgian-based subsidiaries of Turkish companies. These Turkish apparel producers should be analysed independently of other Georgian companies, as their business model is significantly different from the rest of the industry (e.g., since they receive orders directly from, and are fully dependent on, their Turkish parent companies). In addition, these companies demonstrate minimum involvement with other players in the Georgian industry;

In terms of investments made, the largest is Adjara Textile, which has over 2,100 employees. Specifically, it employs over 1,100 employees in Batumi and another 1,000 employees in Kobuleti. During the interview with Adjara Textile's representatives, they confirmed that they produce apparel for brands like Nike and Puma and belong to the Miltex Group with has over 20 factories throughout Turkey, which allows the receipt of order from international buyers in Istanbul and production in Georgia. Adjara Textile intends to open a third factory in Poti with an additional 1,500 employees; however, company representatives stated that they are having difficulties in hiring employees.

Geoteks, the Italian-Georgian joint venture, actually employs 180 employees and works exclusively for Moncler in Italy, and will have a total of 700 employees in 2017. Company representatives claimed that they have substantial opportunity to expand production within their current facility, where an additional 520 positions could be added. In addition to their current contracts, they are eager to receive additional orders from international brands.

The top ten Georgian apparel producers, generally, employs either 25-40 or 50-150 employees. From an international perspective, they are all considered small enterprises that produce on a small lot basis.

Internationally, the majority of apparel is exported to Turkey and, from there, to brands like Puma, Nike, Zara, and Marks & Spencer's. Additionally, there are two additional buyers active in Georgia, Moncler from Italy and Lebek from Germany. Previously, Georgian producers had produced for other EU brands, such as Bestseller in Denmark and Gina Laura in Germany.

Capacity

Historically apparel industry was highly developed in Georgia. During Soviet era, apparel produced at Georgian factories was distributed throughout the Soviet Union. After an almost 20-year stagnation (except



few factories, like Imeri), the first modern factories were established in 2007. Currently, the Georgian apparel industry is at the initial stage of apparel industry development.

A key weakness for Georgian apparel producers is the lack of compliance with international production standards of safety, labour, environment, etc. Apart from three producers (Imeri, Nuri, and Geoteks), none of Georgian producers adhere to international standards (e.g., workplace security, SCR, BSCI, SA8000, etc.), which creates obstacles to direct, mass integration of Georgian producers into EU value chains.

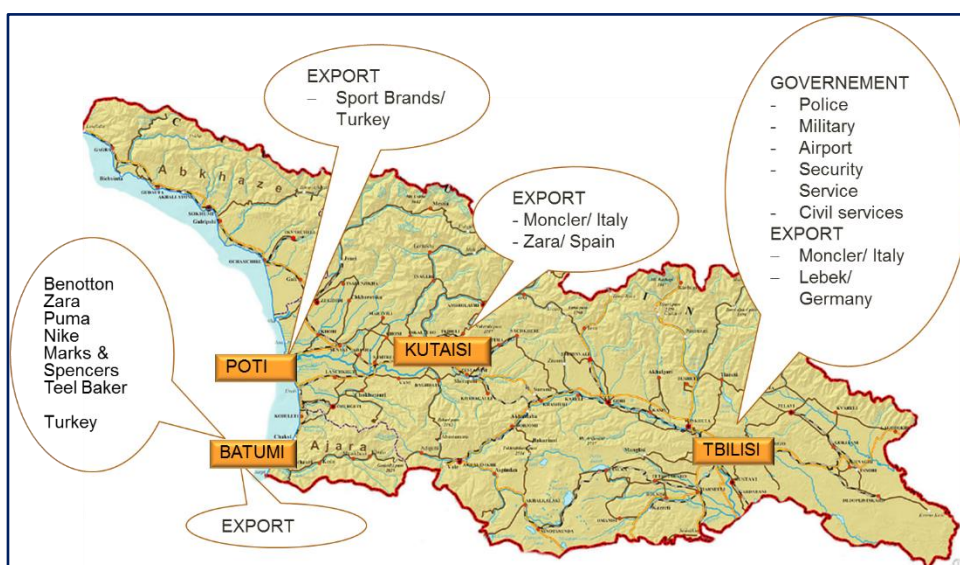
Regional Distribution

Batumi, Kutaisi and Tbilisi are the primary locations for apparel production and the potential target locations for developing clusters. Currently, industrial apparel production occurs in three geographical clusters and employs 4,300 people in twenty production sites.

Figure 13 - Distribution of Production across Georgia



Figure 14 - Distribution of Clientele and Products (by Category) across Georgia





1.2 Workforce and Vocational Education Training (VET) Centers

Description of the Workforce

The monthly salaries of machine operators who have a high level of experience and who should rightfully be described as a “tailor” instead of as a machine operator is low in comparison to other markets. In Eastern Europe, salary levels range from € 180-200 per month. In Turkey, salaries are more than USD 300 per month, while, in Asian countries (i.e., China, Cambodia, Vietnam, Thailand), salaries are USD 150-400 per month. However, salary levels in Georgia are similar to those in Bangladesh at USD 90 and Pakistan at USD 110 per month.

In Georgia, there is no fixed minimum wage established by the Georgian government. Based on the responses of company representatives during interviews with apparel producers, salary levels begin at GEL 150 per month in Georgia. However, in and around Tbilisi, employees receive about GEL 250-300 for a 9-hour shift (from 9am to 6pm, including a 1-hour break) and work six days per week. Within the production facilities of Turkish investors, shifts last one hour longer, totalling 54 working hours per week. They pay their workers GEL 300 plus “a little extra”; however, income that reaches GEL 400 is an exception.

The designers interviewed claimed they pay their sewing staff GEL 400-600 per month. The average age of the primarily female sewing staff in the visited production sites was generally 45+, and sometimes 55+.

Vocational Educational Training

Key advances in VET system:

- Teachers are very experienced in textile production and in tailoring;
- Equipment is modern or is being modernized (i.e., new Juki sewing machines);
- Classes are small and learning is quite individual.

