



EU Trade Regimes And Prospects Of Their Efficiency For Small Counties

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Introduction

Regional and foreign aspects of trading policy of developed countries refer to the problems of economic development, as well as the problems of integration of the countries with small opened economy into the regional unions. In this respect, the evaluation of the possibilities of preferential trading regimes and their prospective outcomes are distinguished by actuality.

Effects of the use of these regimes in terms of optimal integration into global economy are assessed on the example of Georgia and European Union. Due to the events in neighbor countries, geographical location and neighborhood policy the way to integrate into the regional unions and World Trading System is without alternative for Georgia.

Analytical consideration of preferential trade regimes

The majority of countries engaged in international economic relations have various trade regimes. The nature of those regimes may depend on:

- Economic and political interests of those countries;
- Their participation in regional and global economic unions and organizations;
- Programs of assistance to weaker economies et cetera.

Countries with MFN Regime

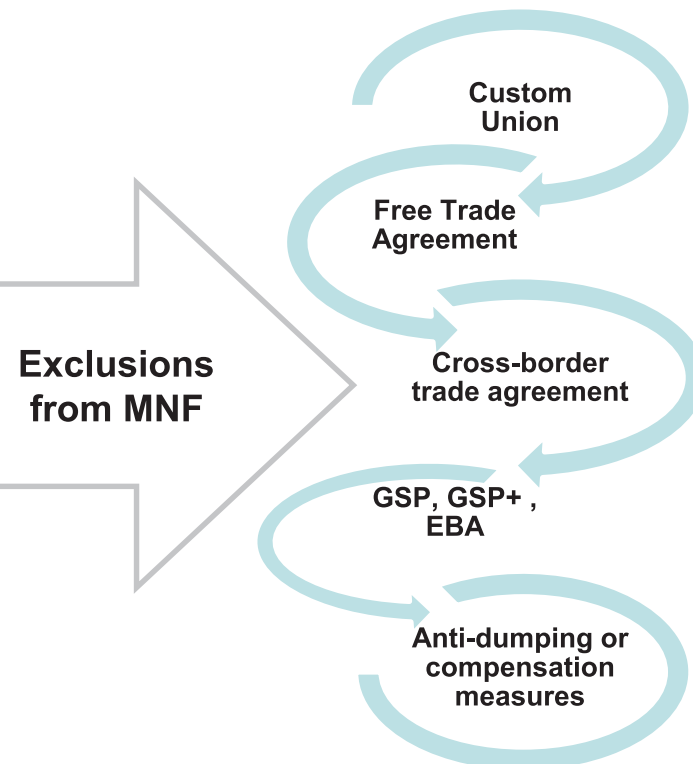
granted on the basis WTO membership or bilateral trade agreement

Countries with Ordinary Trade regime

countries have no bilateral or multilateral agreements or they are not WTO members

Preferential or free trade regimes

Imported goods from these countries are duty free or have preferential access to markets



What are Trade Preferences?

There are two types of preferential regimes: symmetric and asymmetric. The symmetric preferential trade regime between countries envisages bilateral establishment of preferential trade terms/tariffs, whereas the asymmetric regime, preferences are unilateral and no reciprocity is demanded from the country enjoying those preferences. The most common forms of symmetric preferential regimes are duty-free/free trade and customs unions. Asymmetric preferential trade regimes are established between the countries with different levels of economic development. to weaker economies et cetera.

Lower trade barriers, e.g. tariff reductions, offered to developing countries to improve their market access;

• Normally non-reciprocal

– High income country offers trade preferences to developing countries;

• Violate GATT rules

– Enabling Clause 1979

– Historical interpretation: Cannot discriminate between developing countries, except better access for LDCs;

• Possible effects: increased exports and diversification

EU Trade Preferences

Preferences for African, Caribbean and Pacific (ACP) countries

Preferences for Mediterranean countries

Generalized System of Preferences (Special arrangements for Least Developed Countries (LDCs) ; GSP+)

Under GSP preferences (Council Regulation (EC) No 732/2008 rolled over by Council Regulation (EC) No 512/2011) 176 countries and overseas territories were divided in 3 groups:

Everything But Arms (EBA) – duty-free quota-free access to the EU market for all products from the 49 least developed countries

GSP+ – deep tariff cuts for countries which ratified and implemented international conventions relating to human and labor rights, environment and good governance.

