

A new Focus Group project evaluating the Association Agreements and DCFTAs in Georgia, Moldova and Ukraine: Focus Group No 1 – DCFTA trade policy issues

Lali Gogoberidze, Vadim Gumene and Veronika Movchan¹

In March 2019 we began what will be a series of monthly focus group meetings on key aspects of the Association Agreements and DCFTAs between the EU and Georgia, Moldova and Ukraine. Focus group sessions will be held in each of the three capitals with a range of stakeholders (government, business, civil society, etc.) using a standardized questionnaire. The focus groups will be organised and moderated by our partners in the three capitals: IER in Kyiv, Expert-Grup in Chisinau and Reformatics in Tbilisi.

The objective is to get fresh views on how the Association Agreements and DCFTAs are progressing in practice. This may lead to recommendations to policy makers in the three capitals and the EU institutions.

While the views of individual participants are treated as confidential, reports will be published drawing together a synthesis of the findings.

Seven focus groups are planned on main chapters of the DCFTA, to be conducted at roughly monthly intervals:

1. Trade policy measures
2. Industrial product standards – technical barriers to trade (TBT)
3. Sanitary and phytosanitary regulations for agri-food products (SPS)
4. Customs processes
5. Financial services
6. Energy
7. Environment

The following is the first such report.

¹ Of respectively Reformatics, Tbilisi; Expert-Grup, Chisinau; IER, Kyiv

Focus Group No 1 – DCFTA trade policy issues

This Focus Group on trade policy issues was conducted in March 2019, with between 8 and 18 participants in each of the three capitals, representing in all cases the several stakeholder groups (government, business, civil society).

1. Impact of the trade liberalisation so far.

The DCFTA, in opening free trade with the EU, is considered extremely important for the economic development of all three countries, and largely positive in its impact, already now in some degree, but expected to be increasingly so in the long term.

While business, government and civil society understand this, at the level of the broader populations there is so far no noticeable impact.

Big businesses are the main beneficiaries. SMEs find it much harder to engage in export trade.

There are challenges, notably the serious costs of introducing European product standards, especially for SMEs. On the other hand introduction of European standards is improving export competitiveness of industry for global markets in addition to the EU.

In Ukraine the combination of the DCFTA with the war with Russia has led many companies to reorient their interest towards European and global markets.

However some attitudes change only slowly, and for **Georgia and Moldova** especially it was remarked that it remains easier to do business in CIS countries.

Apprehensions in **Moldova** that domestic producers would be overwhelmed by a flooding of imports from the EU have proved unfounded.

2. Remaining trade restrictions.

These are rated as being quite low. Tariff quotas remain for many agri-food products for AA countries, except Georgia. But these have not been binding constraints for Ukraine. Increases in tariff quotas have been secured by Ukraine and are expected soon by Moldova.

Many **Ukrainian** enterprises in the animal product sector have been able to secure access to the EU market. **Moldovan** producers of animal products have not been successful in this respect. In **Georgia** the introduction of European standards in the food sector is more challenging than in industrial area and is viewed as being particularly burdensome and a constraint on exports to the EU. Georgia has up to ten years of transitional period to approximate the SPS *acquis*.

Safeguard measures for trade in automobiles, applicable only in the Ukraine DCFTA, were criticised as being inappropriate.

3. Prospects for supply chain investments linked to the EU.

This is already in evidence and has good prospects in both **Ukraine and Moldova**, notably in the automotive and textile sectors. However, it needs an improved business climate to develop strongly, especially regarding corruption.

For Georgia this is less in prospect, partly due no doubt to logistic factors with the absence of a land border with the EU, and resulting high transportation costs. However Georgia's free trade agreements with much of Asia (China and Hong Kong already, India under discussion) opens up the hope of seeing FDI from these countries producing for export to Europe.

4. Rules of Origin regime under the Pan-Euro-Mediterranean Convention.

Business interests are positive about introduction of this preferential rules of origin regime, with its possibilities for diagonal cumulation. However, at this stage revision of PEM system is ongoing and it is still under the discussion. There is also a shortage of knowledge about the system among businesses.

In Ukraine first applications are expected with Georgia, the EFTA and Israel.

Georgia is also well advanced towards introducing diagonal cumulation with Turkey, with good prospects of its use in the textile and clothing sectors.

Moldova also sees potential benefits for the textile sector.

5. Is the DCFTA adapted to the economy's needs?

In Ukraine stakeholders consider the DCFTA to be not over-ambitious, and generally beneficial to the economy, but requires consistent long-term efforts and unity of purpose by both the Ukrainian stakeholders and the EU.

In Moldova there is also a high degree of support for the DCFTA, although there are serious weaknesses in institutional to assure its implementation.

For Georgia the DCFTA is viewed as corresponding to the needs of the economy, while the task of implementation remains challenging because of its regulatory cost, and further obligations should not be taken up.