

# First results of DCFTAs with the EU: cases of Georgia, Moldova, and Ukraine

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## **Abstract:**

In 2014, three East European countries - Georgia, Moldova and Ukraine – signed Association Agreements envisaging deep and comprehensive free trade areas (DCFTAs) with the EU. The provisional application of these agreements started in September 2014 – for Georgia, in November 2014 – for Moldova and, partly, for Ukraine. Also, Ukraine enjoyed autonomous trade preferences replicating the first year of the DCFTA regarding access to the EU market in April 2014 – December 2015.

The DCFTAs have been expected to bring sizable economic results in the long run to the partners, stimulating economic growth and prosperity. However, it remained ambiguous whether Georgia, Moldova, and Ukraine would be able to reap short-term gains related to the liberalization of trade with the EU, as for all three countries, the EU import duties were rather liberal even before the DCFTAs. So, the legal approximation and thus a reduction in non-tariff barriers was considered as a more important source of trade gains.

The study is aimed to evaluate how the DCFTAs affected exports of Georgia, Moldova and Ukraine countries in the short run, both thanks to further tariff liberalization and non-tariff barriers reduction. Special attention is paid to the impact of countries' efforts to approximate their product safety regulations to the EU *acquis*.

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## 1. Introduction

In 2014, three East European countries - Georgia, Moldova, and Ukraine – signed Association Agreements envisaging deep and comprehensive free trade areas (DCFTAs) with the EU. The provisional application of these agreements started the same year: Georgia in September 2014, Moldova and Ukraine (except for trade-related issues) in November 2014.

Ukraine has been a special case as the EU granted the country temporary autonomous trade preferences (ATPs) in April 2014, while the DCFTA provisional application was launched only in January 2016. However, the ATPs replicated the first year of the DCFTA implementation regarding the EU commitments in tariff liberalization, and Ukraine has actively implemented its harmonization commitments, so the period between April 2014 and December 2015 could be considered as a period of partial implementation of the DCFTA in Ukraine.

The DCFTAs have been expected to bring sizable long-run economic results for three countries. However, it remained ambiguous whether the countries would be able to reap short-term gains related to the liberalization of trade with the EU, as for all three countries, the EU import duties were rather liberal even before the DCFTAs. So, the legal approximation and thus a reduction in non-tariff barriers was considered as a more important source of trade gains.

In 2014-2015, several other shocks affected countries in question. In Ukraine, the shocks were most dramatic as a part of its territory was occupied resulting in loss of production capacities and disruption of value chains, and the country went through severe political and economic crisis. In Moldova, there were political and financial sector shocks. In addition, the global commodity prices dropped significantly.

According to official statistics, Georgia and Moldova demonstrated moderate but positive growth of nominal trade to the EU in 2015, i.e. the first full year of the DCFTA implementation. Trade with Ukraine decreased. However, in real terms, all three countries showed an increase in exports to the EU. Moreover, a significant reorientation of trade flows towards the EU is registered. Also all three countries somewhat progressed in harmonizing their TBT and SPS regulations with the EU norms.

The study is aimed to evaluate how the DCFTAs affected exports of three countries in the short run, both thanks to tariff liberalization and non-tariff barriers reduction. Special attention will be paid to the impact of countries' efforts to approximate their product safety regulations to the EU *acquis*.

The rest of the paper is organized as follows. Section 2 reviews studies devoted to the preliminary assessments of the EU DCFTAs with Georgia, Moldova, and Ukraine. Section 3 makes comparative analyses of import duties before and after the DCFTAs and changes in non-tariff barriers in each of three countries. To be added: Section 4 describes trade patterns of three DCFTAs countries with the EU and the rest of the world. Section 5 describes methodology for quantitative assessments and estimation results, and Section 6 concludes.

## 2. Preliminary assessment of DCFTAs

According to majority of studies, the establishment of the DCFTAs between the EU and Georgia, Moldova and Ukraine is expected to bring a positive stimulus for the economic development of the countries, although the gains are distributed unequally.

Formal trade sustainability impact assessments conducted by ECORYS for all three countries showed sizable gains. According to ECORYS (2012), the real GDP of Georgia could increase by 4.3% and exports by 12% in long run, and for Moldova, the respective growth could be 5.4% and 16%. ECORYS (2007) study for Ukraine showed that a 5.3% growth of real GDP and exports expansion for the majority of sectors.

Other studies confirm positive results. Using the CGE model for Ukraine, IER (2014) showed that long-term impact of the DCFTA with the EU is a 12.3% increase in welfare and 9.9% expansion of exports. Agriculture, food industry, light industry, and production of electrical equipment are expected to benefit the most from the DCFTA. The highest gains are associated with the reduction in non-tariff barriers to trade due to harmonization of TBT and SPS. An elimination of tariff barriers only brings only modest benefits to the economy. EPRC (2014) showed that EU-Georgia DCFTAs would be beneficial in the end, but is expected to produce short-term pressures on domestic market.

