



EUROPEAN UNION'S AGREEMENT ON DEEP AND COMPREHENSIVE FREE TRADE AREA AND GEORGIA





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INTRODUCTION

Over the course of the past ten years, Georgia's trade turnover increased six-fold. This increase can be attributed to the liberal trade regime implemented by the Government of Georgia (GoG) such as low import tariffs, few export/import licenses and permits, no quantitative restrictions on import/export, no customs tariff on export/re-export, no value added tax (VAT) on export, and simplified overall trade procedures¹. However, it seems that the liberal trade regimes have fostered mostly growth in imports, thus resulting in record high deepening of trade balance deficit causing concerns among the policymakers. It should be noted that the gap between exports and imports has been converging over the past few years and as of 2013, exports constitute 36 percent of total trade turnover².

During the past years, Georgia has gradually made its way towards integrating into the world economy. Starting from 1997, when the country joined the World Trade Organization (WTO), continuing to gaining Generalized System of Preferences (GSP) and later (GSP +) trade regimes when trading with the developed countries, contributed to improving terms of trade for Georgia and in promoting exports. Over the course of the past ten years the total volume of exports has increased four-fold. With the launch of the Eastern Partnership (EaP) Initiative in 2009, relations with Georgia and the EU have entered a new phase. The EaP offers broadening of relations in three major directions – Association Agreement (AA) including Agreement on Deep and Comprehensive Free Trade Area (DCFTA) and Visa Facilitation and Readmission agreements.

The European Union (EU) is one of the largest trade partners of Georgia, constituting 30 percent of total imports and 20 percent of total exports, with constant negative trade balance. However, unlike other countries (mostly CIS), trade and especially agro-food trade is particularly hampered due to a combination of high tariff and non-tariff barriers. In this context, initialing the Association Agreement in November 2013 as a first step towards the ratification process, between Georgia and the EU, and the Agreement on Deep and Comprehensive Free Trade Area (DCFTA), as part of the Association Agreement, has the potential to considerably decrease the number of trade barriers for Georgian products and thus open new opportunities for further diversifying and developing foreign trade and increasing its gains. The possibility of economic gains from the DCFTA is estimated to reach around 6,5 percent of GDP. Over the next 5 years Georgia's export will increase by 13,5 percent. Textile production is predicted to have the largest – 55 percent increase, while fruit, vegetables, food products and beverages around 4 percent³. It is worth mentioning that once the AA is signed in summer 2014, it must be later on ratified by all EU member states that might be a quite lengthy process. In the meanwhile, provisional parts of the agreement and trade among them shall be applied. DCFTA shall ultimately replace the GSP+, however in the transitional period, i.e. for the first two years they shall be in force concurrently⁴.

1 www.tradewithgeorgia.com

2 The National Statistics Office of Georgia. Foreign Trade. http://geostat.ge/index.php?action=page&p_id=137&lang=eng

3 Ecorys. CASE. Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova. 2012. http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150105.pdf. Prospects of DCFTA between Georgia and the EU. www.easternpartnership.org

4 Personal Communication with *Antonio Lo Parco*, Trade Attaché at the EU Delegation Georgia on March 21st, 2014.

The focus of this study is to assess the impact of the EU-Georgia DCFTA on agricultural trade. The emphasis is made on the field of agriculture due to its high socio-economic importance for the country. As of 2013, up to 50 percent of the population is employed (mostly self-employed) in the field; the GoG has increased budgetary expenditures in the sector for better utilizing its potential and Georgia's competitive edge in agriculture. Through the desk research, this paper shall analyze the export tendencies between Georgia and the EU countries, in terms of current trade flows in agriculture products (primary and processed), review the hampering factors in agro-food trade due to currently existing tariff or non-tariff trade barriers, provide information on the trade conditions in the context of DCFTA, thus analyzing Georgia's trade development opportunities in terms of agricultural products. Finally, the study shall put forward policy recommendations on how Georgian government can maximize the benefits and reduce the risks under DCFTA.

BARRIERS TO TRADE

The most common barrier to trade is the so-called tax on imports – **tariff**. “Tariffs give a price advantage to locally-produced goods over similar goods which are imported, and they raise revenues for governments”⁵. The WTO is working towards reducing tariffs to be closer to zero, Uruguay Round is particularly important in this regard that resulted in the countries’ commitments to cut tariffs and to “bind” their customs duties to levels that are difficult to raise. Tariffs can also be imposed on particular quantities that exceed a quota (the so-called tariff quota).

Under the principles of WTO the member countries cannot discriminate between their trade partners and grant some countries a special favor by applying lower tariffs on goods imported from that particular country. This principle is known as the most-favored nation (MFN) treatment and is the part of the General Agreement on Tariffs and Trade (GATT), an integral part of the DCFTA. However, in the cases of free trade agreements between the countries such discrimination is possible. Under such trade agreements, countries have the possibility to give special access to their markets to number of countries, or raise barriers on products that are considered to be traded unfairly from a particular country.