GSP general arrangement for all the other beneficiaries.

Main Objectives of new GSP scheme are:

- Focus the preferences on those most in need—Least Developed Countries and other poor economies with no other preferential channels to access the EU market. Reflection of different trade, financial and development needs of countries;
- Enhance GSP+ as a tool to support partners which are serious about implementing international conventions;
- Make the system more transparent and predictable for economic operator;
- Adapt to Lisbon procedures—enhanced role for the European Parliament.

EU Trade statistics

European Union Trade with GSP, 2014

Indicator	Unit	Period	Imports	Exports	Total trade	Balance
Last year	Million euros	2014	997,235	792,764	1,789,998	-204,471
Share in EU trade	%	2014	59.4	46.6	52.9	
Annual growth rate	%	2013 - 2014	-1.5	-1.9		
Annual average growth rate	%	2013 - 2014	2.9	5.9		

European Union Trade with GSP (Import by product groups, 2014)

Product Value	Value (Million €)	Share %
Agricultural products	71,544	7.2
Fishery products	12,135	1.2
Industrial products	913,555	91.6
TOTAL	997,235	100.0

European Union Trade with GSP (Export by product groups, 2014)

Product Value	Value (M€)	Share %
Agricultural products	61,939	7.8
Fishery products	2,233	0.3
Industrial products	728,591	91.9
TOTAL	792,764	100.0

Share: share in Total with Total defined as all products
Growth: relative variation between current and previous period
Source: European Commission, European Union, Trade in goods with GSP. Retrieved from http://trade.ec.europa.eu/docdb/ctdoc2011/january/tradecsp_147291.pdf

Trade regimes of Georgia

Population	4.5 million	2014
GDP	\$16.5 billion	2014
GDP growth	4.8%	2014
Inflation	3.1%	2014



Foreign Trade of Georgia 2007-2014 (million US\$)

FOREIGN TRDAE	2007	2008	2009	2010	2011	2012	2013	2014	2015* 2 Q
External trade turnover	6444	7797	5634	6935	9225	10413	10921	11454	4761
Export (FOB)	1232	1495	1134	1677	2167	2376	2910	2861	1082
Import (CIF)	5212	6302	4500	5257	7038	8037	8012	8593	3680
Foreign Trade Balance	-3980	-4806	-3367	-3580	-4852	-5661	-5102	-5733	-2598

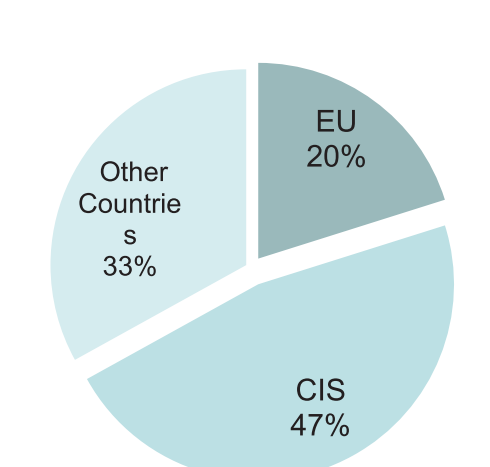
Georgia - EU Trade

The European Union is the second largest partner of Georgia after Commonwealth of Independent States (CIS)