Similarly, Rau (2014) estimates based on MAGNET model showed a growth of exports to the EU by Georgian, Moldavian and Ukrainian producers, generated mostly by a reduction in non-tariff measures (NTMs). In the study, trade costs associated with the TBT and SPS are captured as ad valorem equivalents of NTMs from Kee et al. (2009). Then, these ad valorem equivalents are put in the model as 'iceberg costs'. According to Rau (2014), the reduction in NTMs is most important for EU-Ukraine DCFTA, then for EU-Moldova DVFTA, and the least important EU-Georgia DCFTA.

Short-term gains in agriculture and food industry, although of different magnitude, are showed by Ryzhenkov et al. (2013) and Nekhay, Fellmann & Gay (2012). Both studies are based on assumptions that there are no other key trade restrictions apart of import duties. In other words, authors implicitly assume that Ukrainian agricultural and food producers comply with the EU SPS norms that will be true only after a completion of regulatory approximation.

In sum, the studies confirm benefits of the DCFTAs for three countries. However, it is expected that the benefits will be largely long-term and conditioned upon successful implementation of the legislation harmonization schedules embedded in the DCFTAs.

### 3. Trade regime before and after the DCFTAs

#### Market access to the EU: import duties and exemptions

Before signing the DCFTAs, all three countries – Georgia, Moldova, and Ukraine – already had reasonably good access to the EU market, especially in terms of tariffs. The most preferential tariff access was provided for Moldova and the least preferential – for Ukraine:

- Georgia was subject to GSP+;
- Moldova was entitled autonomous trade preferences;
- Ukraine was subject to GSP.

After the DCFTAs entered into force for Georgia and Moldova, and the ATPs for Ukraine, the EU further reduced its import duties towards three countries.

For Georgia and Moldova, the reduction has been most swift: duties were immediately eliminated for all products, except for products subject to tariff rate quotas or entry price regulation with an exemption of ad valorem component of the import duty. In addition, for both countries, the EU envisaged the application of an anti-circumvention mechanism allowing temporary reintroduction of import duties in case of fraud re-exports to the EU,

For Ukraine, the opening of the EU market has been more gradual. A transition period for an elimination of the import duties is seven years, and, as in case of Georgia and Moldova, some products are subject to tariff rate quotas or entry price regulation with an exemption of ad valorem component of the import duty.

Table 1 presents a review of ad valorem equivalents of import duties applied by the EU towards Georgia, Moldova, and Ukraine before and after the DCFTAs (ATPs in case of Ukraine).

**Table 1: Estimates of EU import duties, percentage**

	Simple average	Min	Max	Standard deviation
<b>2013</b>				
Ukraine	4.2	0.0	155.7	7.8
Georgia	0.6	0.0	150.9	5.3
Moldova	0.1	0.0	81.5	2.2
<b>2015</b>				
Ukraine	0.9	0.0	21.8	2.8
Georgia	0.0	0.0	0.0	0.0
Moldova	0.0	0.0	0.0	0.0
<b>For reference</b>				
EU MFN	8.3	0.0	351.1	14.4

Source: WITS database, own calculations

Note: ad valorem equivalents are not estimated for selected product categories, so provided estimates should be considered as lower bound of ad valorem equivalents

Tariff rate quotas (TRQs) constitute the most important exemption from duty-free trade with the EU envisaged within the DCFTAs. In all three countries, TRQs offer a duty-free quota, beyond which a standard tariff is applied.

The largest number of TRQs is envisaged in trade with Ukraine (Table 2), covering 36 categories of mostly agriculture and food products. Moldova faces six TRQs on the EU market, a noticeable reduction compared to previous regime. Georgia faces just one TRQ – on garlic, the only product repeated in TRQ lists for all three countries.

