

EU GEORGIA TRADE INSIGHT

Issue 4 SEPTEMBER 2013

CONTENTS

DCFTA Highlights

- DCFTA negotiations ended 2

Topic At A Glance

- Labour standards and sustainable development in trade 6
- Labour standards in the future deep and comprehensive free trade area (DCFTA) with the EU 7

Did You Know That...

- Georgian trade trends: more exports versus less imports 8
- Promoting agriculture cooperatives in Georgia 10
- EU support to the National Food Agency of Georgia (NFA) is already delivering significant results 10

Upcoming Trade Events 10

Lifting barriers and creating new business opportunities

The successful conclusion of the negotiations on the Deep and Comprehensive Free Trade Area between Georgia and the EU in July 2013 is a well-deserved reward to a long-term effort that has started long before formal rounds of negotiation.



In particular, I am thinking of the relentless support provided by the European Commission in form of technical assistance to our counterpart during the last decade. The EU has not spared financial resources, and has mobilised the best technical knowledge from EU Member States to prepare Georgia for the negotiations and the implementation such as aligning Georgian products to EU standards or enhancing safety for consumer.

It is expected that, once fully implemented, the deal with Georgia and lower tariffs will result in savings for both European and Georgia companies. The Deep and Comprehensive Free Trade Area implies improved and stable economic and legal conditions which will boost trade and investment flows between the two regions.

This is an important stepping stone in our relations that also paves the way to a closer integration between the European Union and the countries of the Eastern Partnership family. Indeed, another aim of the agreement between the EU and Georgia is to foster regional integration in the framework of the Eastern Partnership.

**Michael KOEHLER, Director
Directorate "Neighbourhood"
Development and Cooperation - EuropeAid**



DCFTA Highlights

DCFTA negotiations ended

The European Union and Georgia successfully concluded on July 22, 2013 negotiations for a Deep and Comprehensive Free Trade Area (DCFTA), as part of the Association Agreement between them. The Association Agreement, together with the DCFTA, will provide for the close political association and economic integration of Georgia with the EU.

The comprehensive FTA, negotiated in just 17 months and seven rounds, will see Georgia gaining better access to the EU market for its goods and services. The FTA also sets a path for further reforms in trade-related policies, such as hygiene standards for agricultural products and the approximation of regulations for industrial products. This will boost access for Georgian goods to the EU market whilst also increasing consumer safety in Georgia. The Agreement is expected to boost the inflow of European direct investment to Georgia thanks to an open, stable and predictable policy-making environment.

The DCFTA will be included in the Association Agreement and signed as soon as internal EU and Georgia procedures are completed.



Michael Janelidze – Deputy Minister – Ministry of Economy and Sustainable Development of Georgia.



Philippe Cuisson – DG Trade – Directorate E (Neighbouring countries, USA and Canada) – Deputy Head of Unit E 2 (Russia, CIS, Ukraine, Western Balkan, EFTA, EEA and Turkey).

Interview with the DCFTA Chief negotiators

After the completion of negotiations we decided to put the two Chief Negotiators -Philippe Cuisson and Michael Janelidze – side by side and ask them the same questions just to see what would have come out of it... and this is the result.

Q: What was your objective at the start of negotiations as a lead negotiator?

PhC: The EU had the objective to conclude a deal that helps Georgia improve its export performance, improve governance and address trade-related issues that prevent it from fully benefitting from the access to the EU market already now. This is not a new agenda, as these issues were already highlighted in the Action Plan for Georgia under the European Neighbourhood Policy in 2006.

I was involved in the DCFTA negotiations with Ukraine before leading the negotiations with Georgia; I wanted to achieve an ambitious but balanced deal that served the objectives of both sides. What we achieved with Georgia is not only better than the agreement with Ukraine, but a potentially one of the most ambitious deals ever concluded by the EU.