The GoG and several donors (i.e., GIZ, UNDP, USAID, and Millennium Challenge) support VET education in Georgia. For example, the GoG subsidizes the fees for tailor courses in state VET institutions. While there have been many advances in developing VET programs for potential apparel factory employees since 2011, there are still several significant gaps that impact the apparel industry:

- **There is very limited to no demand for machinery operator courses.** Due to the lack of demand, VETs are primarily educating tailors and designers, but not machinery operators, which the apparel industry needs. Additionally, the expectations of students regarding salaries and work conditions are very different from what they will actually experience in factories. As a result, there is a high personnel turnover. In fact, a large number of workers have quit their jobs and have become entrepreneurs. It is a fact that the majority of VET graduates do not enter the apparel industry.
- **Apparel producers are not satisfied with the skill level of VET graduates.** Due to the perceived low level of skills developed at the VET, apparel producers claim they have to retrain most of the students. Additionally, despite this additional training, the retention rate of employees is very low.
- **Additional VET programs are required.** The producers claimed that it is still very hard to hire for specific positions (e.g., professional cutting master) from VET institutions alumni, and those that are hired still require several month of additional training.
- **Cyclical dependence:** Low wages lead to simplification of training programs, which leads to low quality of skills, which itself then leads to low wages and a low level of motivation, creating a cycle that must be broken to improve VET graduate skills. It is important to note that, based on interview



responses, VET graduates are very willing to work in the apparel industry; however, they are not willing to accept GEL 250-300 per month and instead prefer to start their own enterprise as a tailor in their village due to the following critical issues:

The consultants collected information from two VETs (Mermisi and Black Sea College), providing two examples that illustrated how education can be implemented at its best. The teachers had extensive experience and knowledge (i.e., at least 30 years of working experience) and seemed very devoted and enthusiastic about teaching students.

1.3 Legislative and Regulatory Frameworks

Georgia offers a liberal economic policy and trade regime to entrepreneurs, both local and foreign. Based on international publications and analyses of the legal framework, Georgia offers investors:

- Stable operating environment for business
- Low tax regime
- Simple, flat corporate tax rate;
- Liberal economy based on deregulation of market and rapid development of infrastructure in power sector, oil & gas, ports, railroads, roads and communications;
- Liberty Act, effective from January 2014 ensures a credible fiscal and monetary framework⁹.

1.4 Infrastructure Requirements

The GoG invested significant resources in the development of the country's infrastructure. With two seaports and the upcoming Anaklia port, three international airports and a developing national highway system, the country offers favourable conditions for apparel producers that need easy access to the main transportation means. However, it is noteworthy that transportation costs to Europe, especially by truck, are relatively high (e.g. compare to Turkish companies).

Key characteristics of Georgian infrastructure include:

- **Energy.** Low cost of power generation and competitive energy costs, well-developed transmission and distribution systems;
- **Water supply.** Abundant water resources throughout Georgia's regions;
- **Business friendly environment.** Two Free Industrial Zones (FIZs) operating in Georgia, located in Poti (sea port) and Kutaisi (second largest city). Goods produced for export in FIZ exempted from all taxes except Personal Income Tax;
- **Transport infrastructure and logistics network.** Several developed customs clearance terminals, offering online services. Extension of the sea ports in Poti and Batumi.¹⁰

⁹ Ibid.

¹⁰ Ibid.

2.0 Value Chain Assessment

2.1 Overview

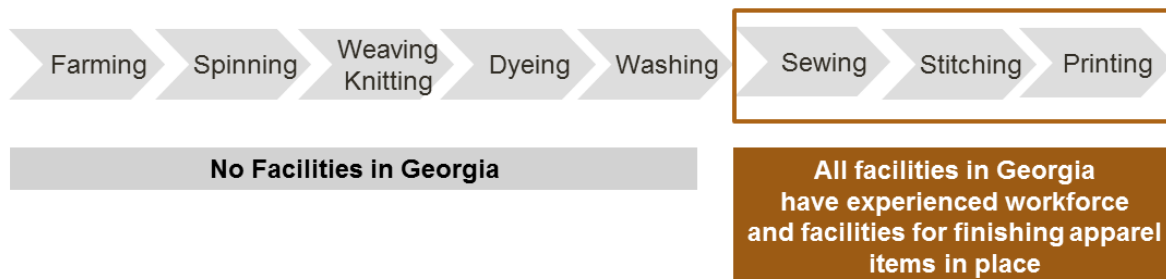
Analysis of Georgia's Textile and Apparel Value Chain

The four stages of value chain development in the apparel industry include:

1. **Assembly/Cut, Make, and Trim (CMT).** Apparel manufacturers cut and sew woven or knitted fabric or knit apparel directly from yarn.
2. **Original Equipment Manufacturing (OEM)/Full Package/Free on Board (FOB).** The apparel manufacturer is responsible for all production activities, including the CMT activities, as well as finishing. The firm must have upstream logistics capabilities, including procuring (sourcing and financing) the necessary raw materials, piece goods, and trim needed for production.
3. **Original Design Manufacturing (ODM)/Full Package with Design.** This is a business model that focuses on adding design capabilities to the production of garments.
4. **Original Brand Manufacturing (OBM).** This is a business model that focuses on branding and the sale of own-brand products.¹¹

Currently all apparel producers in Georgia are at the CMT (Cut, Make, Trim) stage. It is noteworthy, that two major buyers for the local producers use Outward-Processing Trade (OPT) practice (i.e., buyers export fabrics, or parts of garments, to be further processed in a third country, which are then re-imported and then sold as finished garments in an EU country).

Figure 15 - Map of Georgian Textile and Apparel Value Chain



Based on the examples of other apparel producing countries, moving up the value chain from CMT to higher stages resulted in a significant development of the industry. Considering an increase in the level of fashion power in Georgia (based on VET education system analysis, more Georgian designers gaining international recognition) and the potential introduction of proper Public Private Partnership initiatives, it is possible to stimulate further development of the industry into the upper stages such as ODM and OBM.

Based on conversations with several Georgian designers, there are the first initiatives to establish the first Georgian OBMs. For example, Georgian fashion houses are producing apparel under their own labels. The two designer companies produce high-end fashion for women, with price levels at approximately € 80-200 and as high as € 700-900. One fashion house owns several stores outside of Georgia, and another is expanding its chain domestically. Both companies are in the process of building small-scale local production facilities, with estimated 50-60 sewing machine operators in each factory.

¹¹ The Apparel Global Value Chain: Economic Upgrading and Workforce Development, 2011



Currently there are very limited textile production facilities in Georgia. During the interviews, the consultants only encountered CMT Business. In addition to sewing, the majority of factories have stitching facilities; however, only a few offer “piece printing” to individualize apparel items for customers. One factory, Elselema, is working on developing its own silk production; the company received a plot of land from the GoG and plans to establish a mulberry tree orchard and a silk production facility. There is no supply chain for the production of yarn, woven or knitwear, or dyed or printed fabrics established.

Additionally, producers have to import everything for apparel production, including includes all accessories (e.g., buttons, zippers, sewing and stitching thread) and all fabrics fully finished. Even the hangers and bags for transport must be imported before “exporting” the garments.

2.2 Gap Analysis

Market Access

The clientele base of Georgian producers is highly concentrated. The producers are highly dependent on existing buyers (i.e., the GoG, Lebek, and Moncler) Lack of compliance standards prevents Georgian producers from attracting new buyers from EU.