Apart from the mentioned barriers, there are a number of the so-called technical barriers to trade (TBT) these are technical regulations, product standards, geographical indicators and certification procedures. These barriers vary country by country and are less transparent and obvious than the tariff barriers. The latter especially concerns the agricultural products that have to comply with a number of pre-set sanitary and phytosanitary measures which oftentimes create obstacles to trade. Especially if we take into account the fact that consumer protection is one of the highest in the world in the EU countries. While in Georgia, few agricultural inputs or outputs are certified to international standards, and the quality and safety of the food offered for sale is questionable⁶. However, once the Georgian legislation is fully harmonized with the EU’s, TBTs shall be fully eliminated as well. Of course this perspective is a rather long-run one. Approximation of national legislation and practices in the spheres of TBT and SPS are the most necessary and the most costly ones. The latter requires significant efforts from the Georgian side; financial and technical assistance from the EU is also expected in this regard.

5 The World Trade Organization (WTO). http://www.wto.org/english/tratop_e/tariffs_e/tariffs_e.htm

6 FAO. Agricultural and Rural Cooperation Examples from Armenia, Georgia and Moldova. 2013. <http://www.fao.org/docrep/018/ar424e/ar424e.pdf>

GEORGIA AND THE EU TRADE REGIMES

As WTO members, Georgia and the EU use the MFN treatment tariff rate. Moreover, GSP+ covers about 66 percent of products in the EU customs tariff code, this regime gives improved access, mostly duty-free to more than 7,200 types of products with Georgian origin⁷. The main goal of this preferential trade regime is to assist developing countries in promoting sustainable growth by generating additional revenues through international trade. However, the products that are suspended entirely of customs duty are mostly non-agricultural products. Some of the products that are important for Georgia in increasing its agricultural exports would be nuts, fresh or dried, shelled or peeled (0802 90 85), some dried fruit (0813 40 95)⁸. According to the evaluation of the utilization of the EU's trade preferences done in 2010, Georgia had a very high level of preference utilization (92.52%); this means that more than 90 percent of trade turnover with the EU was at zero-tariff trade⁹. For all other products, *ad valorem* (according to value) duties are reduced by 3,5 percentage points.

Once the country ratifies the DCFTA agreement with the EU, GSP + shall be abolished and replaced by DCFTA. The DCFTA will ensure mutual and gradual removal of barriers to market access. Georgia will gain free access to the EU market with over 500 million high income consumers. It will be “comprehensive” since it will cover a number of trade-related issues, and “deep” since it will aim at eliminating all barriers to trade including the so-called “behind the boarder” obstacles to trade¹⁰. The agreement envisages abolishment of up to 95% of the tariffs; full liberalization is expected in industrial goods trade. As to the trade in agricultural products, trade will be significantly liberalized with some exceptions.

Under DCFTA all customs duties are eliminated on goods originating from Georgia, except for the products listed in the annex II to the agreement¹¹, which sets out the limits of the tariff rate quotas. However, the MFN customs duty shall apply to imports that exceed the tariff rate quota limit. An exception is the *ad valorem* component of that import duty. Products listed in the second annex are also subject to anti-circumvention mechanism set out in the 27th article, i.e. once the imports of one or more categories of products referred in the Annex reaches 70% of the total volume indicated in the Annex II-C, the Union shall notify Georgia about the volume of imports of the concerned products. Following this notification, and once the volume reaches 80%, Georgia is obliged to provide the Union with sound justification that the country has the capacity to produce the products for export into the Union in excess volumes, in all other cases if Georgia fails to provide such a notification, the Union has the right to temporarily suspend the preferential treatment regime. The suspension shall be valid for the period of six months and shall be lifted if Georgia

7 European Commission. Practical Guide to the new GSP trade regimes for developing countries. December, 2013. http://trade.ec.europa.eu/doclib/docs/2013/december/tradoc_152012.pdf

8 Regulation (EU) No 978/2012 of the European Union Parliament and of the Council of 25 October 2012. http://trade.ec.europa.eu/doclib/docs/2012/october/tradoc_150025.pdf

9 Mid-term Evaluation of the EU's Generalized System of Preferences. 2010. http://trade.ec.europa.eu/doclib/docs/2010/may/tradoc_146195.pdf

10 Georgia: Moving Towards DCFTA http://eeas.europa.eu/delegations/georgia/documents/eu_georgia/dcfta2012_01_en.pdf

11 EU-Georgia Association Agreement. Title IV. Trade and Trade-related Matters. http://eeas.europa.eu/georgia/assoagreement/pdf/ge-aa-title-iv-trade-related-matters_en.pdf

provides with necessary evidence proving that the volume of the concerned products has increased due to changes in production, thus increasing export capacity of the country. Upon such evidence, the second Annex of the agreement may be changed accordingly.

Therefore, the agreement envisages three types of exceptions to the free trade: 1) free trade within the limits of the tariff rate quotas. Only one product is included in this category – garlic, fresh or chilled.

Code	Product Description	Volume	2013 Georgia's export to all countries (tons)	2013 Georgia's export to EU (tons)
07032000	Garlic, fresh or chilled	220 t	400	0

In 2013, Georgia has not exported any products under this particular category to the EU. However, 400 tons have been exported to Armenia last year, which means that 220 tons is the limit that might be hard to maintain. The reason that this particular product category is especially protected is that China produces 80 percent of the world's total production of garlic¹².