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Philippe Cuisson



MJ: The main objective of the Government of Georgia was establishment of a far-reaching free trade area with clear and transparent rules in order to create long-term and predictable favorable conditions for Georgian product and service exporters, and to prepare solid foundation for future economic integration with the EU. In this process, for me, as a lead negotiator, the main objective was to conduct negotiations in the best possible interests of Georgia. Finally, I think, we got a deal which is balanced and opens big opportunities for our private sector.

Q: Free Trade Area is a quite clear and widespread technical concept. Could you deepen the political and technical approach behind the two adjectives Deep and Comprehensive?

The main objective of the Government of Georgia was the establishment of a far-reaching free trade area with clear and transparent rules in order to create long-term and predictable favorable conditions for Georgian product and service exporters, and to prepare solid foundation for future economic integration with the EU.

Michael Janelidze

PhC: The EU has long realized that simple FTAs do not address issues which determine on how well or fast trade can develop between the countries, and which are not directly related to trade, or are not a matter of fixing procedures on the border (such as documentation and inspection procedures, or the level of import duties applied by customs officials). There are many hidden costs linked to the manufacturing or provision of goods, related to infrastructure, to transport, to different norms that products must fulfill in different countries, be it technical norms or sanitary norms (for human or animal consumption). These are also issues related to the access to courts, to protection of innovative know-how, to access to the domestic procurement market by foreign companies, or enforcement of competition rules. These costs can be significant and even higher than the cost of import duties, which become lower and lower over the years, especially between the EU and Georgia. Trade in services is particularly sensitive to barriers in the domestic system, rather than at the border.

The EU negotiates comprehensive FTAs with its partners aim to address these issues. In addition, the FTA with Georgia is a deep one, because the country chose to associate itself to the EU, which means it is willing to approach the regulation of domestic policies in a similar way as in the EU. The depth of the EU-Georgia relations will relate to the fact that Georgia will adapt its trade-related laws to those of the EU. This work will allow Georgia to function more like the EU, and is expected to bring several benefits: lowering of costs of trade with the EU for Georgian companies, broadening the range of Georgian products that are accepted on the EU market (ie Georgian cheeses, meat), lowering the costs of products for consumers and increase of quality of products available, attracting European direct investment which will recognize the similarity of rules in place. Above all, the laws and decision-making procedures are expected to be as inclusive and transparent as it is the case in the EU where civil society and businesses participate in decision-making by expressing their views.

MJ: There is a substantive difference between general free trade agreement and deep and *comprehensive* free trade agreement. While the former is mainly focused on trade in goods and the subsequent tariff liberalization, the latter involves the liberalisation of trade in services as well as the legislative approximation in different trade related spheres (e.g. SPS, TBT, IPR, customs, public procurement, competition). The approximation process gives the possibility to overcome non-tariff barriers in trade which, in most cases, is much more restrictive in trade than a tariff barrier. In the past, Georgia did not have an experience of such wide integration, as all our free trade agreements (e.g. Turkey, CIS) were focused on liberalisation of trade in goods. While it is not an easy task to introduce in Georgia regulations of such developed countries as the EU Member States are, still the process is vital for the modernisation of our State institutions dealing with the trade policies, and gradually bringing them to the level of the EU in order to make our economic and business environment more predictable, especially for European investors, and to get full market access and maximum benefits from economic integration. DCFTA is a part of the Association Agreement, which gives it more political flavour and involves sharing of basic economic as well as political principles between two countries.

Q: Negotiations between EU and Georgia on DCFTA have been very fast in EU experience (only 17 months) respect to others. Why is that: less to negotiate, merit of negotiators or different starting points?

PhC: It is certainly not less to negotiate. I would say we negotiated more than with any other partner country, and similarly to Ukraine, Moldova and Armenia. Quick negotiations were possible because both sides were equally motivated, knew their objectives and were willing to overcome diverging views. It is important to remember that Georgia was well prepared to the negotiations because it went through a preparatory process on the basis of the EU recommendations, before the talks could start. This phase was crucial for this success.