Key Gaps:

- For importers and retailers Eastern Europe is too expensive and capacities are not sufficient.
 - BUT: For fashion brands it is still a place to be.
- Pricewise producers cannot compete with Turkey and Asian markets.
- Quantitatively it is the same, because they produce piece volumes of 1,000 – 5,000
 - BUT: It could be interesting for brands/retailers.
- The very big volumes are around 100,000 and 400,000 pieces require large production sites.

Even though, one of the major buyers for Georgian producers, the German brand Lebek has been working with Georgian producers since 1998, before the mission none of the German buyers listed in the table below consider Georgia a location for procuring apparel; however, the majority of these buyers is interested in finding new procurement markets and identifying good producers. Realistically, Georgia can supply the apparel production needs of international brands. Furthermore, it may be possible for Georgian producers to consider the production of niche products like fully-fashioned stockings, ties, and other products made out of silk or wool. After the mission conducted in June 2016 German buyers expressed potential interest in sourcing from Georgia, provided international standards are adhered

Figure 16 - German Buyers, by Core Business Activity and Size of Orders

Buyers	Core Business Activities	Order Volumes in pcs
Drykorn	Fashion for men and women	300-3,000
Tom Tailor	Fashion for men and women	500-5,000
Schmidt Gruppe	Women and men wear	50,000-400,000
Hopp	Tie and socks	5,000-100,000
Ospig	Jackets and trousers	500-2,000
Bon Prix (Otto Group)	Lifestyle, fashion and women	1,000-10,000
Miles	Women and men wear	25,000-100,000
Tchibo	Underwear and fashion	50,000-250,000
WITT (Otto Group)	Underwear and fashion women	300-25,000



Technology and Equipment

Key Gaps:

- Outdated buildings & equipment;
- Necessity for automated operation (e.g. pockets, collars, etc.);
- No R&D facilities.

Based on the interviews conducted by the consultants, there are several conclusions on the technology and equipment profile of the industry.

- There is a large difference between the Turkish-owned apparel factories in Adjara with the Georgian factories Tbilisi & Kutaisi.
- It is difficult to estimate what technology and equipment is installed in all the Turkish-owned factories, because, aside from Georgian Textile, the consultants were not allowed to enter the production areas of the facilities. However, they appeared to be more modern and well equipped than the Georgian factories. Considering that they undergo regular international audits and they produce large volumes, their equipment should be satisfactory.
- For Georgian factories, there was only one factory that owned European sewing machines; however, these were very outdated. The majority of the Georgian factories owns Chinese-produced Juki machines. A positive discovery is that several factories have planned renovations of their facilities and will update their machinery as well, introducing more comprehensive and automated equipment (e.g., for pockets, collars, shoulder-pads of a suit).
- There are no research and development (R&D) facilities in any of the companies visited.

Compliance with International Standards of Production

For last decade European customers have been increasingly paying attention to the social responsibility issues (i.e. environment, social). The dramatic shift in the customers' attitudes directly affected the policies and strategies of brands, especially ones in Germany. For example, out of 1500+ members of BSCI, 700 are German companies. This example clearly demonstrates the importance of both environmental and social issues for German customers and, consequently, companies.

There are several initiatives that were created to protect rights of workers and protect environment such as the Ethical Trading Initiative (UK), the Business Social Compliance Initiative (BSCI) and Fair Wair Foundation (EU).

Key Gaps:

- Georgian producers are not aware of international standards (e.g. BSCI)
- Georgia ratified ILO convention, however, it was unclear how the companies followed the rules stated in ILO
- No laboratory available
- Weak and dysfunctional association.



In order to attract more EU buyers, Georgian producers need to adopt necessary practices to obtain safety standards certifications

Key Observations:

- Availability of certification/standardization locally
- The GoG does not enforce health, safety, and environmental standards
- No associations or strong trade unions
- The only source of control / supervision for quality issues are the representatives of the buyers (i.e. Lebek, Moncler)
- Turkish-owned producers undergo occasional audits
- Lack of transparency
- No Lab available¹²

The chart below represents the structure of the main requirements that apparel producers should comply with when dealing with European buyers.

Figure 17 - International Buyers' Requirements for Apparel Factories



The consultants were able to enter and tour the production sites of Georgian companies. None of the factories that were visited demonstrated complete compliance with international procurement requirements related to workplace safety, fire safety, or electrical safety. However, every production site was very clean and looked organized.

Based on observations and data collected from the fact-finding mission, only one Georgian producer had received WRAP certification, and this producer is going to extend its validity. The other producers were not aware of BSCI requirements, the audit process, or the OEXO-TEK Standard 100 requirements.¹³

Besides these regulations for a safe environment for the production of apparel, proper wages, and work time conditions, the international buyers that Georgia is targeting have developed required profiles for

¹² However, it could be too early to establish a testing laboratory in Georgia due to the following reasons: (1) the production of the biggest producers (Turkish-owned) is tested in Turkey, therefore no need in a local laboratory, (2) the biggest buyer for local producers, the GoG, doesn't require any testing the goods, and (3) Lebek & Moncler provide Georgian producers with the raw materials, and check the quality on site.

¹³ See Appendix 3 for more details.



harmful substances within the products. Over the past decade, the vast majority of European buyers have followed strict requirements to support socially responsible apparel production.

Today, “Textilbündnis” and “Fair Trade Textile Production” advocate for good working conditions throughout the entire textile chain while Greenpeace and the “Zero Discharge of Hazardous Substances” (ZDHC) initiative advocate for the elimination of harmful substances. Figure 19 describes the requirements of the international buyers like Otto, H&M, Nike, Puma, Adidas, etc.

Furthermore, Greenpeace is campaigning to stop the apparel industry from poisoning the water supply with hazardous, persistent, and hormone-disrupting chemicals. The DETOX Campaign challenges top brands to make amends by working with their suppliers to eliminate all hazardous chemicals across their entire supply chain, and the entire life-cycle of their products.

Since many of the top brands that produce in Georgia (i.e., H&M, Zara/Inditex, Nike, Primark, Aldi, Lidl and C&A) are signatories of the DETOX campaign, it is critical for the Georgian apparel industry to observe its regulations, especially since this international initiative is expected to be an international standard in textile production by 2020.

2.3 Market Development Issues

Georgia's Value Proposition

Georgia offers potential investors favourable conditions for apparel manufacturing both in terms of locations and business.

Key Characteristics:

- **Location.** Proximity to the EU and Turkey, (e.g. easy/fast export of textile to Georgia, good understanding of local culture) and to ports and highways. **Free trade agreement with Turkey and CIS countries.** Access to European or CIS markets. The DCFTA with EU, and GSP with USA, Canada, Japan, Norway and Switzerland;
- **Government incentives.** (i.e., the “Produce in Georgia” program, free land, full access to the nearest infrastructure);
- **Legislative framework.** A simple tax system and low level of bureaucracy;
- **Lower costs.** Reduced production costs due to lower labor and utility costs;
- **Experience with international producers.** Existence of Turkish manufacturers operating in Georgia;
- **Skills.** State support and availability of vocational institutions.