2) Products that are still subject to entry price but for which the *ad valorem* component of the import duty is eliminated. This means that the duty applied shall not be dependent on the volume of exported goods, but rather the entry price shall be fixed. Some agricultural products that might be of interest for Georgian exporters are in the list provided below¹³. None of the below listed products currently enter the EU market (except for grape must), the share of these particular product categories is substantial in the total agricultural exports of Georgia- around 20 percent of total exports.

Code	Product	Entry Price now
07020000	Tomatoes, fresh or chilled	8.8% import duty but not less than on average 74 € per/100 kg (depending on seasonality ¹⁴)
07070005	Cucumbers, fresh or chilled	12.8% import duty but not less than 67 €/100 kg (depending on seasonality)
08051020	Sweet oranges, fresh	16.00% import duty but not less than 35.4 €/100 kg (depending on seasonality)
0808108	Apples, Pears, fresh	4.00 % import duty but not less than 56.80 €/100 kg
22043092, 22043094, 22043096, 22043098	Grape must	22.4% import duty but no less than approximately 126.7 €/hl (depending on the density, alcohol strength)

12 Personal Communication with *Antonio Lo Parco*, Trade Attaché at the EU Delegation Georgia on March 21st, 2014.

13 Information retrieved from European Commission. Export Helpdesk.

It is noteworthy, that some products currently listed under the GSP + 0 tariff preference are also in the list that shall be subject to an entry price:

Code	Product	EU Conventional rate of duty (%)
08061010	Table grapes	20
08091000	Fresh, sour cherries	12
08093010	Nectarines	17.6
08094005	Plums	6.4
08091000	Apricots	20
2009	Various types of fruit juices	22.4

3) Products that are subject to anti-circumvention (anti-fraud) mechanism:

Product	Trigger volume (tons)	2012 Georgia's export to all countries (tons)	2012 Georgia's export to EU (tons)	2013 Georgia's export to all countries (tons)	2013 Georgia's export to EU (tons)
Beef, pork and sheep meat	4400	366	0	273	0
Poultry meat	550	402	0	107.3	0
Dairy Products	1650	266	0	849	0
Eggs in Shell	6600	3727 (eggs)	0	1190 (eggs)	0
Eggs and albumins	330	0.2	0	0	0
Mushrooms	220	6.3	0	6.6	0
Cereals	200,000	198,149	6.8	198,138	8.7
Malt and wheat gluten	330	420	0	210	0
Starches	550	10	0	0	0
Sugars	8000	2.6	0	9.1	1.8
Bran, sharps and other residues	2200	1247	0	1082	0
Sweet corn	1500	63	1.3	92.7	13.9
Processed sugar	6000	1327	4	1457	137.2
Processed Cereal	3300	7.3; 3050 hl	1546 hl	8.7; 4068 hl	1652 hl
Cigarettes	500	1975 packs	987 packs	50435 packs ³	1504 packs

The above table demonstrates that the upper limits above which the country has to specify the change in production capacity is quite high. According to 2013 export tendencies to all countries, some products are quite close to the pre-set limits – cereals, bran, sharps and other residues. However, according to the agreement these limits are subject to change if the country proves that there has been an evidence-based change in the export capacities and production processes.

GEORGIA AND THE EU TRADE TENDENCIES

The EU is the second largest trade partner for Georgia after the Commonwealth of Independent States (CIS) countries. Over the course of the past few years (f.1), the trade turnover with the EU countries has been on the rise, both exports and imports have been steadily increasing, except for drops in 2009 and 2010. Georgia has the lowest import tariffs on the EU products (agricultural 5.57% - industrial 0.45)¹⁴. In 2013, the export/import gap has converged due to both decrease in imports and increase in exports. Out of total agricultural exports in 2012 – 20 percent was directed to the EU countries, this indicator increased to 23 percent in 2013¹⁵. Overall, agricultural export comprises 26 percent of total exports of Georgia, and 30 percent of total EU export turnover.