**Table 2: Tariff rate quotas applied by EU in framework of DCFTAs**

Description of broad category	Ukraine	Georgia	Moldova
Beef meat	YES	NO	NO
Pork meat	YES	NO	NO
Sheep meat	YES	NO	NO
Poultry meat and poultry meat preparations	YES	NO	NO
Milk, cream, condensed milk and yogurts	YES	NO	NO
Milk powder	YES	NO	NO
Butter and dairy spreads	YES	NO	NO
Eggs and albumins	YES	NO	NO
Honey	YES	NO	NO
Garlic	YES	YES	YES
Sugars	YES	NO	NO
Other Sugars	YES	NO	NO
Sugar syrups	YES	NO	NO
Common wheat, flours, and pellets	YES	NO	NO
Barley, flour and pellets	YES	NO	NO
Oats	YES	NO	NO
Maize, flour and pellets	YES	NO	NO
Barley groats and meal; cereal grains otherwise worked	YES	NO	NO
Malt and wheat gluten	YES	NO	NO
Starches	YES	NO	NO
Starch processed	YES	NO	NO
Bran, shaps and residues	YES	NO	NO
Mushrooms	YES	NO	NO
Processed tomatoes	YES	NO	NO
Grape juice	YES	NO	YES
Apple juice	YES	NO	NO
Fermented-milk processed products	YES	NO	NO
Processed butter products	YES	NO	NO
Sweet corn	YES	NO	NO
Sugar processed products	YES	NO	NO
Cereal processed products	YES	NO	NO
Milk-cream processed products	YES	NO	NO
Food preparations	YES	NO	NO
Ethanol	YES	NO	NO
Cigars and Cigarettes	YES	NO	NO

Description of broad category	Ukraine	Georgia	Moldova
Tomatoes, fresh or chilled	NO	NO	YES
Table grapes, fresh	NO	NO	YES
Apples, fresh	NO	NO	YES
Plums, fresh	NO	NO	YES

Source: Association Agreements EU-Georgia, EU-Moldova, EU-Ukraine

Entry prices with exemption of ad valorem component of the import duty constitute the second large category of exemptions. They are extensively applied for all three countries (Table 3).

**Table 3: Products subject to entry prices, with exemption of ad valorem component of the import duty applied by EU in framework of DCFTAs**

Product description	Ukraine	Georgia	Moldova
Tomatoes, fresh or chilled	NO	YES	NO
Cucumbers, fresh or chilled	NO	YES	YES
Globe artichokes, fresh or chilled	NO	YES	YES
Courgettes, fresh or chilled	NO	YES	YES
Sweet oranges, fresh	YES	YES	YES
Clementines	YES	YES	YES
Monreales and satsumas	YES	YES	YES
Mandarins and wilkings	YES	YES	YES
Tangerines	YES	YES	YES
Tangelos, ortaniques, malaquinas and similar citrus hybrids (excl. clementines, monreales, satsumas, mandarins, wilkings and tangerines)	YES	YES	YES
Lemons "Citrus limon, Citrus limonum"	YES	YES	YES
Table grapes, fresh	YES	YES	NO
Apples, fresh (excl. cider apples, in bulk, from 16 September to 15 December)	YES	YES	NO
Pears, fresh (excl. perry pears in bulk from 1 August to 31 December)	YES	YES	YES
Apricots, fresh	YES	YES	YES
Sour cherries "Prunus cerasus", fresh	YES	YES	YES
Cherries (excl. sour cherries), fresh	YES	YES	YES
Nectarines, fresh	YES	YES	YES
Peaches (excl. nectarines), fresh	YES	YES	YES
Plums, fresh	YES	YES	NO
Grape juice	YES	YES	NO
Grape must	YES	YES	YES

Source: Movchan (2015)

The special anti-circumvention mechanism is envisaged in DCFTAs with Georgia and Moldova, but not in the DCFTA with Ukraine. The procedure is triggered if the pre-specified volume of exports of products subject to the anti-circumvention check is approached. If the country cannot explain the expansion of exports and thus fraud re-exports is suspected, the EU may

temporary reintroduce import duties. The volumes could be increased if the country can prove its increased production and export capacity. Table 4 presents products subject to this mechanism.

**Table 4: Products subject to anti-circumvention mechanism applied by EU in framework of DCFTAs**

Description of broad category	Ukraine	Georgia	Moldova
Beef meat	NO	YES	NO
Pig meat	NO	YES	YES
Sheep meat	NO	YES	NO
Poultry meat	NO	YES	YES
Dairy products	NO	YES	YES
Eggs in shell	NO	YES	YES
Eggs and albumins	NO	YES	YES
Cereals	NO	YES	NO
Malt and wheat gluten	NO	YES	NO
Starches	NO	YES	NO
Sugars	NO	YES	YES
Bran, sharps and other residues	NO	YES	NO
Sweet corn	NO	YES	YES
Sugar processed	NO	YES	YES
Cereal processed	NO	YES	YES
Cigarettes	NO	YES	YES
Wheat, flour and pellets	NO	NO	YES
Barley, flour and pellets	NO	NO	YES
Maize, flour and pellets	NO	NO	YES
Dairy processed	NO	NO	YES

Source: Movchan (2015)

Summing up, the DCFTAs envisage a significant and almost immediate elimination of import duties for Georgia and Moldova, but starting from the very low basis. For Ukraine, facing relatively higher tariff protection on the EU market, the reduction is slower, and the application of exemptions is the most extensive.