Due to Georgia's small population, apparel factories should focus on exporting goods:

- **Domestic:** As Georgia is a 3.8 million (Oct. 2015) populated country, the domestic demand for textile products is of limited strategic interest for investments. Even when taking into account nearby markets, the potential demand appears to be relatively small.
- **Export key consumer markets:** Georgia can represent an “export” base to have access to large consumer markets such as Russia, Ukraine, Kazakhstan, Belarus, US and EU.
- Based on the value of imported apparel products the world's largest apparel importer is US followed by Germany, other EU countries, including Great Britain, and Russia.
- **Export Germany:** Currently Germany is on rank 6 for the import of goods. As the second biggest market of apparel it should be a good destination for apparel goods.



Investment Promotion Opportunities

European Markets

While planning and implementing new investment promotion activities, the GoG should take into consideration the following facts:

- One of the main incentives that apparel producers and/or buyers worldwide are looking for is low cost production;
- High salaries and aging workforce are main challenges for European producers;
- The majority of apparel producers has outsourced their productions to Asia, Turkey or Eastern Europe.

For European producers, the main characteristics of Georgia's value proposition are similar to the ones that are attractive for Turkish investors (see the value proposition above).

Turkish Investors Outlook for Georgia

Currently, there is a significant opportunity to revive the interest of Turkish apparel manufacturers. Georgia is well-positioned to become a captivating option to Turkish clothing manufacturers and benefit from job creation and increased investment flows. The overarching goal of the Government's activities should be to take advantage of this specific prospect in the shortest possible time while the window of opportunity is still open.

Given the fact that the current Turkish investments in Georgia focus on outsourcing capabilities, their contribution to the overall market attraction and industry development is minimal. Therefore, while these outsourcing investments are desirable to create much-needed jobs in western Georgia, it would be preferable to identify investors who will either develop critical market infrastructure (i.e., textiles, dyeing houses, etc.) or who will act independently to raise the level of the Georgian market's production activities, trade linkages, and international reputation and image.

Below are the main findings based upon background research of apparel sector investment promotion materials developed by the Georgian investment promotion agency "Invest in Georgia" and Deloitte Consulting as part of the USAID Economic Prosperity Initiatives¹⁴. Additionally, the findings below are based on input provided by Mr. Mustafa Mente, the current Secretary General at DEİK - Foreign Economic Relations Board of Turkey and the former Secretary General of the Turkish Exporters Assembly¹⁵ in Istanbul, who provided input on the opinions of leading Turkish apparel manufacturers and investors.

Since the Georgian parliamentary elections of 2012, Turkish apparel sector investors have been reluctant to implement their investment strategies; however, this reluctance appears to be decreasing, as evidenced by the 2015 investment by Imteks Tekstil in Batumi through its Georgian subsidiary "FastTrek Tekstil."¹⁶

This new investment is encouraging because:

- In Turkey, Imteks is a major producer for both Adidas and Nike's high value sportswear products, (i.e., one of 5 producers in Turkey for Nike);
- More importantly, Imteks is an industry leader in the Turkish markets, with a deep network of partner textile companies that may follow their lead. (As a matter of fact, at the moment approximately 10 Turkish apparel manufacturers are considering opening manufacturing facilities in Georgia.)

¹⁴ The research was originally conducted from 2012-14, and later updated in 2016 by Invest in Georgia.

¹⁵ Turkish Exporters Assembly (TIM), the roof organization of approximately 52,000 exporting firms, was established in 1993

¹⁶ This new investment created 700 jobs in 2015, which will expand to 1,400 jobs by the end of 2016.



In addition to these recent market developments, the core market-based incentives and policy frameworks existing in Georgia's operating environment continue to be advantageous for Turkish investors. Specifically, advantages of Georgia for Turkish investors are included in the aforementioned value proposition.

2.4 Options to Establish Apparel and Textile Clusters

Based on the finding of the mission and world best practices, the consultant has developed four different scenarios for development of clusters in Georgia. Below is the list and short the descriptions of all versions:

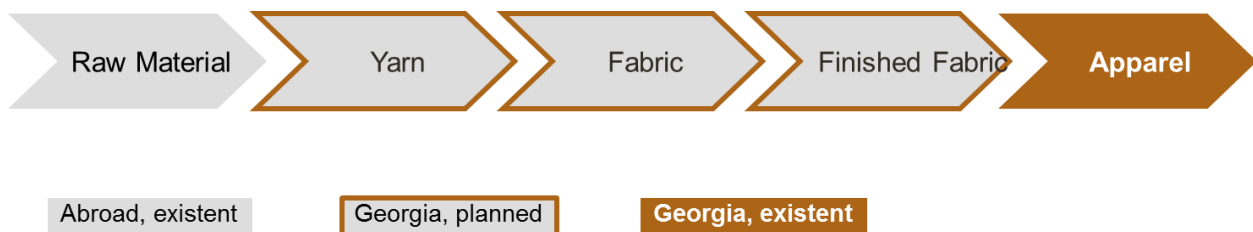
- The full supply chain cluster from yarn spinning via fabric knitting or weaving to apparel sewing.
- The apparel cluster in different regions.
- The apparel cluster plus connected industries like washing, printing and stitching facilities and service providers.
- The total supply chain cluster – starts with silk as raw materials.

Option 1, Supply Chain Cluster:

Immediate implementation of a textile value chain would require high investments in machinery, but would only create a few jobs.

- Includes mills for yarn spinning, weaving and knitting, as well as dyeing and printing houses, which are all highly mechanized.
- Experience with machinery in this field in Georgia is missing.
- Competitors with long-term and high volume experience include Turkey, China, and Turkmenistan. Competitors in high-quality and specialty products include France, Italy and Switzerland.