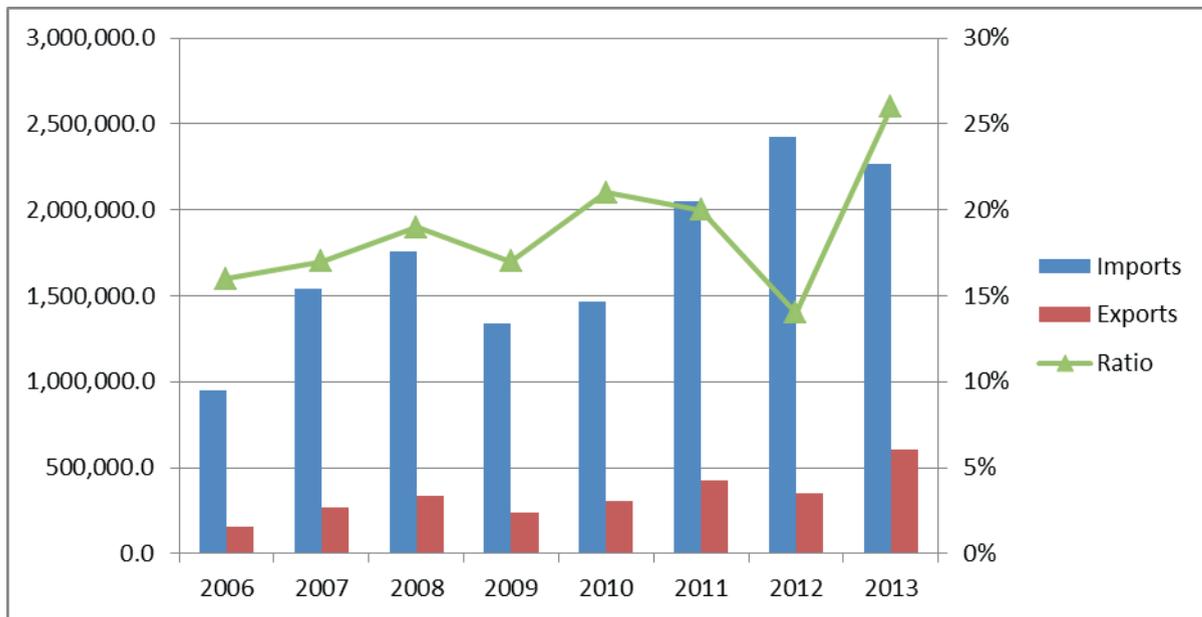


Figure 1 Georgia EU trade tendencies in thousand USD (www.geostat.ge).

When it comes to the types of agricultural products exported to the EU countries, nuts (fresh and dried hazelnuts, walnuts) are absolute leaders (f.2); this category comprises 64 percent of total agricultural export to the EU and 65 percent of total exports in this particular category. In case of overall agricultural exports leader categories in 2013 were nuts, natural grape wines and mineral waters (f.3). Even though the top agricultural export categories do not vary greatly among different country groups, diversification of products is less in case of the EU countries. The latter is caused by the fact that almost all top export products directed to the EU countries are using the preferential treat-

14 CASE Network. Studies and Analyses. EU-Ukraine DCFTA: the Model for Eastern Partnership Regional Trade Cooperation. 2012. http://www.case-research.eu/sites/default/files/publications/CNSA_2012_445.pdf

15 Information Received from the National Statistics Office. Letter dated March 7th, 2014.

ment under GSP+. As mentioned earlier in the paper, Georgia has a high utilization rate of the GSP+, as a matter of fact up to 60 percent of exports under this treatment were agricultural products in 2013, a ten percent increase as compared to 2012.

Product diversification in terms of varieties is not very broad. Around 50 types of products have entered the EU market in the years of 2012-2013. It is noteworthy that new products have emerged in 2013, especially processed and frozen vegetables are to be noted, also frozen fish, oils, vegetable saps and extracts. To conclude, it seems that elimination of import duties under the GSP+ treatment has boosted exports in the product categories covered by the trade regime. Generally, it is arguable how much tariffs actually matter, substantial number of empirical works suggest that tariff barriers explain only about one percent of the variation in trade turnover¹⁶. As a matter of fact other barriers to trade, especially technical, non-tariff hindrances might have larger effect.