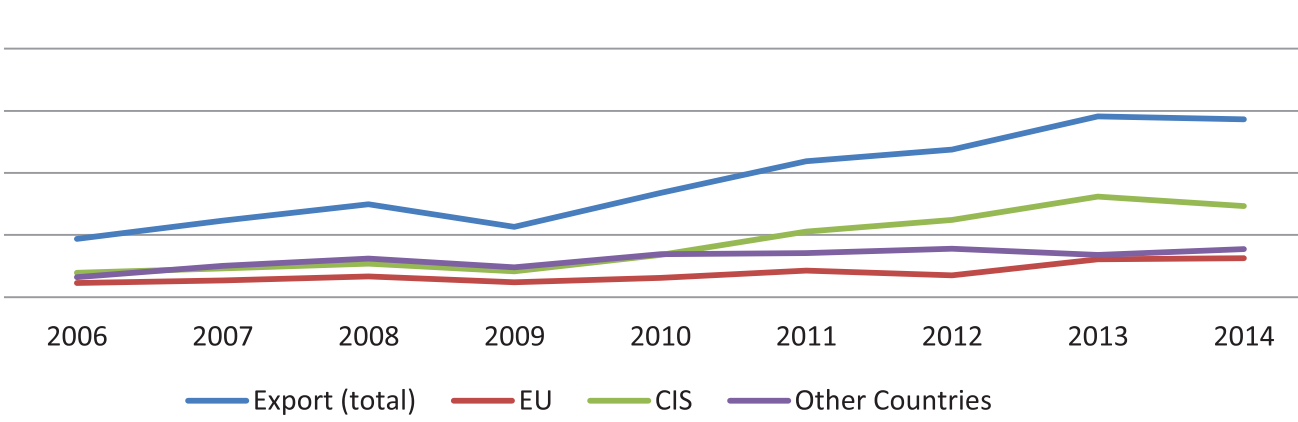
Georgia's export by countries (thousands of US dollars)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Export (TOTAL)	936,375	1,232,111	1,495,345	1,133,622	1,677,472	2,186,715	2,376,155	2,909,516	2,860,671
EU	225,357	268,534	335,165	237,716	309,550	424,348	352,909	607,113	624,086
CIS	391,078	461,896	540,885	416,162	676,673	1,052,505	1,244,428	1,620,731	1,465,185
Other Countries	319,940	501,681	619,295	479,745	691,249	709,862	778,818	681,671	771,400

Georgia's Export by countries



Export dynamic by countries



Prospects of optimal use of EU Trade Regimes

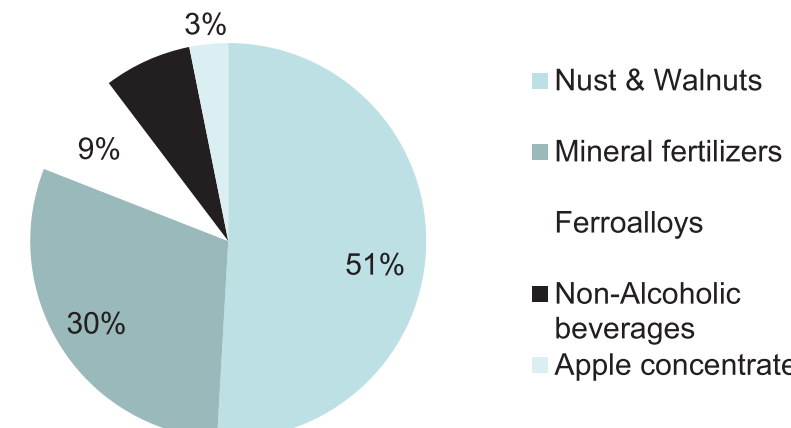
Georgia has the lowest tariffs for EU production – 5.57% for agricultural products, 0.45% for industrial products. In 2013, the gap between exports and imports narrowed due to decrease in imports and increase in exports. In 2012, 20% of the total agricultural exports were sent to EU countries; in 2013, the corresponding indicator increased to 23%. In total, agricultural products comprise 26% of Georgian exports, which is 30% of trade turnover with the EU.

Georgia's export to European Union (ml. US dollars, 2006-2014 years)

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Export from Georgia to EU under GSP+	95.4	127.3	117.9	112.3	123.1	213.9	133.3	231.7	131.1
Total export from Georgia to EU	225	268	335	237	309	424	352	607	624
GSP+ share	42%	48%	35%	47%	40%	50%	38%	38%	21%

Georgia's Export to EU Under GSP+ regime amounts 40 % of the total EU Export

TOP 5 Products under GSP+



Leading categories of exported products under GSP+ regime are: Nuts & Walnuts, Mineralfertilizers, Ferroalloys, Non-Alcoholic beverages, Apple concentrate etc.

