

GEORGIA: MOVING TOWARDS DCFTA

The European Union and Georgia have been engaged in an ambitious process for more than one year and a half towards reaching a "Deep and Comprehensive Free Trade Area". This has become one of the most important issues in the political agenda of Georgia. Let's explain what this may mean for Georgia.

What does this concept cover and what do we mean by "*Deep and Comprehensive*"?

Traditionally, standard free trade agreements foresee mutual opening of markets for goods and services. The reason that this agreement is called 'Deep and Comprehensive' is that it would go much further. It would be "comprehensive" because it would cover a wide array of trade-related issues and it would be "deep" because it aims at eliminating 'behind the border' obstacles to trade, thus partially opening/extending the EU internal market to Georgia.

The European Union's (EU) Internal Market consists of 27 Member States. The removal of barriers faced by economic operators, as well as the introduction of high standards of consumer protection is the main foundation of the EU's operation. Notwithstanding the current difficulties in the Eurozone, most agree that this Internal Market has created enormous benefits to its members.

The free trade area will provide, as much as possible, the gradual integration of Georgia with the EU's Internal Market. Extending the Internal Market to Georgia will bring benefits for:

- **Domestic and foreign investors and entrepreneurs:** as more legal certainty creates trust, as well as a fair and business-friendly environment, and reduces corruption (e.g. by introducing transparent rules on competition);
- **Consumers:** because Internal Market rules would institute modern standards in the field of industrial products and food safety, it would ensure better product quality;
- **Inventors and artists:** because their ideas and creativity would be better rewarded thanks to higher standards of protection and enforcement of intellectual property rights;
- **Central and local government authorities:** as they would spend more efficiently, and, hence, save taxpayers' money thanks to a competition-based and transparent system for public tenders.

WHAT WILL THE DCFTA ADD TO THE CURRENT ACCESS FOR GOODS TO THE EU MARKET?

At present Georgia enjoys unilateral trade concessions from the EU through the so-called Generalized System of Preferences (GSP+). This system is offering limited preferences as compared to the future DCFTA. Once the DCFTA replaces the GSP, tariffs will be abolished for almost all products and on top of this both sides will address regulatory barriers. This would be a major improvement as compared to the current GSP+ treatment which has a unilateral, temporary character and is not negotiable with the EU.

What are the benefits to Georgia beyond market access?

SUBSTANTIAL ECONOMIC GAINS: a predictable legal and institutional environment initiated and strengthened by the DCFTA will greatly increase the attractiveness of Georgia as an economic partner. It will facilitate business-to-business contacts and encourage foreign and domestic investments.

A STRONGER EXTERNAL ANCHORAGE FOR THE REFORM PROCESS: Georgia is an economy in transition from centrally planned to a market economy. The economic reforms in Georgia will have to be continued in the future in order to put the country on the path to sustainable economic growth.

The DCFTA will establish a transparent scenario for economic operators who would be able to prepare their strategies based on the agreed calendar of regulatory approximation with the legal framework of the EU.

OPENING MARKETS - CHALLENGES BUT ALSO OPPORTUNITIES: Mutual and gradual removal of barriers to market access, based on the DCFTA agenda. On the export side, Georgian producers and exporters will be offered free access to the EU market with over 500 million high income consumers for almost all products traded.

ENCOURAGEMENT FOR INVESTMENT:

The DCFTA will help to create a favourable business climate and attract investors, thanks to its positive impact on eliminating or streamlining complicated, unpredictable and often poorly implemented business regulations.

BENEFITS FOR GEORGIAN CONSUMERS: Phasing out existing customs tariffs and regulatory barriers will increase the variety and quality of products and services available to consumers. On top of that, the competitive pressure stemming from liberalisation of market access will encourage specialisation, thereby lowering costs and generating innovation. Better products enhance the overall standard of living.

FOR SOME, DCFTA MEANS A RETURN OF OVERLY BURDENSOME REGULATIONS. WHAT'S THE ANSWER TO THIS ARGUMENT?

It is true that a DCFTA is a very ambitious agreement and implies a lot of reforms by the Government. Like any process of reforms, yes, it has a cost. One should see it as short-term costs versus long term benefits. Approximating with the EU acquis would require short-term costs, but bring long-term benefits to Georgia, in particular significant improved competitiveness of Georgia's products and better investment climate conducive to attracting more and more stable FDIs, with a positive impact on Georgia's socio-economic development. Moreover, one should see it as a much broader perspective: what is at stake is not simply the increase of trade flows between the EU and Georgia but market development, consumer protection, product quality, in other word 'modernisation' of the country.

Moreover, it is very important to recall that the EU trade related regulatory standards are used by many other countries in the world, notably Turkey, Balkan countries etc... so compliance with those standards will help not only trade with the EU but with other important partners of Georgia.

Last thing which is important to keep in mind is that this process implies a *gradual* approximation of legislation and standards. We are not asking Georgia to implement the full EU *acquis* communautaire within few months. Transitional periods, derogation schemes (e.g. small farmers) are foreseen.

For some, DCFTA means a Return of Overly Burdensome Regulations. What's the Answer to This?

It is true that a DCFTA is a very ambitious agreement and implies a lot of reforms by the Government. Like any process of reforms it has a cost. But one should see it as short-term costs versus long term benefits. Approximating with the EU would require short-term costs, but would significantly improved competitiveness of Georgia's products and better investment climate conducive to attracting more and more stable foreign direct investments (FDIs). This would, in turn create a positive impact on Georgia's socio-economic development.

Moreover, it is important to think in a broader terms. What is at stake is not simply the increase of trade flows between the EU and Georgia but market development, consumer protection, product quality, in other word 'modernisation' of the country. Furthermore, this process is a *gradual* approximation of legislation and standards. The EU is not asking Georgia to implement the full EU market rules within few months. Even when it comes into effect, a transitional period would be expected in many areas.

Importantly, the EU trade related regulatory standards are used by many other countries in the world, notably (from the point of view of current Georgian exports) Turkey and the Balkan countries, so compliance with those standards will help not only trade with the EU but with other important partners of Georgia.

Source: EU Delegation