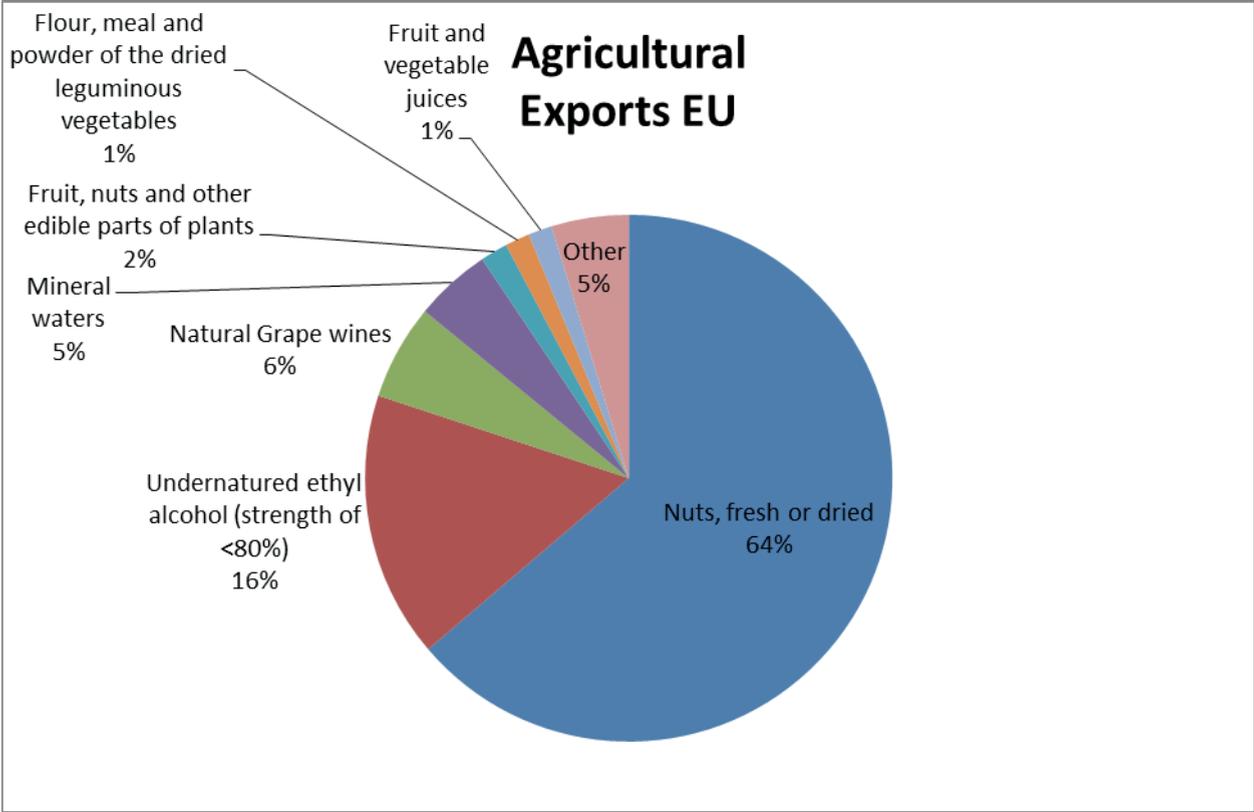


Figure 2 Agricultural Export Products to EU (in monetary terms). 2013. GEOSTAT

¹⁶ EBRD. How Much Do Tariffs Matter? 2013. <http://www.ebrd.com/downloads/research/economics/workingpapers/wp0154.pdf>

Agricultural export to all countries

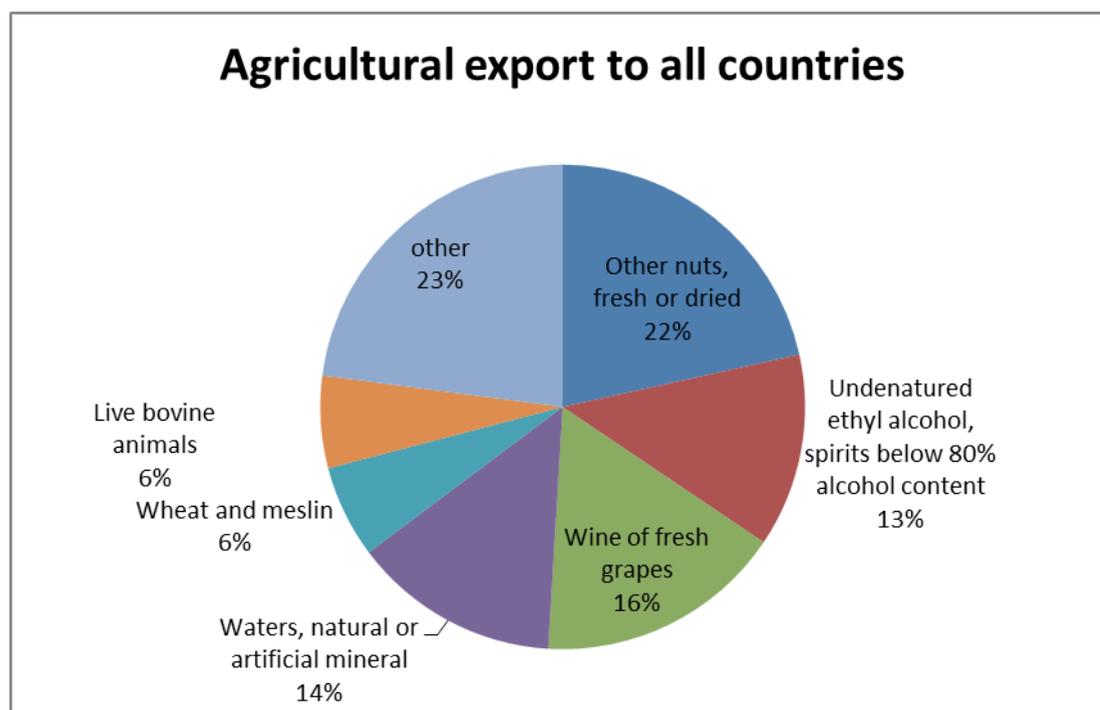


Figure 3 Agricultural Exports to all country groups (in monetary terms). 2013. GEOSTAT

For a general evaluation of tendencies existing in the Georgian agriculture and the country's international competitiveness, it is important to review the dynamics of exports and imports in the past few years. Along with the higher engagement in the international trade, both exports and imports have increased though the latter grows at a higher speed. In 2012, the import of food products to Georgia exceeded 1,2 billion USD whilst the export from Georgia exceeded 500 million USD.

The analysis of the dynamic of 10 top import and export commodity groups over the period from 2009 to 2012 provides a very good picture to assess the existing situation and it also rather accurately describes the degree of Georgia's international competitiveness.