MJ: The main reason of rather fast completion of the negotiations was the political will and determination from both sides. An important work has been done by Georgia to prepare the process for launching negotiations. This preparation involved the elaboration of strategies and the respective action plans in key areas, which were identified as the most critical by the European side. During the last year, the Government of Georgia addressed all the key remaining questions in the reform agenda and, at the same time, we agreed to have a “quality speed-up” of the negotiating process, meaning it an acceleration of the negotiations without losing quality or dropping interests of either party. It should be also noted that the atmosphere of open and frank discussions among the negotiating teams helped a lot to finding ways for accommodating each other’s interests in the final deal, and reaching the mutually acceptable agreement in due time.

Q: In your vision of the future, which will be the Georgian economic sector ready to immediately grasp the new opportunities offered by the DCFTA and the one that still requires a long-term intervention and support?

PhC: It is not that easy to change the pattern of trade if a given sector lacks investment and vision; if a sector is not competitive on the domestic market, it is difficult to be competitive abroad. Georgia could benefit from export of services in different areas very quickly; but in terms of manufactured goods, there is some work to be done to create high-value added products. Free access to the EU market will certainly help different sectors to grow. Agricultural goods definitely have a potential for growth, provided that the necessary reforms are conducted.

MJ: According to the Trade Sustainability Impact Assessment made by Ecorys-Case consortium in 2012, the sectors, which will expand the most, are chemicals, primary metals, machinery and equipment. The government also expects that new opportunities will be grasped by greenfield investments in export oriented manufacturing sectors, for which the access into the European market would be attractive. Therefore, together with the international and local experts, we are undertaking deep analysis of that competitive sectors in order to find ways how to stimulate investment inflows, to attract new technology and know-how and create high value-added production in Georgia.

We consider agriculture a sector that would require further long-term intervention and support. This sector is very important for Georgia, not only as one of the sectors with vast export potential, but also for its social impact. Currently, half of the Georgian labour force is occupied in agriculture. This is one of the sectors, where significant changes are envisaged as a result of signing of DCFTA. The Free Trade Agreement with the EU envisages serious reforms and changes, which would ensure the creation of solid food safety system, including respective veterinary, sanitary and phyto-sanitary rules and procedures. The government envisages that the adaptation of the Georgian businesses to new rules and requirements will take some time, before they will fully benefit from new opportunities.

Q: Fair competition rules, clear legislation, market access facilitation, quality infrastructure, market surveillance and disputes settlement are, between the others, key elements in any market to be attractive for investors. Where does Georgia stand at this regard?

PhC: Georgia has come a long way but there are still many areas where governance can be improved. The previous and current Georgian Governments have done a lot to attract foreign investment, simplify customs procedures at the



border, reduce corruption, clarify competition rules. These are undisputable successes and necessary to create a good governance framework. The challenges for now are related to strengthening the key pillars of the economy, develop branches of economy which correspond to Georgia's potential and which will provide for stable growth and create jobs, including through trade. This is a far more difficult task, but through the DCFTA we hope that European and other investment will come to Georgia to help modernize the economy and stable governance rules will make long term business planning – so needed for growth – possible.

MJ: Georgia has a liberal business environment and an open investment policy, supported by business friendly effective public services, tax and customs administration systems which make Georgia attractive for investors, but the aim of the new government of Georgia is to ensure strong protection of property rights, establishment of free and fair competitive environment, establishment of effective commercial dispute settlement system by developing commercial arbitration, development of capital markets and supporting development of other financing mechanisms, development of human capital. At the same time we are committed to ensuring full and effective implementation of the EC recommendations in trade policy areas, like food safety, quality infrastructure, IPR and others. Together with the policy and institutional reforms we are continuing development of infrastructural projects which is a crucial element for attracting investment. All the mentioned reforms and activities should make Georgia one of the best places for realising investment projects in the region.

