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BULLETIN

Implementation of EU Trade Agreements with Georgia, Moldova, and Ukraine: Results and Challenges

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The pace of the realisation of the Deep and Comprehensive Free Trade Agreements (DCFTAs) by Eastern Partnership (EaP) countries associated with the EU varies. Most progress has been made in relation to trade in goods and the harmonisation of standards for industrial and food products with the EU. In other areas, such as the liberalisation of services or competitiveness, the countries differ in the implementation of the provisions. The DCFTAs with Moldova and Ukraine have brought the most benefits, and to a lesser extent, the one with Georgia. To further increase trade, it is crucial to speed up the adoption of EU standards by enterprises, and in this area, the Union can increase its assistance.

The DCFTAs concluded with Georgia, Moldova, and Ukraine within the scope of the 2014 Association Agreements are the EU's most important instruments for shaping economic relations with these countries. The deals entered into force and were provisionally applied in Georgia and Moldova from 2014, and in Ukraine from 2016 (the EU unilaterally lifted most duties in 2014). The scope of the agreements goes well beyond the establishment of a free trade area. The associated countries have committed themselves to adopting many EU rules in the long term in the areas of customs cooperation, public procurement, competition, services, intellectual property, the energy market, and sustainable trade.

Progress in DCFTA Implementation. The associated countries have made good progress in the most important parts of the DCFTAs closely related to trade (see Table in Annex). This is because the economic benefits are related to the possibility of increased exports to the EU. All three countries adopted legislation incorporating most of the declared standards, except particularly for veterinary and animal products standards due to the high costs of their introduction. The transit of goods and customs cooperation with the EU have improved, although there is still room for improvement in Moldova and Ukraine.

In other areas, the pace of DCFTA provisions adoption varies, depending, among others, on the perception of costs and benefits of the reforms, the degree of EU pressure for the implementation of specific regulations, or the internal situation in these countries. In the field of public procurement, the three countries have introduced a digital public procurement system, although Moldova struggles with its functionality. The Ukrainian and Georgian solutions are highly rated by international institutions, despite the persistent problems with high-level corruption. In terms of competitiveness, Georgia has liberalised the rules, but Moldova and Ukraine still need to improve state aid control. In liberalisation of services, while opening their sector to EU companies, the associated countries did not obtain equal reciprocity, rather a mixed result. They gained greater access to the EU market for electronic and financial services, international maritime transport, as well as postal and courier services. The greatest progress in the field of electronic services has been in Georgia and Ukraine, which both have a dynamically developing digital sector. Both countries may seek to revise the DCFTA annexes to increase access to the EU market in this area. In other services sectors, the changes are slower. Moreover, the associated countries have done little to enforce intellectual property laws, despite legislation in line with good international practice. Ukraine and Moldova also have delayed meeting their sustainable trade commitments (Georgia has not committed to adopt such provisions in its DCFTA).

Economic Impact of the DCFTAs. The most important benefit of adopting the DCFTAs has been the dynamic increase in Moldova's and Ukraine's exports to the EU, despite the economic downturn in these countries in 2014-

16. According to the European Commission (EC), in the period 2013-2019, Moldova's exports nearly doubled (to €1.78 billion) and Ukraine's increased by 42% (to €19.1 billion). Imports from the EU also increased, but at a slower pace. In 2020, there was a decline in the value of trade due to the COVID-19 pandemic and related restrictions. Despite this, in 2020, 36% of Ukraine's exports went to the EU, and in the case of Moldova, 67%. The EU has significantly strengthened its position as a major trading partner in these countries. In 2020, 39% of Ukraine's trade was with the EU, while in Moldova, 52%. In 2020, among the Member States, Poland was Ukraine's largest trading partner, and for Moldova, it was Romania.

Due to the lack of a land border with the EU and higher transport costs, as well as its small economy, Georgia did not see any major changes to its economy from the DCFTA. Georgia's exports to the EU in 2013-2019 increased in value by only 2%, although in 2020 it increased by 16% in comparison to 2019, to €763 million. In 2013-2019, the EU's share in Georgia's total trade decreased to 22% (from around a third). The adoption of EU standards has enabled Georgia to diversify its trade partners. It has signed free trade agreements with China, Hong Kong, and EFTA countries, and is negotiating similar agreements with India and Israel.

Despite the associated countries expectations, the DCFTAs have not led to a greater inflow of EU investments. According to Eurostat, in 2013-2019, direct investments by the EU-27 in Ukraine increased by 7% to €21.9 billion and in Moldova by 36% to €1.3 billion, but in Georgia it decreased by 59% to €1. 3 billion.

Challenges. The biggest barrier for associated countries to increase exports to the EU is the cost to producers of adopting EU safety standards, mainly in the food sector. While the number of companies exporting to the EU is steadily increasing, many small and medium-sized enterprises (SMEs) are not entering the EU market for this reason. According to EC data, in 2021 2,138 SMEs from Moldova exported to the EU (3.7% of all companies), 950 from Georgia (1.2%), about 14,500 from Ukraine (3.8%; 2019 data). The EU has mobilised loans for the development of SMEs, but this does not cover their needs. Within the scope of the main EU4Business loan programme, in 2020 loans were granted to 142 companies in Moldova (€15.36 million), 2,987 in Georgia (€70.25 million), and 762 in Ukraine (€59.63 million).

The problem in all the associated countries is the low level of approved veterinary-sanitary control procedures and the lack of the possibility of certifying most animal products. Only a few products then can be sold on the EU market (see Table). Moldova and Ukraine hardly reach their export quotas (quantitative restrictions) on meat products. The increased certification requires institutional changes, but also expenditures to launch expensive food testing laboratories. In 2021, the European Food Safety Authority assessed that the associated countries, Georgia and Moldova in particular, lack the financial and human resources to ensure effective food control.