Table 1 Import dynamics of major import products

Product import in million USD	2009	2010	2011	2012	Average
Wheat and meslin	105,506	174,156	184,232	239,953	175,962
Cigars, cheroots, cigarillos and cigarettes	57,425	78,990	86,743	90,565	78,431
Sugar	50,408	74,233	89,738	84,682	74,765
Meat and edible offal, of the poultry, fresh, chilled or frozen	37,230	47,954	66,104	69,844	55,283
Sunflower-seed, safflower or cotton-seed oil and fractions thereof	28,789	46,878	64,659	56,228	49,139
Chocolate and other food preparations containing cocoa	42,863	46,616	50,523	53,074	48,269
Frozen fish	22,505	26,881	30,894	33,638	28,479
Undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages below 80% alcohol content	26,662	27,435	32,867	32,847	29,953
Bread, pastry, cakes and the like	19,221	22,352	29,226	30,061	25,215
Meat of swine fresh, chilled, or frozen	12,668	13,454	18,858	28,813	18,448
Margarine	15,814	20,846	27,283	28,525	23,117

Source: Geostat

Georgia is a net food importer, about 80 percent of all food requirements are met by imports¹⁷. The import shows the dependence on wheat, tobacco products, meat products and vegetable oils as well as food products manufactured as a result of grain processing. The majority of above listed products requires vast land resources and a high level of mechanization which is not Georgia's competitive advantage. The dynamic of top 10 export commodity groups (2009-2013) is promising though the success of the leading product, hazelnut, which has become one of significant export products in the past few years, will largely depend on the dynamic of prices on land and labor force in the foreseeable future. A drastic change has occurred in the volumes of exports in top 5 categories of products to other countries rather than EU. Due to the opening of the Russian market for Georgia, there has been a 50 percent increase in the exports of natural grape wines and a 55 percent increase in exports of mineral waters as compared to 2012. Therefore, the latest events and new opportunities for Georgian producers have changed a picture of agricultural exports.

17 UN Food and Agriculture Organization. Eastern Europe and Central Asia Agro-Industry Development Country Brief – Georgia. 2012. http://www.fao.org/fileadmin/user_upload/Europe/documents/Publications/AI_briefs/AI_briefs2012/fao_georgia.pdf

Table 2. Export dynamics of major export products

Product exports in million USD	2009	2010	2011	2012	2013	Average
Other nuts, fresh or dried	69,956	75,134	130,086	83,659	166,712	105,109
Undenatured ethyl alcohol, spirits, liqueurs and other spirituous beverages below 80% alcohol content	54,019	55,705	67,852	80,027	99,925	71,506
Wine of fresh grapes	31,997	41,138	54,103	64,871	127,850	63,992
Waters, natural or artificial mineral	24,675	36,917	47,607	59,341	106,883	55,085
Wheat and meslin	3,248	7,242	6,169	52,062	47,743	23,293
Live bovine animals	16,903	19,310	28,213	39,267	47,630	30,265
Waters, mineral and aerated waters, containing added sugar	10,684	14,666	15,051	20,888	17,441	15,746
Live sheep and goats	17,054	13,427	14,944	18,162	15,547	15,827
Fruit and vegetable juices	2,883	6,201	6,312	12,537	7,358	7,058
Maize	1,097	2,650	995	7,678	12,581	5,000
Citrus fruit, fresh or dried	15,703	12,143	5,263	7,670	20,187	12,193

Source: Geostat

At the same time, the dynamic of the listed leading export products shows that the majority of these products has a potential to create high value and requires a relatively larger amount of labor force in which Georgia definitely has a competitive advantage. The dynamic of leading export and import products makes us think that the state policy should be largely concentrated on supporting those fields which have competitive advantage internationally. For example, increasing the production of fruit and grapes to such an extent that enables exporting this category of products or the production received by processing thereof. The concentration of perennial plants is low in the country, though it is in this very sphere that Georgia has a competitive advantage and the highest potential to generate export revenues. Apple, peach as well as hazelnut which is a leading export product of Georgia, have a big potential to generate revenues. Tangerine accounts for more than 80% of citrus plants. Citrus has always been a significant source of export revenues. If modern technologies are introduced and standards of protection of orchards are observed, this field can develop significantly. Regardless of current low level of technological intensification and average harvest (from seven to ten tons), citrus and particularly tangerine growing still remains a promising field. This is proved by a rather favorable dynamics in tangerine exports of the past few years.¹⁸

Wine growing is one of traditional and at the same time, perspective fields. For the development of this field, we believe that the orientation on local demand, which shows substantial reserves (f. 4) for commercial wine production, is no less important than the orientation on exports.