According to the evaluation of the use of EU trade preferences as of 2010, Georgia had a very high indicator of the use of preferences (92.52%), which means that more than 90% of trade turnover was implemented at a zero-rate tariff. EU scheme enables Georgia to export products whose total value does not exceed EUR 6000 only by using invoice declaration. For the rest of products the ad valorem taxes decreased by 3.5%.

After the ratification of the Agreement on Deep and Comprehensive Free Trade Area with the European Union the GPS+ regime was annulled and it will be replaced by DCFTA ensuring bilateral and gradual annulment of barriers impeding the access to the market.

According to the information provided by the Information Unit of Export Issues of European Union, there are some products which currently enjoy GSP+0 tariff preferences and consequently, the entry price still applied to them

List of products with ordinary tax rate under GSP + scheme

Code	Product	EU ordinary tax rate (%)
08061010	Table grapes	20
08092100	Sour cherries, fresh	12
08093010	Nectarine	17.6
08094005	Plums	6.4
08091000	Apricots, fresh	20
2009	Different varieties of fruit juice	22.4

Increase of agricultural export potential is limited due to the fragmentation of farms and land parcels. It will be more difficult for individual farmers than cooperatives to meet EU standards and certification requirements as well as to take risks associated with the entry of new markets and export of their products considering the high competitiveness of EU markets. Currently, the primary production dominates the agricultural sector of Georgia. Farmers produce products mainly for personal consumption or for trade in a chaotic manner. Thus, without the establishment of a complex value chain it will be difficult to fully utilize potential benefits of DCFTA in terms of agricultural exports.

The highest growth is expected in breeding cattle and meat production (more than 60%) and cultivation of vegetables, fruit, nuts and oily grains (more than 20%). The current structure of husbandry is represented by many individual farmers producing products for their personal consumption; also, a small number of commercialized family farms and large enterprises. To stimulate the development of the sector, it is necessary, for the beginning, to establish main institutions such as commodity registry and veterinary service. Special emphasis must be placed on the improvement of production technique, cattle breeding, fodder and in general, animal health protection.

Agreements reached between Georgia and the EU and especially steps taken within the framework of DCFTA create favourable conditions for the increase in Georgian exports to EU market, but one of the significant obstacles for the Georgian side is the satisfaction of international and EU standards. Moreover, a trend that has been observed worldwide, especially after the crisis, imply the increase in nontariff barriers which include various standards and occupy a large share in actively applied non-tariff barriers which remains one of the most difficult and insurmountable problems for Georgia. The reason of utilization nontariff barriers may be economic, environmental, social, political or combined. Nontariff barriers may also be used as the tool to impede trade— by heightening standards or posing additional technical requirements. Although Georgia assumed the obligations to improve its standards and approximate the standards with those of EU, it still fails to fulfil corresponding measures.

Trade regimes of Georgia

DCFTA will be beneficial for the increase of welfare of those citizens of Georgia who will have access to the better quality products on the local market and in the longer term, who will find increase in revenues due to the new business opportunities and economic growth resulting from European integration. The past experience of the use of preferential trade regimes shows that trade clearly favours those products that enjoy mentioned preferences. In order to mitigate possible by-effects and challenges caused by the enactment of DCFTA, the following recommendations should be taken into account:

◆ To develop medium- and long-term strategies for agricultural sector, evaluating its export potential and identifying those sectors in which Georgia may have the competitive advantages;

◆ To develop targeted sector programs and initiatives for increasing export potential in specific fields;

◆ To assist in certification procedures for the fulfilment of requirements specified by nontariff measures, to conduct consultations, to enhance the role of training centres and houses of farmers;

◆ To develop a manual for producers providing trade-related information;

◆ To form certain activities for the approximation to the standards of developed countries (ISO, IEC, CEN, CENELEC) on the basis of establishing targeted organizations.

◆ In addition, we should take into account that the level of development in Georgia significantly lags behind the level of European development. Without significant economic growth we will not be able to overtake the European Union's average level, therefore first and foremost, it is essential to bring Georgian legislation so that not be cause harm to Georgia's economic potential;

◆ Georgia Needs to adopt EU regulations step-by-step and with great caution;

◆ Georgia needs to introduce more effective system of quality control;

◆ Introduction of EU- Georgia unified database will yield positive results.

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