

Myths about the EU-Georgia Association Agreement (AA) and Deep and Comprehensive Free Trade Area (DCFTA)

Setting the facts straight

Myth 1: "Signing the Association Agreement poses a threat to Georgian culture and traditional values."

Fact: Far from it. Rather than seek to change anyone's culture, the EU is committed to defending the diversity of European culture. The EU is an organisation which celebrates diversity; after all, our motto is "united in diversity". The European Union respects Georgian cultural values and we believe that the Association Agreement can help to protect these.

Myth 2: "The Association Agreement will force Georgia to legalise gay marriage."

Fact: No. Not even EU Member States are required to legalise gay marriage, and several do not recognise it. The EU does ask Georgia to introduce legislation to protect citizens against discrimination. This is a requirement under the Visa Liberalisation Action Plan. The anti-discrimination law simply assures the equal treatment of all citizens, including those belonging to minorities. This protects citizens' existing rights, for example to enjoy freedom from discrimination in the workplace.

Myth 3: "The Association Agreement will further enflame Russia-Georgia relations and could lead to further tensions in the breakaway regions."

Fact: The Agreement does not pit Georgia against Russia in any way. On the contrary, it aims to promote regional stability and cooperation. A peaceful, more prosperous Georgia is also in Russia's interests. The Association Agreement can be a force for peaceful conflict resolution. We hope that in due course all those living within Georgia's internationally-recognised borders will enjoy the benefits of higher living standards resulting from the implementation of the Association Agreement.

Myth 4: "The Association Agreement could cause the isolation of national minorities in Georgia – including those of Armenian and Azeri origin – and possibly lead to secession attempts."

Fact: The Agreement actively champions anti-discrimination and fully supports the protection of minorities. It recognises the important role played by minorities in fostering a sense of national unity. By raising living standards for all Georgians, the Association Agreement can make an important contribution to national unity.

Myth 5: "The Agreement challenges the authority of the Georgian Orthodox Church."

Fact: The European Union has the greatest respect for the Georgian Orthodox Church and its important role in Georgia's national life. In March 2014, European Commissioner Stefan Fule met the Patriarch, Ilia II, with whom he discussed Georgia's political association and economic integration with the EU. The Patriarch expressed his strong endorsement of Georgia's European choice.

Myth 6: "The Agreement brings little benefit to Georgia and just imposes extra demands."

Fact: Absolutely not; the agreement will bring many tangible benefits to Georgia. Over time, the Association Agreement will lead to a significant improvement in Georgians' quality of life, notably through the strengthening of democracy, through increased political, economic and institutional stability, and through a stronger, more prosperous economy. Economic growth of 4.3% per year is predicted.

Myth 7: "The signature of the Agreement will harm the Georgian economy."

Fact: There is no direct relationship between any economic difficulty that Georgia may be experiencing, and the Association Agreement. There is no negative "big-bang" that Georgia will experience at the entry into force of the Agreement. On the contrary, there is a positive one – an immediate boost of imports and exports, as the EU and Georgia will stop applying all customs duties when trading with each other. All the reforms that Georgia is committed to are well-thought out and will be implemented over a number of years.

Myth 8: "The AA/DCFTA ties Georgia's hands and limits its sovereignty."

Fact: The AA/DCFTA fully respects Georgia's sovereignty and policy choices, including the right to sign free trade areas with other countries. Furthermore the Agreement aims to promote the principles of territorial integrity, inviolability of internationally recognized borders, sovereignty and independence, as enshrined in the UN Charter of 1945 and the Helsinki Final Act of 1975 of the Conference on Security and Cooperation in Europe.

With DCFTA, Georgia remains entirely free to decide on its trade relations with other countries, in contrast to Georgia's participation in any customs union. The DCFTA is in Georgia's interests – currently the EU, the largest market in the world, is Georgia's primary trading partner and 26% of all Georgian trade is with the EU. Georgia has interest in making this trade less costly, and in expanding it. More exports to the EU means more income and, therefore, the growth of the Georgian economy.

Myth 9: "Georgia has several FTAs in force with CIS members which the EU considers incompatible with DCFTA."

Fact: The DCFTA does not impose any straightjacket on Georgia's FTAs with other countries. On the contrary, free trade areas, for example, with a country like Turkey, boost trade, as companies can integrate production processes and import components more cheaply. DCFTA is a boost to Georgia's

growth, not a threat to it or to relations with other countries. Georgia can trade with Russia, Turkey, Azerbaijan, the United States or other current or future FTA partners as it pleases.

Myth 10: "Georgia-Russia trade relations are likely to worsen as a result of DCFTA."