Figure 18 - Clustering Option 1

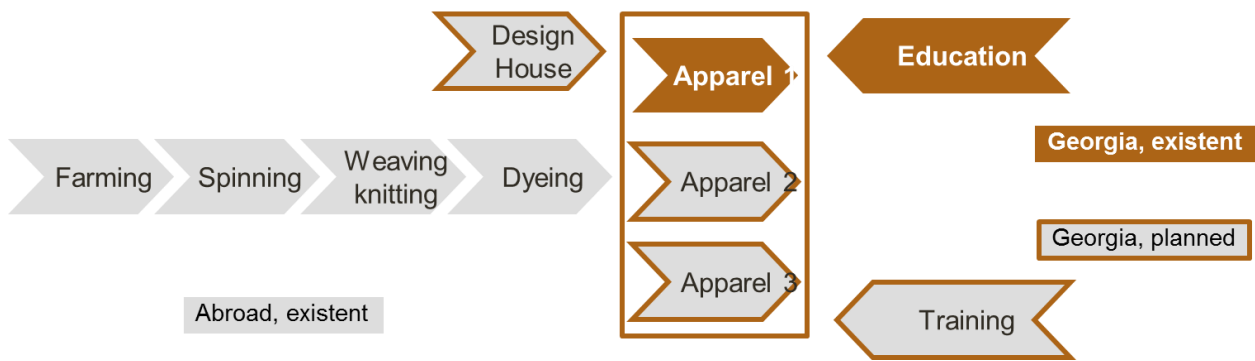


Option 2, Apparel Production Cluster in Different Regions:

Establishing an apparel production cluster could be realized easily with high ratio of invested money per workplace. Most of the companies want to expand or build new productions sites. A big centre for apparel industry is Tbilisi. There are already two producers located in Kutaisi, making it another option to establish a cluster. Additionally, entrepreneurs could also cooperate to develop their own clusters.

- The cluster could start in Tbilisi and Kutaisi and extend to other regions.
- Should always be connected to VET.
- Should always be connected to fashion houses.

Figure 19 - Clustering Option 2

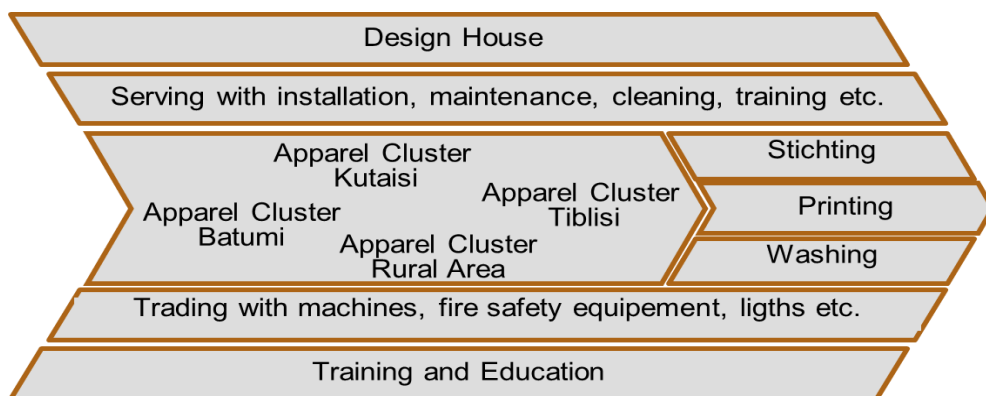


It is important to note that the development of production clusters will be challenging and may require support from the GoG and an inclusive approach that attracts non-traditional participants in the Georgian apparel industry. For example, to stimulate rapid growth in production and the number of facilities operating in Georgia and operating as a cluster, the Georgian government should consider establishing working relationships with apparel factories in Armenia, especially for Syrian refugees of Armenian descent that owned significant factories in Syria. Including these and other groups into a well-designed government stimulus program could result in much more rapid development of clusters.

Option 3, Cluster of Producers, Service Providers, and Traders:

- The cluster could start in Tbilisi and Kutaisi and extend to other regions, like Batumi.¹⁷
- Should include service production facilities.
- Should always be connected to VET.
- Should always be connected to Design houses.
- Should always be connected service providers.

Figure 20 - Clustering Option 3



These fully integrated Apparel Clusters need a great deal of entrepreneurial engagement and will create many jobs. A fully integrated cluster can be interpreted in a wider range. To work on and for RMG (Ready Made Garment), stitching, piece printing, and washing units are necessary. If apparel producers are

¹⁷ Imeria, Elselema, Georgian Textile could be considered as members of this cluster.



supported in their investments in machinery and workforce, other entrepreneurs could invest into production facilities which support RMG.

The advantages are that, due to specialized working processes, expertise is developed, and, therefore, it is more attractive for buyers to place orders with Georgian apparel producers, increasing the competitiveness of apparel procurers. Additionally, service providers and traders of machines, spare parts, technical devices, and packaging materials should be integrated.

Due to existent design power, their skills can be used to empower the apparel industry. Furthermore, education and training facilities should be developed and implemented within the clusters, as well as on a small-scale basis within the factories. If these clusters are first established in existing regions, then clusters can be considered for implementation in rural regions.

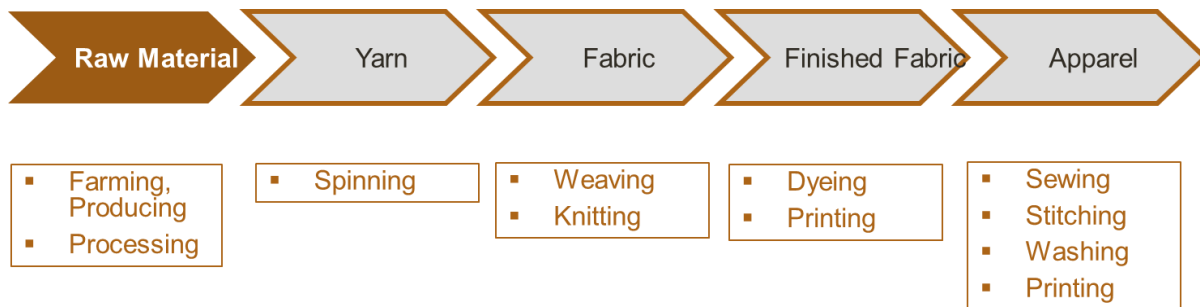
Clusters should always offer good conditions for the apparel sector itself.

Option 4, Relaunch of Silk Supply Chain:

Establish an apparel producing industry, starting with raw materials like silk or wool and creating a “Made in Georgia” quality supply chain.

- The raw material production should be in suitable rural areas within Georgia.
- Production of yarn and its processing to finished fabrics should be established in a cluster.
- The finished fabric can be supplied to apparel producers in existent cluster for apparel.
- Establishment of a total supply chain for wool is possible due to existing experience.

Figure 21 - Clustering Option 4





3.0 Recommendations

3.1. New Business Opportunities for Value Chain Development

Apparel

Market Access

To penetrate major buyer markets (e.g., the EU) and increase production and sales in these markets, it is critical for Georgian producers to not only choose the correct product mix to produce, but also to conform to the international health, safety, and labour requirements just to qualify to produce for these brands. Specific recommendations include:

- Georgia can represent an “export” base to have access to large consumer markets such as the US and EU.
 - Stage 1: CMT Cluster in Kutaisi with linkages to Batumi, Tbilisi, and Kutaisi;
 - Stage 2: Fashion producers added to the Cluster;
 - Stage 3: Design houses set up.
- Instead of focusing only on Georgian government and uniform orders (which dominate the current Georgian factories’ orders) or on mass-produced items that required large production volumes (menswear, women’s apparel, sports apparel), the Georgian factories should focus on apparel items that are more niche market-oriented and require only small production volumes per item, (e.g. production of lingerie, hosiery, wedding gowns, etc.) and have sufficient margins to justify Georgian production costs.
- Diversify raw material sources by identifying new suppliers (i.e., silk production in Azerbaijan).
- Implement management systems, such as ISO14000 (environmental aspects), OHSAS 18001 (occupational health and safety) or SA 8000 (social conditions) is a way to address sustainability and possibly gain a competitive advantage.

