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THE COST OF TRADE: AN ANALYSIS AT THE DEEP AND COMPREHENSIVE FREE TRADE AREA

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Brussels and Tbilisi will start negotiating a Deep and Comprehensive Free Trade Agreement (DCFTA) in March. One major challenge for Georgia is ensuring the benefits of the deal will be worth the cost of the new regulations that Georgia will have to implement as part of the agreement.

Aleqsandre Bluashvili

Seeking a golden balance

Meeting certain preconditions for Georgia to sign DCFTA could be costly. Since only Ukraine has agreed with the EU on a DCFTA deal (NB: it is not yet signed!), however, it is hard to anticipate the exact format of a potential agreement with Georgia.

Based on the priorities set during the preliminary talks, Georgia has to improve several major areas of state regulation including food safety and sanitation, standards, labor regulations, and intellectual property rights.

The Georgian government has already taken steps to bring its labor code into compliance with International Labor Organization (ILO) standards. The main concerns, including protecting workers from discrimination, are already under discussion; amendments that the government proposed under its discussions with the US Trade Representative this month [see page 24]. Additional issues like equal pay and holiday pay have been flagged by the ILO [see page 26]. Comment: we would be much more cautious in the so-called "steps undertaken".

For small and medium businesses, however, one of the most painful requirements could be the reforms to strengthen food safety regulations. In Poland, for example, the number of slaughter houses declined by 50 percent from 2.6 thousand in 1999 to 1.2 thousand in 2006.

Tamar Kovziridze, the chief advisor to Prime Minister Nika Gilauri and the head of the advisory council on foreign relations at the Prime Minister's Office, said it is "essential" to find a balanced approach that will benefit all sides.

"It is essential for us to, on the one hand, ensure compliance with the EU requirements and on the other hand the make sure that the new regulation is introduced in such a way that Georgian businesses benefit rather than have difficulties in coping with it," she said.

"European regulation allows for certain flexibilities in this respect. We will continue to have intensive consultations with the business community throughout the negotiation period."

Konstantine Zaldanstanishvili, the secretary general of the EU-Georgia Business Council, agreed the process "is not going to be easy" for businesses.

He stressed that a continual dialogue between businesses and the government during the negotiation process will be important.

"The government of Georgia must guarantee the active involvement of the Georgian business sector in the negotiations process," he said in an email interview. "[B]usinesses must be fully informed in order to get ready for new regulations and provide recommendations for parties."

Kovziridze met with AmCham members in January to discuss the talks.

Currently EUGBC and its partners are creating a working group to actively cooperate with both the Georgian government and the EU during the negotiation process. In addition, the working group will enhance business involvement in the process and generate recommendations on problematic issues.

Virginie Cossoul, the EU Trade Officer at the EU Delegation to Georgia, noted that integration into the EU market will "imply short-term costs but that it will bring long-term benefits."

She also recalled that Brussels does not demand that a country meet all the standards immediately.

"Implementation of the requirement indeed involves short term costs for Georgian SME-s although we speak about gradual economic integration in order for the process to be bearable for businesses. The negotiation



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process is not a short process (in the case of the Ukraine it took four years), but we expect it to be faster in the case of Georgia.," she said.

"Besides, the EU provides support for Georgian institutions. The overall assistance to Georgia represents approximately 40-60 million Euro per year and will contribute to helping Georgia in implementing the reforms. Different training programs are organized by experts from the EU to share the experiences with their Georgian colleagues. Additionally the EU is technically supporting various Georgian agencies such as the National Safety agency, GEOSTM."

After 18 months of pre-negotiations with the EU, there are indications that Georgia is already having some success meeting its requirements. The 2010 EU Country Report noted that Georgia is improving across the board although issues remain on how the legislative reforms are enforced.

Cossoul noted that it is important to think about the long term benefits when calculating short term costs. "What is at stake is not simply the increase of trade flows between the EU and Georgia, but market development, consumer protection and product quality...Importantly, EU trade related regulatory standards are used by many other countries in the world...so compliance with those standards will help not only trade with the EU but with other significant partners of Georgia."

A boost to trade

Currently less than half of Georgian export to European Union (EU) enjoys preferential trade conditions, i.e. no tariffs, or reduced duty fees. Any deal that provides additional preferences with the EU should create substantial economic gains for both sides.

These benefits build on the preferences that Georgian currently receives under the EU's General System of Preferences Plus (GSP+).

In its essence, the agreement would address barriers to trade and ensure across the border regulation compliance, facilitating free movement for goods and capital between the EU and Georgia.

Reducing these barriers, noted Cossoul, will increase the number and quality of goods available to Georgian consumers. It will also "encourage specialization [in the Georgian market], thereby lowering the costs and generating innovation."

EU-Georgia Business Council's Zaldastanishvili stressed that Georgian producers will benefit more under the DCFTA because it addresses border regulations, not just tariffs.

"[The GSP+ program] did not result in a substantial increase of Georgian exports to the EU. This is because GSP+ removes only tariff barriers, the while main impediment to trade is beyond the border regulations like standards, sanitary and phytosanitary requirements, etc," he said.

"After Georgia shares a free trade area with the EU, we will have new EU rules of business in the country and, consequently, the European market will open up for Georgian producers."

While the agreement falls short of completely opening the EU's agricultural market to Georgian exports, analysts anticipate the DCFTA could increase trade between the EU and Georgia by 13.5 percent over the next five years.

Cossoul said that DCFTA is ambitious and aims to substantially cover all trade, which is to say to liberalize around 95% of products.

"I think that Georgian agriculture has huge potential, especially organic agricultural production and Georgian wine. The textile industry could also grow significantly," she said.

"However, it is hard to focus on one particular sector, as, by raising the quality of Georgian production and attracting investments, all sectors of the economy should benefit from this agreement and become more competitive."

Research by the Center for Social and Economic Research (CASE) indicated that specific sectors, including textile production, metallurgy, wood production and plastic goods production could grow the 19-55 percent due to the deal.

The agreement has the potential, according to Cossoul, to "create a favorable business climate and attract investors, thanks to its positive impact on eliminating or streamlining complicated, unpredictable and often poorly implemented business regulations."