Q: The Deep and Comprehensive Free Trade Area (DCFTA) with the European Union is an integral part of the EU-Georgia Association Agreement. Could you briefly deepen the link between the two economic and political components of this Agreement?

PhC: The Association with the EU is a comprehensive one: political and economic stability are inter-related and mutually supportive. There can be no economic growth without a stable political and decision-making system; there can be no political stability if the country suffers from under-development and does not allow the citizens to realise their potential. The two are inseparable.

MJ: Georgia's economic integration with the EU by sharing its core principles and values is almost impossible without respective political background and full political association is not achievable without appropriate level of economic development. In order to become member of the European family, it is important for Georgia to adhere to European principles and values in terms of democracy, human rights and fundamental freedoms. Without this political background, it would be very difficult to achieve deep economic integration. This makes economic and political components of the agreement interrelated.

Q: Now that the negotiations are concluded, what concrete steps need to be taken by the EU and Georgia before the entering into force of the Agreement on DCFTA?

PhC: The EU and Georgia are now preparing the text for signature. This involves meticulous legal verification of the text, its confirmation by both sides and translation into Georgian and the EU's 24 official languages. Then the text must be signed by both sides and approved by the respective Parliaments. In the EU, we aim to be able to provisionally apply the Agreement as soon as possible after the signing, before the full ratification (by the European parliament and 28 parliaments of the Member States) can be completed. The EU wants Georgia to benefit from the Agreement as soon as possible, regardless of the complexity of the EU decision-making among 28 Member States.

MJ: As for the technical part of the process, both the EU and Georgia are now undertaking legal scrubbing of the text. Further steps include initialling the text of the Agreement, translation of the text and signing. Afterwards, DCFTA will provisionally enter into force, as unlike the political part of the Association Agreement, it does not require ratification by the parliaments of the EU Member States.

As for Georgia, the country will continue to implement the planned reforms in all areas covered by the DCFTA, as defined by the Agreement.

Topic At A Glance

Labour standards and sustainable development in trade

The EU pursues efforts to liberalise trade with its partners around the world, with a view to increase commerce and output, thus creating jobs and economic growth. The EU also aims at ensuring that international trade contributes to sustainable development, i.e. economic growth, social development and environmental protection in the EU and partner countries, for the benefit of current and future generations.

In this context, it is recognised that there is interplay between trade and investment on the one hand and employment on the other. As this is the case, the EU seeks to ensure that further development of trade and investment needs to be pursued alongside a firm commitment to promote core labour standards and decent work for all. Whilst trade and investment are expected to be growth and jobs-creating factors, there is a need to make sure that they do not develop at the expense of individual or collective rights with regard to work.

The EU considers that the state and its authorities can and should play an active role in issues related to trade and labour by establishing relevant standards and ensuring their effective implementation and enforcement. They can also encourage companies to follow responsible business practices with regard to labour standards and working conditions.



Why is this topic important in EU-Georgia relations?

The EU subscribes strongly to these standards in its domestic policy and works to ensure that partner countries share this aim and undertake appropriate efforts to realise the Decent Work Agenda in their policies. Both internally, and in relations with other countries, the EU promotes the ratification and implementation of the ILO conventions, i.e. making them real in legislation and in practice, also in operation of enterprises established on EU and partner countries' territory. Georgia has already ratified the eight ILO fundamental conventions and committed to implement them, as part of its good governance commitments under the Generalised System of Preferences Plus (GSP+) for preferential market access to the EU.

In addition, since Georgia and the EU have entered into negotiations to deepen their engagement and become associated partners, the EU proposed to agree on a chapter on trade and sustainable development, within the deep and comprehensive free trade area (DCFTA) pillar of the Association Agreement. One of the aims of the chapter will be to firmly anchor the fundamental rights and principles at work and the Decent Work Agenda in EU-Georgia bilateral relations and to cooperate in this regard in relevant international organisations.

** See: ILO Conventions*



What are the labour standards?