Technology and Equipment

- Develop programs to support the purchase of:
 - Modern machinery;
 - Furniture that complies with health and safety standards;
 - Lighting (LED lights are best);
 - Heating and cooling systems;
 - Safety equipment (i.e., fire extinguishers, fire exit systems).

Professional Education & Skills Development

- Provide special support to VETs for procurement of “state of the art” equipment. With skills enhancement through courses of instruction:
 - Basic Degree: 3 months;
 - Practical term with apprenticeship: 12-14 months;
 - Additional degree in sewing and quality control issues: 10-14 months;
 - Master of Management: 6 months.



Investment Promotion

Based on preliminary conversations with EU buyers, it would be not optimal for the GoG to develop specific investment promotion strategies to target for EU investors (since apparel production is actually very limited in Germany and the EU). Instead, the GoG should focus its efforts more on developing strategies to attract foreign investors from states of Eastern Europe including Latvia, Romania, Serbia, Iran, Central Asia, and China. While Georgia is positioned to be an attractive location for both apparel and textile investors, considering the current market limitations (in labor costs, skill levels, and the age of the workforce) and the current level of development of the apparel industry, it appears to be more attractive for apparel producers. The GoG may further promote its program and offer some incentives to investors to establish production facilities. Below is the list of the main directions that the government may focus its activities:

- **Group 1.** Producers that have outsourced their production facilities to Eastern Europe.
- **Group 2.** Producers from Turkey, Iran and other countries, especially those working with the European buyers.
- **Group 3.** Local producers and investor. By strengthening the performance capacity of local producers and helping them to increase the skills necessary to attract foreign investors and/or buyer. In addition, the GoG offer incentive packages to the local producers to stimulate production of local brands, thus work towards import substitution.

Textiles and Raw Material Production

Implementing a textile value chain would require high investments into machinery and would create only few working places. Specific limitations on introducing large textile investments include:

1. Mills for yarn spinning, weaving and knitting, as well as dyeing and printing are highly mechanized.
2. Experience with machinery in this field in Georgia is missing.
3. Domestic demand for textiles is not sufficient to justify production.
4. Competitors with long-term and high volume experience are Turkey, China and Turkmenistan. Competitors in high-quality and specialties are France, Italy and Switzerland.

However, production of raw materials may be a viable investment opportunity. Currently, none of the raw materials is used, but tradition and experience for wool and silk exist. During the Soviet era, Georgia, along with other countries of the South Caucasus, provided silk to textile factories in Russia, with only a small portion processed in local factories. Since 1920s, great attention was paid to the development of sericulture in the Soviet Union. In fact, Georgian natural silk fabric (chiffon) was highly demanded not only in the former Soviet countries but in Europe as well.¹⁸

Therefore, Georgia should focus on the development of raw material supply chains to increase the product range and usage of comparative advantages.

¹⁸ May 2016 - Eka Lekashvili, Professor, Doctor of Economics, Lia Lursmanashvili, Candidate of Technical Sciences, Ekaterine Tukhashvili, Master of Art.



Figure 22 - Historical Production of Raw Materials in Georgia

Kind of Raw material	Requires	Tradition/Experience		Value Chain Established
Man-made fibers	Oil	-		-
Wool	Goats, sheep ...	✓	✓	-
Silk	Mulberry Tree	✓	✓	partly yes
Viscose	Tree, chemicals	-		-

3.2 Clustering Strategy

Based on the observations, the Scenario2, and gradually Scenario 3 are recommended as primary clustering strategies. Both strategies require the formation of a strong industry association that bundles and coordinates the interests of the apparel companies and the marketing activities in Georgia, as well as in the potential export markets.

3.3 Legislative and Regulatory Frameworks

Government Initiatives

Georgia needs internationally accepted frame conditions to be competitive with other markets and attract foreign investors and buyers.

- Establish a conditional framework to receive license for apparel export “Made in Georgia”.
- Install platform for cooperation matching to ease clustering and draw attention to buyers and investors from Georgia and abroad.
- Develop a national Code of Conduct (CoC) for apparel production in Georgia. It should cover working conditions including wages and working time, safety, and other details related to ILO standards. Most international brands have developed their own CoC and implemented it into their supply chain. The CoC should also address environmental and energy efficiency issues, covering the protection of water quality and the reduction and/or elimination of harmful substances within production processes. The CoC should be developed in line with the most accepted standards in Europe: BSCI – Business Social Compliance Initiative in Brussels and SA8000 – Social Accountability in New York.



Appendix 1: Apparel HS Groups

Items of new clothing made from textiles are mainly classified under chapter 61 and chapter 62 of the Integrated Tariff of the Harmonized Commodity Description and Coding System (HS). Apparel products are classified within 2 categories of HS codes

HS Group	Description
61	Articles of apparel, accessories, knit or crochet
62	Articles of apparel, accessories, not knit or crochet

With the main difference between these 2 groups of HS codes being the final state of designated products (e.g. group 61 consolidating knitted and crocheted products, while group 62 consolidates not knitted or crocheted), a methodical, content-based bottom up approach to classifying and understanding the import structure would be easier for relevant analysis and evaluation. Table below demonstrates this approach:

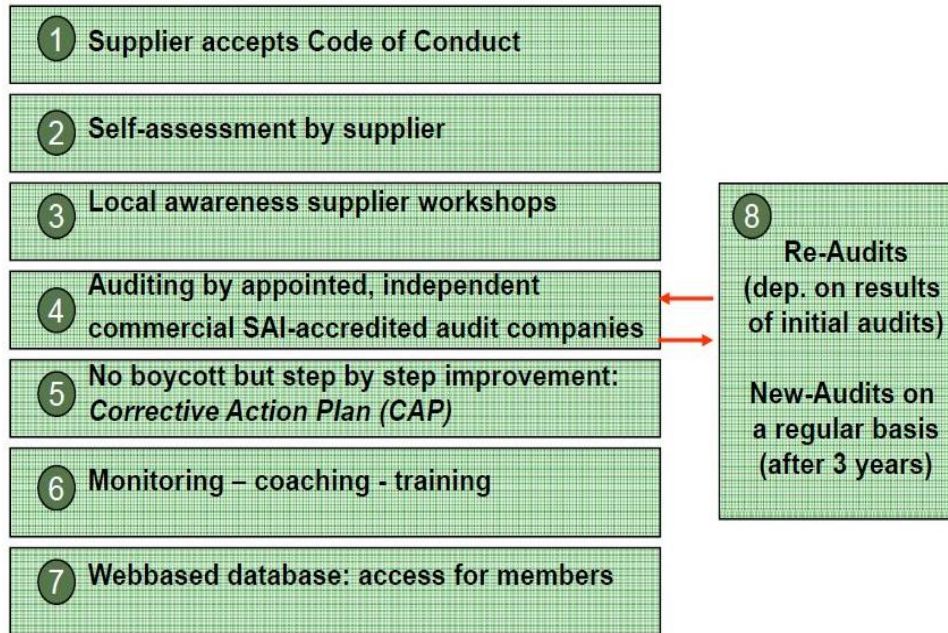
HS Code Matrix	Knitted or crocheted	Not knitted or crocheted
Overcoats, car coats, capes, cloaks, etc.	6101 (Men's or boys') 6102 (Women's or girls')	6201 (Men's or boys') 6202 (Women's or girls')
Suits, ensembles, jackets, blazers, trousers, etc.	6103 (Men's or boys') 6104 (Women's or girls')	6203 (Men's or boys') 6204 (Women's or girls')
Shirts, blouses, etc.	6105 (Men's or boys') 6106 (Women's or girls')	6205 (Men's or boys') 6206 (Women's or girls')
Underpants, briefs, slippers, nightshirts, pajamas, etc.	6107 (Men's or boys') 6108 (Women's or girls')	6207 (Men's or boys') 6208 (Women's or girls')
T-shirts, singlets and other vests:	6109	
Jerseys, pullovers, cardigans, waistcoats, etc.	6110	
Babies' garments	6111	6209
Track suits, ski suits and swimwear	6112	6211
Garments, made up of fabrics, other garments	6113, 6114	6210
Panty hose, tights, stockings, socks and other hosiery, knitted or crocheted	6115	
Brassieres, girdles, corsets, braces, and similar articles, and parts thereof		6212
Handkerchiefs		6213
Gloves	6116	6216
Other made up clothing accessories and parts, knitted or crocheted (including Shawls, scarves and the like)	6117	6214 6215 6217



Appendix 2: International Standards of Production

BSCI

Primary Requirements:



Additional BSCI Requirements:

1. Freedom of association and collective bargaining
2. Fair remuneration
3. Occupational health and safety
4. Special protection for young employees
5. No bonded labor
6. Ethical business behavior
7. No discrimination
8. Decent working hours
9. No child labor
10. No precarious employment
11. Protection of the environment



OEKO-TEX Standard 100

OEKO-TEX® Standard 100



Explanation

The OEKO-TEX® Standard 100 is an independent testing and certification system for textile raw materials, intermediate and end products at all stages of production.

Examples for items eligible for certification: Raw and dyed/finished yarns, raw and dyed/finished fabrics and knits, ready-made articles (all types of clothing, domestic and household textiles, bed linen, terry cloth items, textile toys and more).

Criteria

Testing for harmful substances includes:

- illegal substances
- legally regulated substances
- known harmful (but not legally regulated) chemicals
- as well as parameters for health care

In their entirety the requirements clearly exceed existing national legislation.

Laboratory tests and product classes

OEKO-TEX® testing for harmful substances always focus on the actual use of the textile. The more intensive the skin contact of a product, the stricter the human ecological requirements to be met.



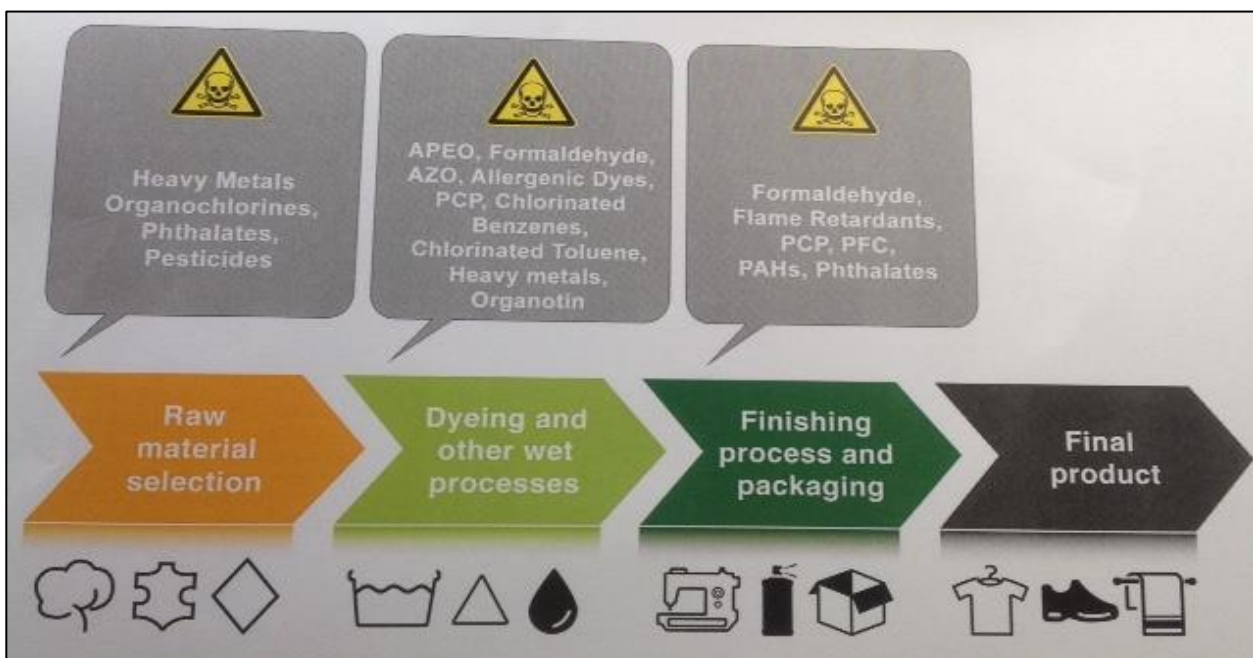
Greenpeace's DETOX Environmental Standards

DETOX Eleven hazardous chemicals to be eliminated

Greenpeace is campaigning to stop industry poisoning our water with hazardous, persistent and hormone-disrupting chemicals. The Detox campaign challenges top brands to make amends by working with their suppliers to eliminate all hazardous chemicals across their entire supply chain, and the entire life-cycle of their products. This is a priority list of hazardous chemicals which would-be champions for a toxic-free future need to help eliminate.

