

DEVELOPMENT OF AGRI-FOOD TRADE BETWEEN POLAND AND GEORGIA IN TERMS OF DCFTA EU-GEORGIA

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1. INTRODUCTION

Our eastern neighbours play a significant role in shaping the European Union's foreign policy. Its main objective is to establish new and strengthen existing relations between the EU and the eastern neighbours by tightening political cooperation and economic integration. The dimension of the EU's external policy is defined by the Eastern Partnership Programme (EaP), launched in 2009. It covers six countries, namely Ukraine, Belarus, Moldova, Georgia, Azerbaijan and Armenia. It aims at making these countries closer to the EU and ultimately signing association agreements and establishing free trade areas between the EU and the partner country¹. In the past, the new binding legal framework for cooperation has been concluded only with Ukraine, Moldova and Georgia². Belarus, Armenia and Azerbaijan, due to their complex internal situation, have not established closer relations within the EaP.

On 27 June 2014, the EU signed the association agreements with Georgia and Moldova. They fully entered into force on 1 July 2016, but the most important and the most

extensive part of those agreements, namely the agreements on the deep and comprehensive free trade area (DCFTA), has, in most cases, already been applied temporarily since September 2014. The association agreements are to gradually integrate these countries into the EU market. This process is to be possible thanks to, inter alia, lifting most customs duties and trade barriers and adapting to the Union standards. In turn, the EU-Ukraine DCFTA entered into force on 1 January 2016.

The objective of this paper is to assess the impact of the DCFTA concluded between the European Union and Georgia on agri-food trade in Poland, including the competitiveness of Polish food producers in this market. This has been preceded by a description of agri-food trade of Poland with Georgia, analysis of barriers to mutual trade and overview of the most important provisions of the DCFTA agreements on the liberalisation of trade in agri-food products.

The source of data on foreign trade flows in agri-food products was the UN Comtrade database. As the European Union, the paper means 28 Member States. On the other hand, agri-food products include products from HS sections 01-24.

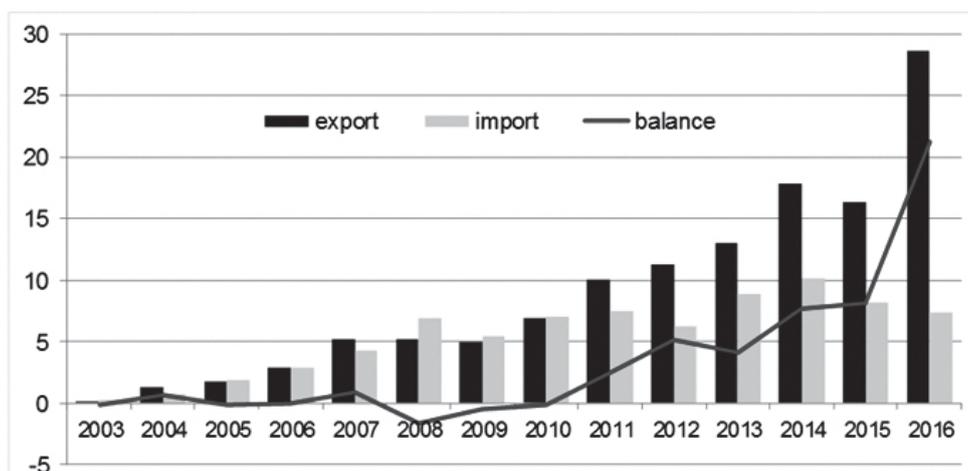
2. AGRI-FOOD TRADE BETWEEN POLAND AND GEORGIA

Polish trade with Georgia is steadily increasing. A particularly dynamic increase in the export of Polish food to the Georgian market took place after 2010. In the years 2010-

¹https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/eastern-partnership_en (27.04.2018)

² Michalewski T. Association agreements with the EU under the Eastern Partnership – selected issues, [in:] Sadowski M. (ed.) Studies on law, administration and political thought, University of Wrocław, 2015.

Chart 1. Polish agri-food trade with Georgia, in million USD



Source: own calculations based on UN Comtrade.

2016, the value of the Polish export to Georgia increased more than four times, up to USD 28.7 million (Chart 1). Since 2011, Poland has been recording a positive and growing trade balance, which in 2016 reached a record-breaking value of USD 21.3 million. Poland exports to Georgia mainly sugar and confectionery as well as animal fats, while imports wine, nuts and spices (Table 1). In 2016, Poland was the sixth largest – after Russia, Ukraine, Turkey, Brazil and Germany – supplier of food to Georgia. For a comparison, in 2010 Poland was ranked eighteenth. It should be stressed, however, that in 2016 Poland was the second, after Ukraine, largest supplier of sugar to the Georgian market.

In the years 2014-2016, Poland obtained from trade with Georgia the highest positive balance of trade in sugar, meat and offal and animal fats. In turn, the deficit took place in trade in alcoholic beverages (wine), fruit and nuts. It is worth stressing that in the analysed period Georgia had a permanent deficit in trade in those products.

3. BARRIERS TO TRADE BETWEEN THE EUROPEAN UNION AND GEORGIA

Tariff barriers

The EaP countries, including Georgia, even prior to the conclusion of the DCFTA were covered by the generalized schemes of tariff preferences (GSP), under which the

European Union grants unilateral customs preferences to the developing and least developed countries so as to support their development by providing additional income from international trade³. The basic principle of the GSP system is to reduce customs rates for sensitive goods to 3.5 pp and to completely lift customs rates for non-sensitive goods. The GSP system covers about half of tariff items of the EU common customs tariff, relating to agri-food products⁴. This means that, before the conclusion of the DCFTA, the EU import from Georgia took place on preferential terms, but they were much lower than those provided for in the free trade agreements.

