

## DCFTA implementation on track, but major challenges ahead

The EU-Georgia deep and comprehensive free trade area (“DCFTA”) had been provisionally applied since September 2014, while its formal entry into force occurred in June 2016. After three years, we assess the implementation of the DCFTA by Georgia. More precisely, we review seven fields: market access, industrial product safety, food safety, customs, public procurement, protection of intellectual property rights and competition policy.

Overall, Georgia is on schedule in the DCFTA implementation. Market access has been liberalised immediately after the launch of the provisional application of the DCFTA. Georgia was admitted to the Pan-Euro-Med Convention of the Rules of Origin and negotiated several new Free Trade Agreements, the path to which was opened after the DCFTA launch.

However, major challenges lie ahead. Most demanding will be the area of food safety, in which Georgia committed to harmonise with 272 EU directives and regulations within the next ten years.

### The DCFTA process

The provisional application of the DCFTA (as part of the Association Agreement) started in Georgia in September 2014, earlier than in Moldova and Ukraine. The ratification process took almost two years, and in June 2016, the Association Agreement including the DCFTA entered into force. In the following, we review the implementation progress in seven key fields regarding trade in goods.

### Market access

Georgia fully opened its market for EU goods immediately after the launch of the provisional application. Unlike in the cases of Moldova and Ukraine, the EU-Georgia DCFTA contains no transition periods or market access exemptions on the side of Georgia. The EU applies minor exemptions that have limited practical implications. A tariff rate quota is applied for garlic and 22 agricultural products are subject to entry price regulation.

The DCFTA also contains an anti-circumvention mechanism to prevent undue re-exports of agricultural products through Georgia to the EU market.

In September 2016, Georgia was admitted to the Pan-Euro-Mediterranean Convention on Rules of Origin (Pan-Euro-Med) that simplifies the use of third party inputs in the production of goods to be exported under free trade agreements (FTAs). The Pan-Euro-Med

can be used in Georgia’s trade with the EU, EFTA and Turkey, as only countries with mutual FTAs and the Pan-Euro-Med membership are qualified.

Georgia used the DCFTA with the EU as a means to conclude other FTAs. Within three years after the DCFTA launch, Georgia signed FTAs with EFTA and China, and completed talks with Hong-Kong. Multiple FTAs are expected to stimulate export-platform foreign direct investments to Georgia and foster economic development.

### Industrial product safety

Georgia has started approximation with the EU industrial product safety system as a part of the country’s preparation for the Association Agreement negotiations. As a result, by 2014, when the DCFTA provisional application started, Georgia’s sectoral legislation has been already aligned with 6 out of 21 EU technical regulations. The transition periods for the harmonisation with other sectoral directives are between 4 and 8 years.

Georgia has not taken any time-bound commitments regarding approximation of cross-sectoral (horizontal) legislation. Still, two cross-sectoral EU directives, on general product safety and a liability for defective products, have been already embedded into the Georgian legislation.

Georgia currently applies about 7,000 international and European standards that account for 98% of total corpus of its national standards. However, the corpus of the EU standards is much larger – about 25,000, and the DCFTA envisages that eventually Georgia has to adopt them all. It means that the country has a huge task ahead, although with no fixed time limits.

The country achieved good progress in the institutional capacity development of public bodies involved in accreditation, conformity assessment and market surveillance. Still, more work is necessary to launch negotiations on the Agreement on Conformity Assessment and Acceptance of industrial products (ACAA).

### Food safety

Georgia adopted the SPS Legislative Approximation Programme in line with the DCFTA commitments. The task is very ambitious as the programme envisages approximation with 272 EU directives and regulations, although the transition period is quite long, until 2026. Significant coordination and prioritisation efforts are

required to implement the commitments and mitigate potentially negative impacts on small farmers.

Currently, the country focuses on getting individual access to the EU market for its animal origin products. Access was recently gained for the first two products – wool and honey – and the verification of fish products is at the final stage. In June 2017, the European Council added Georgia to the list of countries eligible to export fishery products to the EU market. The next step is to get a clearance for specific establishments. Still, more efforts are necessary to gain access for other products, in particular poultry and dairy that Georgia actively exports to its neighbours.

**Customs services**

Georgia is ranked 54 out of 190 in the category “Trading across Borders” of Doing Business 2017. The country features fast but still rather costly border compliance procedures. The legal approximation with the EU Customs Code is in progress. New customs legislation envisaging the introduction of an authorised economic operator (AEO) and changes in customs valuation methods was drafted, but is yet to be adopted. An accession to the Common Transit Convention and on the Simplification of Formalities in Trade in Goods is also in progress.

**Public procurement**

The DCFTA envisages a five-stage mutual opening of public procurement markets of the EU and Georgia with 3 to 8 years implementation schedule. In March 2016, Georgia adopted the Roadmap and Action Plan for the implementation of its commitments. The Roadmap was agreed with the EU. Thus, the work is in progress, but more time is needed to see results.

**Protection of intellectual property rights**

Georgia has a developed national legislation on intellectual property rights (IPRs) protection largely compliant with the international and EU legislation. Further legal approximation is foreseen for trademarks, copyright, patents, and several other areas, but Georgia’s commitments are not time-bound.

More importantly, Georgia has to strengthen its IPRs enforcement, as the country suffers from piracy and counterfeiting. The 99th rank out of 138 countries in the category “Intellectual Rights Protection” of the WEF Global Competitiveness Report 2016-2017 indicates existing challenges.

**Competition policy**

Georgia undertook very vague commitments in the sphere of the competition policy, with no explicit legal approximation obligations. Still, de-facto the country has been gradually approximating to the EU Acquis in the sphere, with the most recent changes dated 2014 when anti-trust, state aid and institutional provision of

the Law on Free Trade and Competition were largely aligned with EU practices. Still, further legal changes would be necessary to complete harmonisation.

The capacity of the national competition authority is to be strengthened as currently Georgia is ranked 114 out of 138 in the category “Effectiveness of anti-monopoly policy” of WEF Global Competitiveness Report 2016-2017.

**Summary**

The following table provides an overview of the DCFTA implementation in seven fields.

Policy field	Status
Market Access	On schedule
Industrial product safety	On schedule, focus on sectoral legislation
Food safety	On schedule, SPS Harmonisation Programme to be implemented
Customs service	On schedule, legal conversion with EU Customs Code needed
Public procurement	On schedule, Roadmap to be implemented
IPR protection	In line with commitments, need focus on law enforcement
Competition policy	In line with commitments, need focus on law enforcement

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