The “Decent Work Agenda” adopted by all 185 ILO member states is strongly promoted by the EU, as it sets out basic elements that are deemed necessary to contribute to sustainable development. The Agenda highlights the need to establish conditions within a country to enable job creation and skills development. It also stresses a need to observe fundamental principles and rights at work. It calls on its member states to ensure that workers and employers can participate in policy development and establishment of working conditions. In addition, it highlights the importance of the right to benefit from social protection.

The EU recognises that differences in employment conditions and levels of employees' protection across the world are linked to different stages of economic development and may influence trade flows and investment decisions. That being said, the EU also represents the view that violation of the fundamental principles and rights at work cannot be considered as a legitimate comparative advantage of any country. Moreover, even if low standards may serve in the short term as an incentive and attract trade or investment, they may undermine prospects for long-term sustainable development. Therefore, in negotiations on trade and investment agreements, the EU encourages its partner countries not to lower their levels of labour protection and to strive towards high standards in this respect.

Who sets the standards?

In relations with third countries, the EU promotes international labour standards established by the ILO, in particular the eight fundamental conventions*. They represent one of the core elements of the Decent Work Agenda and aim at eliminating forced labour and child labour, promoting freedom of association and the right to collective bargaining, as well as supporting non-discrimination in employment, including with regard to remuneration. The ILO supports efforts of its member states, including Georgia, towards ratification and effective implementation of those conventions, so that the fundamental rights can be enjoyed by workers in all countries around the world. The ILO also helps countries to address deficiencies in implementing the remaining elements of the Decent Work Agenda.

Labour standards in the future deep and comprehensive free trade area (DCFTA) with the EU

By putting in place the trade and sustainable development chapter as part of the DCFTA, the EU and Georgia agree to ensure balanced trade liberalisation, which protects employees and helps to lay down sound foundations for economic growth going hand in hand with social development. That is why they undertake to respect the ILO conventions in their legislation and practice and commit not to derogate from their respective labour laws in order to attract trade or investment. They also agree to promote responsible business conduct among companies operating on their territory. Beyond that, the EU and Georgia maintain their right to develop their laws and policies accordingly to their situation and international commitments.

Where does Georgia stand?

Since the Rose Revolution, Georgia has had a rather liberal approach to the issue of labour standards, focussing on attracting the necessary investment to boost economic growth and create the right conditions for business. That said, Georgia ratified several ILO conventions, which establish minimum standards of protection of employee's rights, including the right of association.

Domestic developments over the years, however, indicated that the implementation of relevant commitments did not progress smoothly, marked by several tensions between the employers and employees. In cooperation with the ILO, Georgia has reviewed in 2013 its Labour Code, the key legislative basis for compliance with Georgia's international commitments. The EU considered the positive assessment by the ILO of the amended Labour Code as an important step towards achieving the objectives of sustainable development in Georgia. The crucial test for the success of this re-balancing will lie in implementation of the amended Labour Code and the respect of ILO Conventions.

News on Twinning Projects (on going and planned)

OK, I understand we remove ‘where does Georgia stand?’ but we would include another subject for this section ‘topic at a glance’ correct?

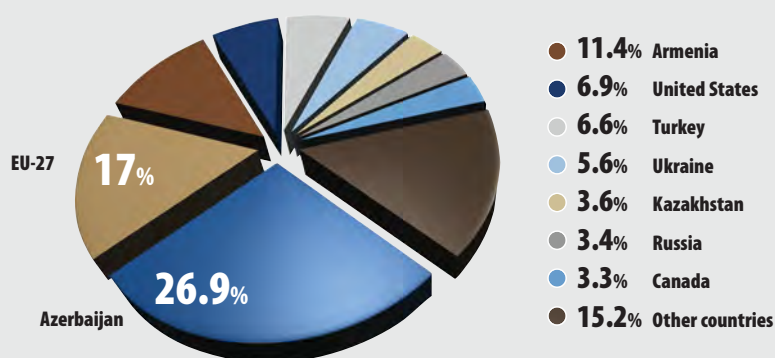
Did You Know That...