In cases of plant products, which are easier and cheaper to certify, some EU import quotas hamper export potential as they are used up very quickly. Ukrainian producers filled the country's quotas for honey, grapes, apple juice, and processed tomatoes in just the first quarter of 2021. Therefore, Ukraine would like to revise the quotas. Moldova managed to renegotiate the issue with the EU and increase certain amounts in December 2019, including for grapes, plums, and cherries.

The mutual trade is limited by a number of systemic barriers. The poor condition of the transport infrastructure in the associated countries prevents the rapid transfer of goods. A further challenge to the flow of investments from the EU is the low quality of the rule of law in the associated countries. In all countries, they struggle to build an independent judiciary system and effectively fight corruption.

Perspectives. The EU-associated countries still have great potential to boost trade with the bloc through the DCFTAs. However, it requires they make more effort to increase the scale of product certification in accordance with EU standards. Increasing the Union's trade with associated countries is beneficial as it stabilises them and reduces economic dependence on Russia. Within the scope of the renewed EaP agenda, expected to be confirmed at the EaP summit in December this year, the EC could increase European Investment Bank loans for SMEs to adapt production to EU standards, advisory assistance, and increasing business contacts with the EU. Poland and Romania, for example, can promote their experiences through EU expert missions.

Challenges include gaining increased access to the EU market in the field of electronic and telecommunications services, as well as increasing export quotas for certain food products. This requires the consent of all Member States, but some of them, namely France and the Netherlands, may perceive service providers and producers, especially from the largest Ukraine, as too significant competition for their companies.

(see Annex below)

Table. Main Results of the DCFTAs: Trade-Related Issues.*

Area	Country	Results
Access to market of goods: - elimination of more than 98% of customs tariffs, except for certain categories of products with export quotas and transitional periods for the elimination of customs duties (up to 10 years)	Georgia	Apart from one product (garlic), food products are not covered by export quotas; there are no transitional periods for the elimination of customs duties. There are no economic disputes that require conciliation.
	Moldova	Several product categories are covered by export quotas (e.g., tomatoes, grapes, apples, garlic, plums, grape juice). On the EU side, there are several export quotas (e.g., for poultry) and transitional periods (e.g., for dairy, meat, and wine products). The issue is that provisions in Moldova regarding the obligation to place 50% of domestic products on store shelves are contrary to the DCFTA.
	Ukraine	Some categories of food products are subject to export quotas or transitional periods, on the EU side there are quotas for three products. Ukraine, contrary to DCFTA provisions, prohibits the export of timber to the EU. The Union applies anti-dumping duties on, e.g., certain Ukrainian steel products; there are several anti-dumping proceedings pending between Ukraine and certain Member States.
Technical standards for industrial products: - the adoption of EU standards and legislation on market surveillance; in the case of Ukraine and Moldova, the aim is to conclude an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA)	Georgia	By the beginning of 2021, Georgia had adopted around 8,000 EU standards (52% of all technical standards). The DCFTA does not assume the signing of the ACAA agreement due to the lack of benefits for Georgian trade.
	Moldova	In 2019, Moldova adopted all the European standards it had declared would be implemented (26,838). It does not qualify for initiating ACAA negotiations. It still applies some post-Soviet GOST standards that are contrary to EU standards.
	Ukraine	In 2020, Ukraine approximated 68% of technical standards (18,372) to international standards, including the EU. The Union is ready to start negotiations on the conclusion of the ACAA.
Food safety standards: - harmonisation of veterinary, phytosanitary and food safety standards.	Georgia	In the first quarter of 2021, Georgia approximated its regulations on 62% (169) of the declared EU legal acts (272) to be implemented by 2027. It has made progress in harmonising standards for plant products, while it lags behind in terms of animal products standards (export authorisation only for animal feed, honey, Black Sea fish and fish products) and the implementation of veterinary regulations.
	Moldova	Progress has been made in harmonising the standards for plant products, to lesser extent if it comes to animal products (authorisation for caviar, honey, and egg meal, ongoing evaluation for poultry as well as A and B eggs). There is no data on the scale of the implementation of the provisions. There are numerous instances of corruption in the issuing of export certificates.
	Ukraine	As of the beginning of 2021, Ukraine has approximated its regulations in terms of 60% of the declared EU legal acts (250). It has made progress on plant products, but to a lesser extent when it comes to animal products (export authorisation for poultry) and in the implementation of veterinary regulations.
Customs cooperation: - adoption of EU Customs Code, improvement of transit (entry to the CTC Common Transit Convention and introduction of the NCTS electronic goods transit system) and cooperation between customs services.	Georgia	The operation of customs services is assessed by international institutions as fast, efficient, and free of corruption. Georgia has adopted a new customs code in line with EU guidelines and is expected to introduce the NCTS and enter the CTC.
	Moldova	The Customs Code is aligned with EU practice. Moldova customs reform started in 2017. It started to introduce facilitations in the transit of goods. There are uncertain prospects for Moldova's accession to the CTC and implementation of the NCTS.
	Ukraine	The transit conditions for goods have improved, but it is still quite costly and lengthy. Ukraine updated the customs code and introduced the NCTS in March 2021, and is to enter the CTC.

Source: Own compilation based on reports by the European Commission, associated countries, and monitoring reports of think tanks (e.g., CEPS).

* Table does not include the results regarding the provisions on trade in energy resources because energy cooperation is governed by the provisions of the Association Agreement and the Energy Community Treaty.

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