Fact: Not true. EU and Russian markets are distinct and different from each other; trading with the EU does not take place at the expense of trade with Russia. Business ties grow best in a stable and predictable legal environment, and this is what makes the difference when business decides where to trade. Georgia has a free trade area with Russia and may trade with Russia just like it does with any other partner. There is no reason for trade to stop when relevant rules are respected.

Myth 11: "Russia is afraid of an influx of goods from the EU as a result of DCFTA with Georgia. This will harm Russia-Georgia relations."

Fact: EU goods cannot just enter Russia as Georgian goods simply because there is an Agreement between the EU and Georgia. It's not that simple. Goods need to be made in Georgia in order to qualify for preferential treatment under the Georgia-Russia FTA. A mere transit of a European product will not make it Georgian and will not qualify for preference in Russia. This is an international common principle, which Russia knows very well.

Myth 12: "The EU will gain more than Georgia from the removal of customs duties."

Fact: Not true. Georgia depends more on trade with the EU than vice versa, so the boost from tariff eliminations will be primarily to Georgia's benefit. With regard to goods, the import duties on all goods imported from Georgia to the EU or vice versa will be removed immediately. As a result, we expect an increase of trade in Georgia by 12% for exports and 7.5% for imports, respectively. This will be an important boost for its economy and companies. Furthermore, the European importers will save €10.8 million on duty reductions whereas the Georgian importers will have an extra €84.2 million annually.

Myth 13: "The economic benefits of DCFTA for Georgia are negligible, while the costs of reform will be significant."

Fact: It is expected that the DCFTA will boost trade between the EU and Georgia by 12% as regards Georgia's exports to the EU, and by 7,5% on imports from the EU. The DCFTA as a whole is expected to boost the GDP by 4.3% annually (€292 million in national income), provided that the reforms are completed. These figures do not include investment growth, which is very likely to grow strongly thanks to the opening of markets through the DCFTA.

Myth 14: "Only the EU will benefit from the DCFTA. Georgia stands only to lose jobs, companies and talented people who will go work in Europe."

Fact: Not true. The Agreement provides a wide framework to boost Georgia's production, growth of business and employment in the long term. There is a set of immediate benefits for Georgia in the

Agreement, without any reform process: 1) the EU removes all its import duties on Georgian imports from the day the DCFTA enters into force. Georgia's exports will benefit from this decision immediately. 2) Companies can also immediately benefit from simpler conditions to establish their activity in the EU or in Georgia. This will boost investment and create jobs in Georgia. 3) Companies can provide services on a broader scale than before, which will also expand their activities and create jobs. Finally, the brain-drain phenomenon will be limited because working in Europe remains time-limited and conditional on professional qualifications, job type and other criteria.

Myth 15: "This is not a good time to start the reforms. Georgia's economic growth has slowed down, we cannot afford it now. Business will go bankrupt as they are already facing crisis."

Fact: It is true that Georgia experienced a slow-down in economic growth in 2012. This slow-down was certainly felt by businesses. But the World Bank forecasts suggest that this was a temporary slump and that growth is coming back to Georgia for the coming years, expected at 6.3% of GDP in 2014 and 2015, and 6.5% in 2016. This growth is linked to recovery in Europe and the United States. As it materialises in the coming years, the reforms will gradually progress as well. Georgian businesses do not have to fear sudden negative consequences in this regard. In addition, the reforms will strengthen democracy and political, economic and institutional stability in Georgia, making it a more predictable and attractive destination for investment.

Myth 16: "Georgian farmers will lose out because of reforms."

Fact: Georgian agriculture has enormous potential but requires modernisation. It needs to be rendered more efficient, needs investment and more skills among the workforce. DCFTA helps achieve these goals. But any restructuring means that for some farmers it will not be profitable to farm and they will be better off by retraining and changing jobs. Those citizens may need to learn new skills, and the EU assists Georgia in developing relevant projects in this regard. This has happened in many countries which chose to improve its agricultural sector, so that it can add more value to the economy.

Myth 17: "Reforms will destroy the sectors that manage to get by in Georgia."

Fact: Georgia is on its way to become a fully-fledged market economy. The reforms aim to render its manufacturing and agricultural sectors, as well as services markets, more efficient, more modern, and closer to EU standards. They target only those areas which require regulation, for example from the point of view of consumer protection and related safety standards. They aim to render the relevant sectors more competitive. This means that competitive companies already embrace the principles of market economy and do not need to feel concerned about the reform process.

Myth 18: "European imported food will ruin Georgian agriculture producers."