Georgian trade trends: more exports versus less imports

During the first semester 2013, in comparison with the same semester of previous year, Georgian total trade **contracted by 3.1%**. In particular: **exports increased by 8.6%** whereas **imports reduced by 6.6%**. Consequently, **total trade deficit contracted by 13.3%**. (Source GEOSTAT).

Georgia Trade Partners by Exports - % Share

January-June 2013



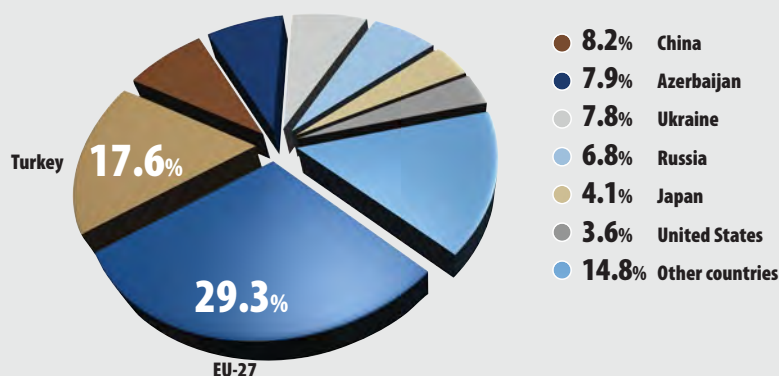
EXPORTS

Main partners for Georgian exports were: Azerbaijan (26.9% share), Armenia (11.4%), USA (6.9%) and Turkey (6.6%).

Within the EU-27, the main partner country for export was Bulgaria (3.5% share), followed by Italy (2.9%) and Spain (1.9%).

Georgia Trade Partners by Imports - % Share

January-June 2013



IMPORTS

In terms of imports, the main Georgian partners were: Turkey (17.6% share), China (8.2%) and Azerbaijan (7.9%).

Within the EU-27, the main partner country for imports were Germany (6.2% share), followed by Romania (3.9%) and Italy (3.2%).

TOTAL TRADE

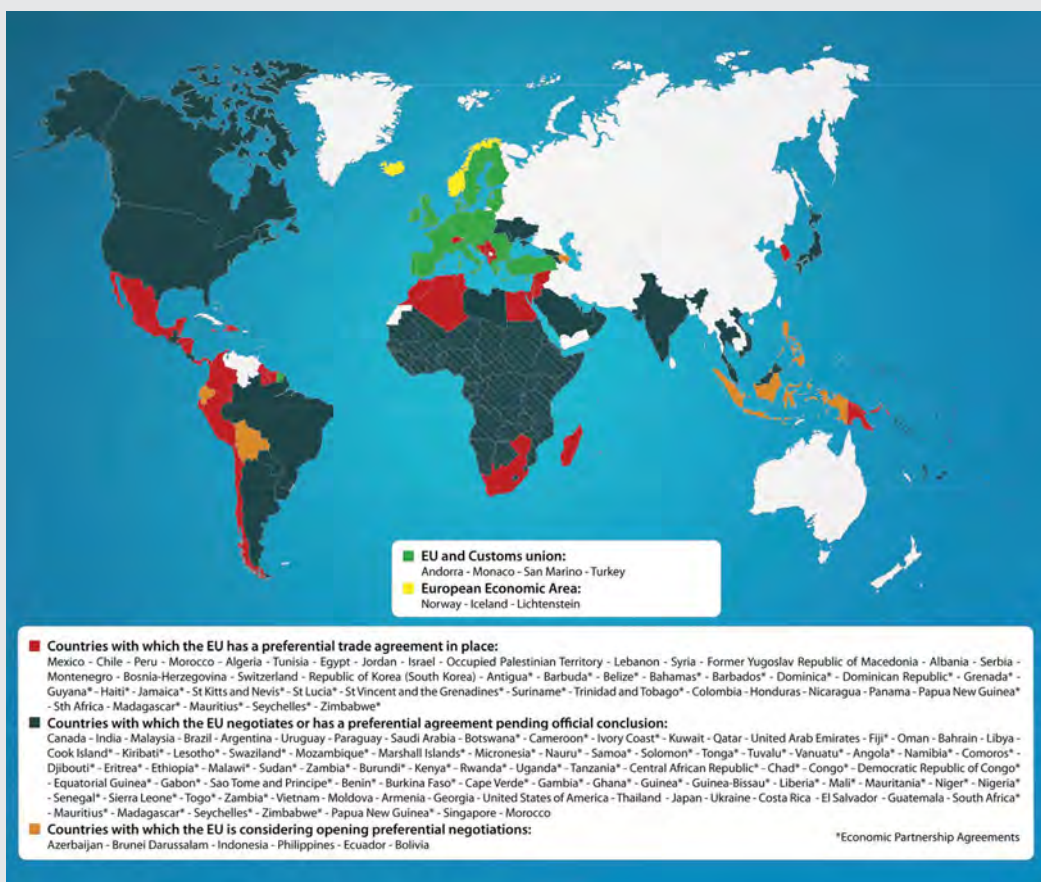
The main partners for Georgia in terms of total trade in the first semester 2013 are: Turkey (14.7% share), Azerbaijan (12.9%) and Ukraine (7.2%).