18 EPRC. Agriculture – Challenges and Current Policy. 2013. http://eprc.ge/admin/editor/uploads/files/Agro_Eng_WEB.pdf

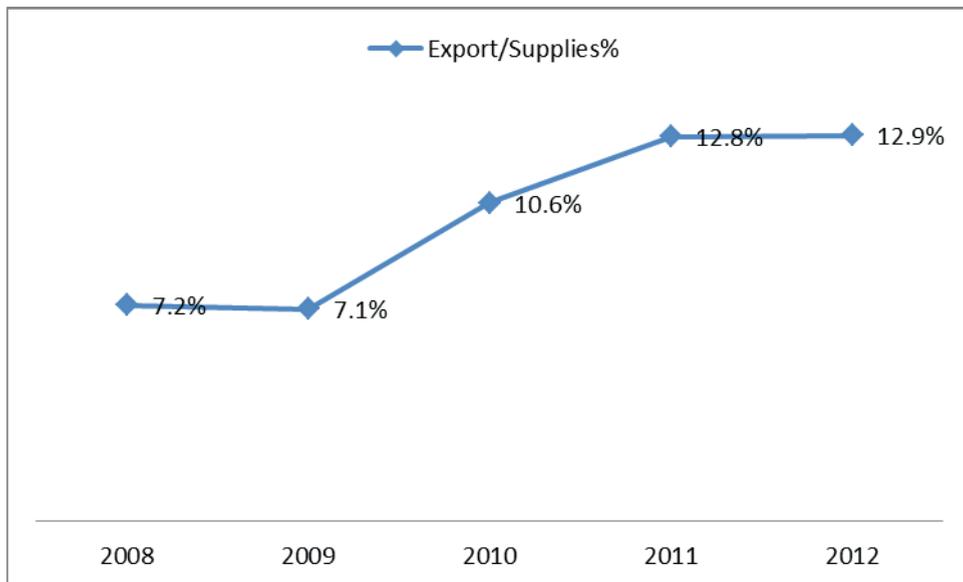


Figure 4 Exports as a percentage of production and supplies according to different years. GEOSTAT

According to the CGE model and simulation conducted, in the long run, after the country enters DCFTA increase in exports for Georgia is predicted to be 12 percent, while imports will rise by 7.5 percent. However, agricultural products are not among the sectoral winners. According to the study conducted, output and export potential is expected to increase for chemicals, rubber and plastic by more than 60 percent¹⁹.

Increasing export potential in agriculture is limited due to fragmented farms and land plots. For individuals farmers it will be rather difficult as compared to the cooperatives to comply with the EU standards and certification requirements, to take on risks of entering new markets, promoting the products in very competitive EU market. Currently, Georgian agricultural sector is dominated by primary production, households producing mostly for their own consumption or trading in a chaotic manner. Therefore, without creation of a complex value chain it will be quite difficult to reap all potential benefits of DCFTA when it comes to agricultural exports.

The most notable increase is predicted to be for livestock and meat products (by more than 60%) and for vegetables, fruits, nuts and oilseeds (by more than 20 %)²⁰. The current structure of livestock production consists of a large number of individual farmers producing mainly for their own consumption and smaller number of commercialized family farms and large enterprises. Some basics such as livestock registry and veterinary service development should be done to provoke the sub-sector development. Special attention should be paid to improved production techniques,

¹⁹ Ecorys. CASE. Trade Sustainability Impact Assessment in support of negotiations of a DCFTA between the EU and Georgia and the Republic of Moldova. 2012. http://trade.ec.europa.eu/doclib/docs/2012/november/tradoc_150105.pdf

²⁰ ibid

improved breeding, feeding and overall animal health care. As regards state measures for supporting productivity of other fields, the state should aim at maintaining maximum efficiency and interfering at a minimal level which should be expressed in facilitating the introduction of new technologies and spread of knowledge and know-how.

Out of top ten destination countries three are EU member states: Germany, France and Italy (f.6). Nuts is the major export product for these countries, while alcoholic beverages (undernatured ethyl alcohol (strength of <80%) dominates in case of France. When it comes to the natural grape wines, the largest partner countries in that specific category are Russia and the Ukraine comprising 44 and 23 percent respectively, we also find several EU countries in the top 10: Poland and the Baltic States. Imports are more diversified than exports across partner countries.

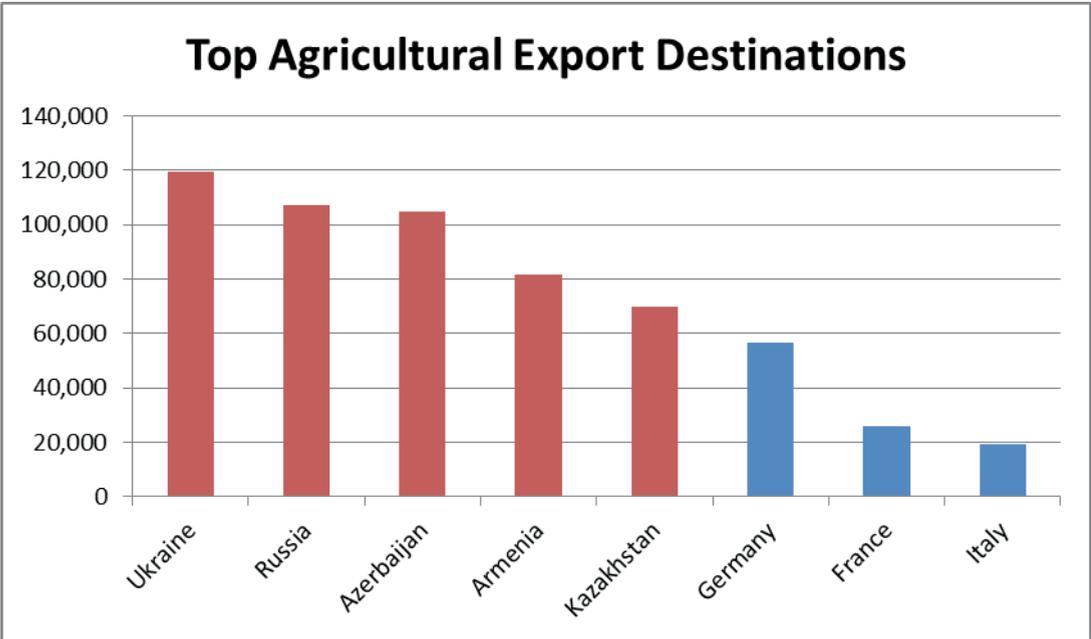


Figure 6 Agricultural Export destinations Source: Geostat. in thousand USD (2013)