Fact: In the agricultural sector, EU exports to Georgia are already taking place and do not replace locally manufactured products, such as Georgian wine, cheese, fruit or vegetables. In addition to different consumer preferences (i.e. taste), the high cost of production of food products in the EU does not necessarily make of Georgia an interesting market. The more so if imported goods must compete with

cheaper, locally produced ones, which conform better to local tastes. So there is no automaticity between opening the EU-Georgia trade and risk of invasion of European imports.

Currently, EU exports to Georgia include a negligible amount of vegetables, fruit, coffee and cereals. It exports minimal amounts of meat and live animals, as well as prepared products such as cocoa, as well as sugar and cereal processed foods (ca. €22 million in total) or wine and spirits (€36 million).

Myth 19: "Food is going to be more expensive as a result of the DCFTA."

Fact: There is no direct correlation between the DCFTA and an increase in food prices, which can grow for different reasons, such as a bad crop yield due to poor weather or disease in any given year. Reforms under DCFTA, notably those in the food safety area, aim primarily to address the critical safety of foodstuffs for consumers and improve their well-being. It means that sanitary and phytosanitary conditions in which food is prepared will have to be improved in general. This may entail some costs, which producers may pass on to consumers; however, it will result in citizens being more healthy and lower healthcare costs. Furthermore, independent research suggests that the DCFTA will have a positive impact on salaries, along with economic growth.

Myth 20: "Many small farmers will go out of business as a result of forced increase of food safety standards."

Fact: Small farmers who do not engage in trade or other commercial activity do not have to fear the reforms. Those who farm in order to sell their products in Georgia or abroad will face a gradual increase in expectations with regard to the quality of farming in their particular sector. Food production, as well as rules on animal farming will be gradually introduced in Georgia, over time. The aim is to increase the security and quality of food for consumers and reduce health risks. For food producers, the objective is to increase their revenue by making farming more productive.

Myth 21: "Under DCFTA, the size and looks of tomatoes will be regulated and hens will have to be raised in special cages."

Fact: There are no such rules under the DCFTA. The reforms agreed for the agricultural sector and the sanitary/phytosanitary area aim to increase the quality of products but do not prescribe more than is necessary to attain the objective. There are no rules on size or looks of tomatoes in the EU.

As regards the keeping of farm animals, in the EU their welfare has to be considered and some legislation prescribes the minimum criteria to preserve the well-being of animals. However, the EU and Georgia still have to decide which legislation on farming animals Georgia will adopt. For the moment there are no such rules, and the scope of reform will be decided six months after the Agreement enters into force.

Myth 22: "The EU will continue to protect its market for most sensitive agricultural products, while Georgia opens up fully."

Fact: The EU and Georgia will open their markets simultaneously and fully. The EU does not apply toward Georgia any quantitative limits on export to the EU of agricultural products. The only mechanism that remains in place is the monitoring of volumes of trade, to make sure that products exported to the EU are Georgian, and reduce the risk that another country may try to enter its products to the EU as if they were Georgian.

Myth 23: "Georgian manufacturers will lose out because of reforms."

Fact: Sectoral reforms in Georgia have been thoroughly discussed during the negotiations. In trade-related areas, notably technical standards and regulations, Georgia took a very careful and gradual approach to regulation. It recognised the needs of the different sectors as well as current challenges. It implies that reforms will be tailored to the current needs of the country, gradually over time, and focused primarily on ensuring that products available on the market are safe for consumers. Georgian manufacturers will face certain costs related to certification, but this is in fact an investment which will enhance their business prospects in the long term. The EU will assist Georgia in this reform process and will also continue to reach out to businesses.

Myth 24: "Imports from the EU will drive Georgian companies out of business."

Fact: Those who claim this forget that businesses often need input from abroad to continue their production, and that EU exports to Georgia cover many other items than those exported from Georgia to the EU. For example, import of machinery and other technical equipment from the EU already amounts to €346 million per year (2012). This trend is likely to be reinforced, since Georgia will need modern equipment (not only from the EU) to reform its agriculture and manufacturing. So there is no black and white division between imports and exports in a globalised economy, of which Georgia is certainly a part.

Myth 25: "Georgia decided to open up fully to the European imports and cannot protect itself from influx of European goods."

Fact: The Governments of the Eastern Partners took conscious decisions as regards the opening of their markets. Georgia has decided to fully open its market at the date the Agreement enters into force. Should problems occur due to liberalisation, the EU is ready to discuss them with Georgia during the implementation phase.

Myth 26: "Only businesses will benefit from the DCFTA, not the Georgian people."