#### Market access to the EU: SPS and TBT

Sanitary and phytosanitary (SPS) measures for agriculture and food products and technical barriers to trade (TBT) for industrial products constitute very important non-tariff barriers on trade with the EU. The DCFTAs supply at significantly reducing these barriers by establishing equivalent regulatory systems in the EU and three partner countries.

Obviously, the process of regulatory approximation is quite long. As the starting conditions in three countries are very different, their progress in implementing the DCFTA commitments will also vary.

The SPS measures regulating the EU imports of animal origin products are expected to be the most problematic, as three countries are not even authorized to supply all animal origin products to the EU market now.

Table 5 presents what animal origin products can be supplied by three countries in principle, and Table 6 presents the number of individual establishments allowed supplying specific products to the EU. As shown, Ukraine has the best access to the EU market regarding satisfying the SPS requirements for animal products. Moldova has the second best access, and Georgia – as of now – cannot supply any animal origin products to the EU market.

**Table 5: Animal origin products with approved by the EU measures to monitor certain substances and residues thereof**

Product Description	Ukraine	Georgia	Moldova
Bovine	YES	NO	NO
Ovine/caprine	NO	NO	NO
Porcine	YES	NO	NO
Equine	NO	NO	NO
Poultry	YES	NO	YES
Aqua-culture	YES	NO	YES
Milk	YES	NO	NO
Eggs	YES	NO	YES
Rabbit	NO	NO	NO
Wild game	NO	NO	NO
Farmed game	NO	NO	NO
Honey	YES	NO	YES

Source: [http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L\\_.2016.103.01.0043.01.ENG](http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv%3AOJ.L_.2016.103.01.0043.01.ENG)

**Таблица 2: Animal origin products with approved by the EU establishments**

	Ukraine		Georgia		Moldova	
	Year when first permitted	Number of establishments	Year when first permitted	Number of establishments	Year when first permitted	Number of establishments
<b>Food</b>						
Section II : Meat from poultry and lagomorphs	2013	6				
Section V : Minced meat, meat preparations and mechanically separated meat (MSM)	2015	1				
Section VI : Meat products	2013	2				
Section VIII : Fishery products	2008	16			2014	1
Section IX : raw milk, dairy products, colostrum and colostrum-based products	2015	10				
Section X : Eggs and egg products	2014	2				
Section XI : Frogs' legs and snails	2016	5			2016	1



	Ukraine		Georgia		Moldova	
	Year when first permitted	Number of establishments	Year when first permitted	Number of establishments	Year when first permitted	Number of establishments
Section XIII : Treated stomachs, bladders and intestines: casing only	2007	1				
<b>Semen and Embryo</b>						
Section IX : Storage of derived products	2007	1				
<b>Animal by-products</b>						
Section II : Dairy plants	2011	42				
Section III : Other facility for the collection or handling of animal by-products (i.e. unprocessed/untreated materials)	2011	111	2016	2	2011	8
Section IV : Processing plants	2011	22			2011	20
Section V : Petfood plants	2011	25				
Section VI : Game trophies plants	2015	1				
Section VII : Plants or establishments manufacturing intermediate products	2015	1				
Section VIII : Fertiliser and soil improvers	2011	7				
Section IX : Storage of derived products	2013	2				

Джерело: [https://webgate.ec.europa.eu/sanco/traces/output/non\\_eu\\_listsPerCountry\\_en.htm#](https://webgate.ec.europa.eu/sanco/traces/output/non_eu_listsPerCountry_en.htm#)

All three countries approved comprehensive reform strategies in the sphere of SPS in line with their DCFTA obligations (Emerson and Kovziridze, ed. (2016), Emerson and Cenus, ed. (2016), Emerson and Movchan, ed. (2016)). These strategies covering more than two hundred EU directives and regulations are aimed to bring Georgia, Moldova and Ukraine legislation in equivalence with the EU in food safety sphere. The process of adoption and implementation of the harmonized legislation is expected to take from five to ten years or even longer.

In the TBT sphere, countries committed to harmonize the horizontal legislation establishing general principles of non-food product safety, covering development of technical regulations and standards, accreditation, conformity assessment, and market surveillance. In addition, countries took commitments to approximate a selected number of sectoral directives of the New Approach. Ukraine committed to approximate to 27 directives (Emerson and Movchan, ed. (2016)), Georgia – to 21 (Emerson and Kovziridze, ed. (2016)), and Moldova – to 20 (Emerson and Cenus, ed. (2016)).

The progress varies, with Ukraine once again leading the process. It is expected that Ukraine will start ACAA talks for the first several sectors in autumn 2016. The signature of the Agreement on Conformity Assessment and Acceptability of Industrial Products (ACAA) allows the third countries to enter the EU market without additional checks.

Summing up, the progress in harmonization of national legislations with the EU acquis is so far moderate, so indeed the gains associated with the reductions of NTMs is only long-term.

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