CONCLUSIONS AND RECOMMENDATIONS

Trade balance in agricultural and related products, as well as in trade turnover as a whole, between the EU and Georgia has been largely negative. The EU has been by far rather protective of its domestic agricultural and food industry and has been imposing tariff and nontariff barriers in trade. The DCFTA shall see many tariffs disappear, however the nature of reductions shall differ among the product categories. For example in agriculture one product – garlic – shall see the tariff-rate quota, while a number of others shall maintain the market entry prices. Moreover, complying with the less clear-cut non-tariff, TBTs shall be a greater challenge.

Implementation of the DCFTA shall be beneficial for Georgia in terms of increased welfare for the citizens who will have access to better quality products on the domestic market and in the long-run the possibility of having higher incomes due to new business opportunities and increased economic growth brought by the European integration. Past experience in utilizing the preferential trade regimes makes it possible to conclude that trade does seem to be tilted towards those products for which the special treatment is introduced.

Major challenges to note is possible increased imports from the EU and additional pressure on the domestic producers, especially in the short run. This paired with increased costs due to stringent compliance requirements with the EU standards. In order to mitigate the possible side effects and challenges associated with the DCFTA agreement, we have drafted recommendations for three major players: the Government of Georgia (GoG), the EU, the Parliament, and the Civil Society Organizations (CSOs).

The Government of Georgia jointly with the EU – using analytical CSOs for expertise and additional human resources, enhancing public private dialogue in the process.

- It is necessary to draw up a medium- and long-term strategies for the entire agricultural sector and to assess its export potential, determine those sectors in which Georgia might have a comparative advantage. Assessing the country's competitive advantage in agricultural goods and targeting the most promising fields in the short-run, while later on the gains created could be further expended to other fields as well through the spill-over effect. Special attention should be paid in correctly utilizing the technical and financial assistance provided by the EU, so they bring tangible results.
- In order to offset the pressure on domestic producers due to the projected increase of agricultural imports from the EU countries, targeted agricultural sectoral programs and initiatives should be developed by the government to increase export potential in competitive fields. These initiatives should be firstly directed towards assisting producers in meeting the relevant EU regulations and standardization procedures.
- As discussed, one of the major challenges shall be in compliance with TBTs, in this direction assistance in cer-

tification procedures and providing guidance, consultations, enhancing the role of the farmer's houses and training centers shall be a priority.

- Access to information for the producers is a key in the process together with the training and education. A fruitful initiative to overcome information asymmetry shall be creation of a handbook for producers on the trade information how to export to the EU that shall be very specific, including information on both tariff and non-tariff barriers. Currently existing web portal under the Ministry of Economy and Sustainable Development of Georgia has initially been created to serve that mission, however it is quite broad in nature and does not specifically provide with assistance on the sectoral, product code basis. The information campaign shall assist agribusiness community in better acting on opportunities, while understanding likely challenges. The role of the EU in the process is providing clarity to the specific articles of the AA that are hard to perceive and are slightly controversial. The information could be delegated through the civil society actors and channeled to the businesses and the general public.

The Parliament of Georgia

- As mentioned, unlike other free trade agreements, DCFTA envisages harmonization of the Georgian legislation with that of the EU that shall be associated with a series of amendments made to the laws in the course of the next ten years. In the entire process, the role of the parliament is essential in using international best practices for making the transition less painful for the domestic businesses. The harmonization process does not envisage copying the EU legislation in the country, it gives flexibility to adjust it to the domestic reality. In this context, together with the GoG, the parliament should promote the idea of conducting *ex ante* regulatory impact assessment of major amendments, in order to identify different possible options and choosing the one with lesser costs to the stakeholders and greater benefits to the welfare of the country as a whole;
- As per the AA, an Association Council representing the EU and Georgia on the ministerial level shall be established to promote political and policy dialogue between the parties. In this context, the role of the Parliament of Georgia should be drafting recommendations for the representatives of Georgia in the council for promoting necessary policy changes; the relevant parliamentary committees should be proactive in reaching out to the stakeholders and reflecting these views when advocating relevant policy initiatives.

Overall the DCFTA, as part of the Georgia-EU Association Agreement, is an important step taken towards the process of European Integration. The process has proven to be successful for a wide range of countries. The agreement shall positively contribute to the economic development of Georgia in terms of favorable business environment, the country's attractiveness for investors (especially in the field of agriculture), and increased exports among them.



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