Fact: Exporting companies will indeed probably be among the immediate beneficiaries of the Agreement. But citizens at large will immediately benefit from the Agreement as well, as imported goods from the EU will be cheaper. In the medium to longer term, the Agreement is likely to boost investment and creation of new companies and modernisation of several sectors of the economy, through reforms with which the EU will assist Georgia. Food safety standards and consumer goods will also be safer. Jobs will be created thanks to expected increase in investment in Georgia, which should have a positive impact on salaries as well. Finally, citizens and businesses alike will benefit from more transparency in

rule-making and will have the ability to enquire about any matter related to the implementation of the Agreement with the Georgian authorities.

Myth 27: "Georgia has to engage in ambitious reforms like the EU's new Member States but it does not have the membership perspective."

Fact: The EU and Georgia will engage in reforms in order to bring Georgia and its governance standards closer to those of the EU. This is not an accession process and the reforms agreed do not have the same breadth and depth as in the pre-accession process. The agreed reforms are tailor-made and do not encompass the entire EU *acquis* but only the selected acts which are necessary to address trade-related issues. The Association Agreement itself "leaves open the way for future progressive developments in EU-Georgia relations".

Myth 28: "Georgia has to implement all the reforms in less time than EU Member States."

Fact: No, it does not. It would be unrealistic to expect this. Reforms must be planned over time as they cover different aspects of economic life and transition periods are the best tool to introduce them gradually. The EU itself uses this gradual approach when its Member States need to enact new legislation. Such an approach is only logical in the case of Georgia and Georgia itself decided how much time it needs to complete the process.

Georgia negotiated several transition periods, which vary from area to area, depending *inter alia* on the existence and content of national legislation and market developments. Specifically, reforms in the TBT/technical regulations for industrial products, public procurement, and services areas are to take place within 8 years after the Agreement enters into force, during several intermittent stages. The exact scope and timing of reform in the sanitary and phytosanitary field will be established 6 months after the Agreement enters into force.

Myth 29: "The cost of reform will amount to [any figure], which is beyond our means."

Fact: There is no 'cost' – these are investments in the country's future. To that end, the EU has already been providing Georgia with very substantial financial assistance to assist the reform process for a number of years. This included €180 million of assistance in 2011-13 alone – about 1.5% of Georgia's GDP. This amount is very likely to remain stable, if not increase in the coming years.

Myth 30: "The EU assistance is not enough to cover the reform needs."

Fact: The EU has already been assisting Georgia with the reform process for a number of years. In the trade area, the reform assistance was launched well before the negotiations on the Agreement began. Trade reforms benefitted from assistance through a special Comprehensive Institution Building programme worth €31 million (2011-2013). These efforts were part of a wider assistance package to Georgia within the European Neighbourhood and Partnership Instrument worth €180 million (2011-2013). It included financial assistance as well as trainings and advisory activities (twinning, TAIEX, etc.). Bilateral assistance of EU Member States also takes place in coordination with, and in addition to, EU

efforts. Further significant assistance, devoted specifically to the implementation of DCFTA, is planned in the new European Neighbourhood Instrument (2014-20).

Myth 31: "What forms of assistance has the EU provided so far to support Georgia in the reform process?"

Fact: The EU has provided tangible support for reforms through multiple avenues: advisory activities with regard to preparing and drafting legislation; technical advice on necessary infrastructure and capacity-building to implement and enforce the law; training for government officials; strategic planning of the reform process and impact assessment. The main instruments to this purpose are twinning (advisory assistance from Member States' experts through a longer term programme) and TAIEX (short-term advisory and verification missions). Direct budget support is also under consideration for the period 2015-17. In addition, numerous seminars, workshops, study visits, etc. are organised on a regular basis through our TAIEX instrument. Finally, through Special Adviser Thomas Hammarberg, the EU has assisted Georgia's reforms in the fields of human rights, justice reforms and others.

Myth 32: "The EU will be the only true beneficiary of the Agreement as it does not need costly reforms to access the Georgian market."

Fact: The EU is entering into the Agreement with Georgia because it believes in Georgia taking a pro-European path and in its desire to follow the European governance model. Georgia is a politically important partner for the EU, but economically it is small. That is why an independent study suggests that the overall effects of the Agreement for the EU – given Georgia's size and modest participation in the EU's total trade with the world (0.1%) - will be negligible. In contrast, Georgia stands to gain almost €300 million of additional income, or 4.3% of its GDP annually, if the reforms are completed. So, Georgia's benefits from the Agreement do depend on the reform process.

Myth 33: "The EU will benefit from DCFTA immediately, while Georgia needs to implement the reforms."