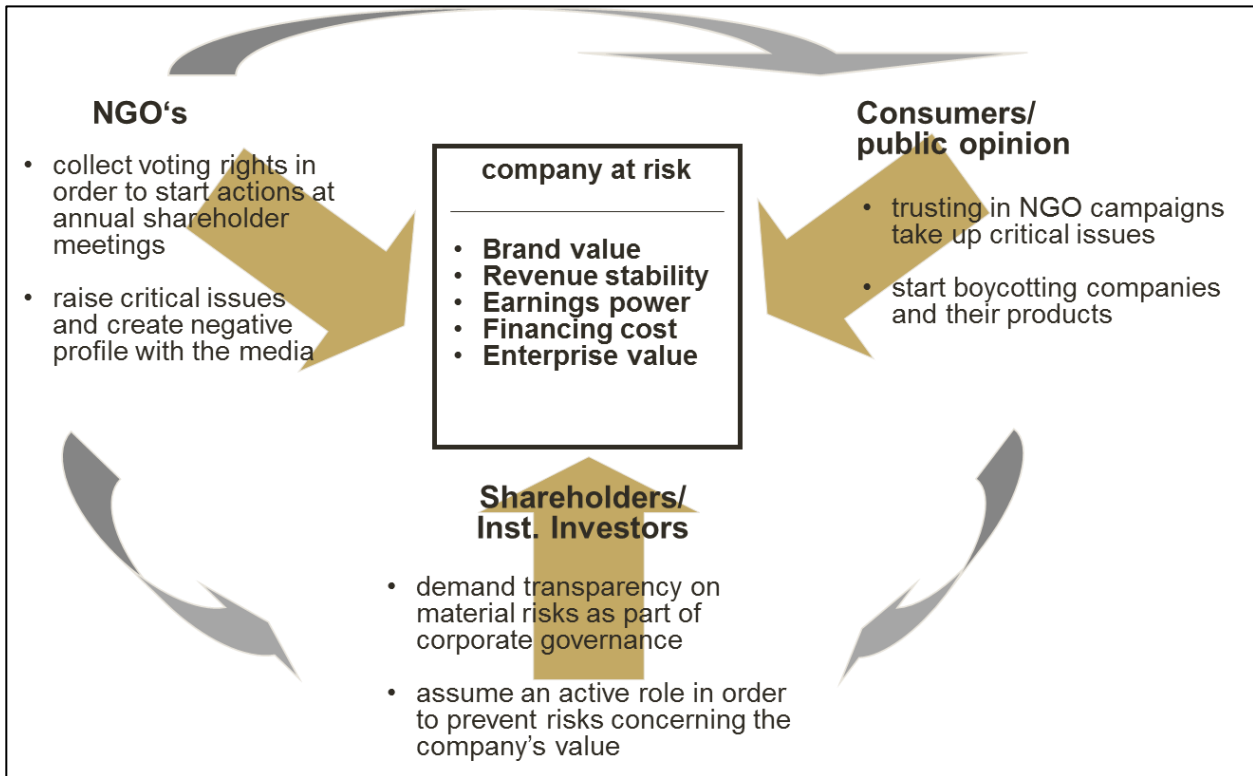
<p>1 Alkylphenols</p> <p>Commonly used alkylphenol compounds include nonylphenols (NPs) and octylphenols and their ethoxylates, particularly nonylphenol ethoxylates. NPs are widely used in the textiles industry in cleaning and dyeing processes. They are toxic to aquatic life, persist in the environment</p>	<p>5 Organotin compounds</p> <p>Organotin compounds are used in biocides and as antifungal agents in a range of consumer products. Within the textile industry they have been used in products such as socks, shoes and sport clothes to prevent odour caused by the breakdown of sweat.</p>	<p>8 Chlorinated solvents</p> <p>Chlorinated solvents - such as trichloroethane (TCE) - are used by textile manufacturers to dissolve other substances during manufacturing and to clean fabrics.</p> <p>TCE is an ozone-depleting substance that can persist in the environment.</p>
<p>2 Phthalates</p> <p>Phthalates are a group of chemicals most commonly used to soften PVC (the plastic polyvinyl chloride). In the textile industry they are used in artificial leather, rubber and PVC and in some dyes. There are substantial concerns about the toxicity of phthalates.</p>	<p>6 Perfluorinated chemicals</p> <p>Perfluorinated chemicals (PFCs) are manmade chemicals widely used by industry for their non-stick and water-repellent properties. In the textile industry they are used to make textile and leather products both water and stain-proof. Evidence shows that many PFCs persist in the environment and can accumulate in body tissue.</p>	<p>9 Chlorophenols</p> <p>Chlorophenols are a group of chemicals used as biocides in a wide range of applications, from pesticides to wood preservatives and textiles. Pentachlorophenol (PCP) and its derivatives are used as biocides in the textile industry. PCP is highly toxic to humans.</p>
<p>3 Brominated and chlorinated flame retardants</p> <p>Many brominated flame retardants (BFRs) are persistent and bioaccumulative chemicals that are now present throughout the environment. Polybrominated diphenyl ethers (PBDEs) are one of the most common groups of BFRs and have been used to fireproof a wide variety of materials, including textiles.</p>	<p>7 Chlorobenzenes</p> <p>Chlorobenzenes are persistent and bioaccumulative chemicals that have been used as solvents and biocides, in the manufacture of dyes and as chemical intermediaries. The effects of exposure depend on the type of chlorobenzene; however, they commonly affect the liver, thyroid and central nervous system. Hexachlorobenzene (HCB), the most toxic and persistent chemical of this group, is also a hormone disruptor.</p>	<p>10 Short-chain chlorinated paraffins</p> <p>Short-chain chlorinated paraffins (SCCPs) are used in the textile industry as flame retardants and finishing agents for leather and textiles. They are highly toxic to aquatic organisms, do not readily break down in the environment and have a high potential to accumulate in living organisms.</p>
<p>4 Azo dyes</p> <p>Azo dyes are one of the main types of dye used by the textile industry. However, some azo dyes break down during use and release chemicals known as aromatic amines, some of which can cause cancer. The EU has banned the use of these azo dyes that release cancer-causing amines in any textiles that come into contact with human skin.</p>	<p>Clothing and the global toxic cycle</p>	<p>11 Heavy metals: cadmium, lead, mercury and chromium (VI)</p> <p>Heavy metals such as cadmium, lead and mercury, have been used in certain dyes and pigments used for textiles. These metals can accumulate in the body over time and are highly toxic. Uses of chromium (VI) include certain textile processes and leather tanning; it is highly toxic even at low concentrations.</p>

The list of forbidden substances in the DETOX Campaign and the German Textile association "Textilbündnis" comprises 11 classes:





Increasing Pressure on Industries and Companies to act responsible





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