Within the EU-27, the main partners remain Germany (4.8% share), followed by Italy and Bulgaria (both with 3.1% share) and Romania (2.9%).

EU's bilateral free trade agreements

The European Union:

- has set up a preferential trade system with forty-five countries
- is negotiating or has preferential agreements pending official conclusion with ninety-six countries



Promoting agriculture cooperatives in Georgia

In August 2013, Georgia approved the Agriculture Cooperatives Law, which was prepared with the assistance of the EU and follows best European practices in this field. The law foresees a flexible tax regime and other financial incentives for the small farmers to establish market-oriented coops. In Georgia, most farmers own small holdings that prevent them to reach economies of scales and reach the markets. Thus, cooperatives can play a major role in modernizing the sector and streamlining production. The new law foresees also the establishment of an agency for development of the agricultural which will carry out the activities for state support for the cooperatives. Assisting co-operation amongst small farmers is one of the key aims of the EU funded ENPARD programme (€ 40 Million), which will provide grants to promote new farmers' groups to be established and provides technical assistance to the ministry of agriculture in policy making.



EU support to the National Food Agency of Georgia (NFA) is already delivering significant results

Since January 2013, the EU has been implementing the Comprehensive Institutional Building Programme in Support to the National Food Agency of Georgia (NFA) - Phase One. This programme, funded by the EU with a €2.3 million grant, aims at enhancing the technical capacities of the NFA to cope with the reform of the food safety systems ongoing in Georgia with the aim to approximate the standards in sanitary and phyto-sanitary matters to those of the EU. European experts are working hand-to-hand with the NFA in reviewing and improving the existing legislation. Further more, the programme is also assisting Georgia to implement key programmes in the veterinary, food safety and plant protection fields including the brucellosis control programme, the animal identification system and trainings for food safety inspectors. During the first half of 2013, thanks to this support the NFA has been able to improve significantly its performance. For instance, the number of food safety inspections in food establishment has doubled compared to the previous year.

Upcoming trade events

- **26 November:** Workshop on Sanitary and phyto-sanitary measures. Event organised by the EU Delegation to Georgia. Further information will follow.
- **28-29 November:** Eastern Partnership Summit in Vilnius. Initialisation of the EU- Georgia Association Agreement including DCFTA.

The Newsletter is solely distributed via electronic mail. Do not hesitate to forward it to interested persons or suggest new recipients by sending an email to Mr. Antonio Lo Parco, Trade Attaché at the Delegation Of the European Union to Georgia: antonio.lo-parco@eeas.europa.eu