Fact: No. Trade conditions for goods and services, as well as with regard to wide establishment conditions for companies will be immediately improved for both the EU and Georgia, when the Agreement enters into force. This will facilitate trade and investment. This is particularly important for Georgia, which needs further foreign investment to boost its economic growth. Georgia's enterprises will have access to the EU market without transition periods. But it is also true that a number of additional benefits that Georgia will take from the Agreement do depend on the completion of reforms.

Myth 34: "It is not clear what Georgia needs to reform."

Fact: All areas which regulate trade or touch upon the ability to trade in some way are covered by reforms. They are prescribed in the Annexes to the Agreement and were considered in relation to the state of play in Georgia and include the following areas: public procurement (public authorities' purchase of goods and services, including from abroad), food safety/sanitary and phytosanitary regime (for agricultural products), customs and trade facilitation, including the border enforcement of intellectual

property rights (procedures related to entry and exit of goods in trade), regulatory framework for services, technical barriers to trade/industrial standards (for manufactured goods), but also transparency (of relevant laws and regulations so that businesses have access to information). Additional and/or better access to the EU market is strongly linked to the completion of these reforms.

Moreover, there are specific political and reform objectives outlined in the political and justice, and freedom and security parts of the Agreement. Article 4 deals in detail with Domestic Reform requirements, stipulating that the EU and Georgia should cooperate on:

- Developing, consolidating and increasing the stability and effectiveness of democratic institutions and the rule of law.
- Ensuring respect for human rights and fundamental freedoms.
- Making further progress on judicial and legal reform, in order to guarantee the independence of the judiciary.
- Strengthening its administrative capacity and guaranteeing the impartiality and effectiveness of law enforcement bodies.
- Further pursuing public administration reform.
- Building an accountable, efficient, effective, transparent and professional civil service.
- Continuing the fight against corruption.

Myth 35: "Georgia will face sanctions and products will be banned if it does not respect the reform deadlines."

Fact: The implementation of reforms and related deadlines will be discussed regularly in the different institutional bodies of the Agreement/DCFTA. Eventual problems with adherence to the timetable will also be discussed there, including appropriate solutions to remedy the situation. However, it is expected that the timeframes were thoroughly considered by Georgia during negotiations, and deemed feasible in light of various domestic constraints.

Myth 36: "The EU must do something to help SMEs, as small businesses will be hit the hardest by the reform process."

Fact: The EU has been paying increasing attention to the needs of SMEs and businesses at large in the process, to ensure ownership of the reforms and mitigate its impact on small businesses. This is also reflected in the corresponding implementation project focusing on SMEs' competitiveness in Eastern Neighbourhood countries. The East Invest project directly targets Business Support Organisations and SMEs which have potential for developing mutual cooperation and investment relations with businesses in the EU. The project will soon enter into its second phase. SMEs in Georgia are also helped through the SME Finance Facility which provides loans to SMEs which would otherwise have difficulties in accessing funding for its operations in a commercial bank.

Myth 37: "Not applying the Agreement in the breakaway territories means that the economic divide between the main territory of Georgia and those regions will deepen even further. The EU will deepen the political crisis."

Fact: The EU aims to apply the Agreement with Georgia in its internationally recognised borders. The EU is open to discussing and considering the application of the Agreement in Abkhazia and South Ossetia as soon as conditions are created to make such application possible. The objective of the Agreement is to engage in an economic and political association that benefits the entire territory of Georgia. The EU does not exclude Abkhazia or South Ossetia from such prospects.

Myth 38: "DCFTA with the EU is not better for Georgia than participation in the Customs Union."

Fact: Not true, for two main reasons. Firstly, the DCFTA is a free trade area: this means that the EU and Georgia trade with each other more easily (by removing tariffs and aligning relevant legislation). In contrast to a Customs Union, a free trade area does not align import and export duties of the partners toward other trade partners, and does not oblige them to have the same trade policy toward the world. By consequence, in a free trade area Georgia and the EU maintain their sovereign choices over their policies. In a customs union, such sovereignty is handed over to a customs union institution which implements the customs union agreement. In such a case, an individual member can no longer decide freely on its trade relations with third countries.

Secondly, in addition to maintaining economic sovereignty, the World Bank¹ and the EBRD² analysis confirm that Georgia will be better off economically under a DCFTA with the EU, than in the Customs Union with Russia/Belarus/Kazakhstan.

¹ Lucio Vinhas de Souza, Initial Estimation of the Economic Effects of the Creation of the EurEC Customs Union on Its Members, World Bank Economic Premise paper, January 2011.

² Customs Union and Kazakhstan's Imports, EBRD Working Paper, May 2012