Scope of liberalisation

Under the EU-Georgia DCFTA Act, all customs duties have been lifted in the import of Georgia from the EU. The EU lifted customs duties on all products except garlic. In the

³ Regulation of the European Parliament and of the Council (EU) No 978/2012 of 25 October 2012 applying a scheme of generalised tariff preferences; <http://eur-lex.europa.eu/legal-content/PL/TXT/HTML/?uri=CELEX:02012R0978-20160101&qid=1455871043509&from=PL>

⁴ Ł. Ambroziak, Effect of the European Union-Ukraine free trade agreement on the Polish agri-food import from Ukraine, Studies and Works of the Faculty of Economics and Management University of Szczecin, 2017, p. 11.

Table 1. Trade in agri-food products between Poland and Georgia (on an annual average basis in the years 2014-2016)

HS section	export		import		balance
	value in thousand USD	share in %	value in thousand USD	share in %	value in thousand USD
01 Live animals	12	0.1	0	0.0	12
02 Meat and offal	2,558	12.2	0	0.0	2,558
03 Fish and seafood	29	0.1	0	0.0	29
04 Milk products and eggs	1,088	5.2	0	0.0	1,088
05 Other animal products	116	0.6	0	0.0	116
06 Live plants and cut flowers	216	1.0	25	0.3	191
07 Vegetables	37	0.2	294	3.4	-257
08 Fruit and nuts	828	3.9	3,142	36.6	-2,315
09 Coffee, tea, spices	74	0.4	44	0.5	30
10 Cereals	0	0.0	0	0.0	0
11 Milling products, malt, starch	195	0.9	28	0.3	167
12 Oil seeds and oleaginous fruit	16	0.1	54	0.6	-38
13 Plant extracts	68	0.3	3	0.0	66
14 Other plant products	1	0.0	0	0.0	1
15 Animal or vegetable fats and oils	2,138	10.2	0	0.0	2,138
16 Meat and fish preparations	131	0.6	0	0.0	131
17 Sugar and confectionery	5,549	26.5	7	0.1	5,542
18 Cocoa and cocoa products	1,559	7.4	50	0.6	1,509
19 Cereal products and pastries	714	3.4	2	0.0	712
20 Fruit and vegetable products	909	4.3	115	1.3	794
21 Miscellaneous food products	1,474	7.0	13	0.2	1,461
22 Non-alcoholic beverages and alcohols	1,651	7.9	4,806	56.0	-3,155
23 Waste and animal feedstuffs	1,498	7.1	0	0.0	1,498
24 Tobacco and tobacco products	98	0.5	0	0.0	98
Total	20,959	100.0	8,583	100.00	12,376

Source: own calculations based on UN Comtrade.

import of garlic, a duty-free tariff quota of 220 tonnes has been established. In addition to the quota, the import of garlic took place at the MFN rate. Moreover, in the import of certain fruit and vegetables to the EU the entry price⁵ has been introduced and another fifteen categories of products have been covered by the anti-circumvention mechanism (Table 2). Under this mechanism, the average annual import volume from Georgia into the Union has been adopted for each category of such products and defined as the threshold value. Where the import reaches 80% of the threshold value, Georgia is required to provide the Union with a justification for the capacity to produce products to be exported to the Union in the quantity exceeding that specified in the agreement. In the absence of such justification, the European Union may suspend the preferential treatment of those products.

Georgia, which has the poorly developed agri-food sector and is a net food importer, has fully opened up its market to agri-food products from the EU. On the other hand, the European Union has maintained the protection of the most sensitive products by introducing a mechanism preventing the groundless use of the preferences granted.

Non-tariff barriers

The free trade agreements concluded by the European Union also govern the issues other than tariff barriers, e.g. sanitary and phytosanitary standards (SPS). The main objective of including the issues governing the application of these standards in the agreements concluded is to minimise the negative impact of the existing SPS measures on trade while ensuring the protection of life and health of humans, animals and plants. The agreements concluded by the EU are

⁵ They were: tomatoes, cucumbers, artichokes, courgettes, oranges, clementines, monreals and satsumas, tangerines, tangelos, lemons, grapes, apples, pears, apricots, cherries, sweet cherries, nectarines, peaches, plums, grape juice, grape concentrate, grape must.

very similar in these terms. They relate, in particular, to the issues such as the approximation of the regulatory system, recognition of the status of the parties in terms of animal and plant health, application of the regionalisation principle and establishment of a mechanism to recognise the equivalence of measures maintained by the party.

Under each agreement, the Subcommittee for Sanitary and Phytosanitary Management (SPS Subcommittee) is established, which is a kind of platform for exchanging information and making it possible to develop a common position on the standards, guidelines and recommendations as part of each SPS.

In the EU-Georgia DCFTA, SPS measures refer to the standards for food and feed additives (i.e.: food additives, processing aids, food flavourings, food enzymes as well as feed additives, feed materials, undesirable substances in feed) and for animal welfare (stunning and slaughter of animals, transport of animals, rearing of animals), as well as other measures such as food disinfection chemicals or growth hormones.

An important issue governed by the EU SPS agreements is the conditions and provisions for the temporary approval of companies producing animal or vegetable products. In accordance with the agreement, the partners recognise the competence of the EU institutions to control and monitor the production's compliance with the EU food safety requirements based on appropriate guarantees provided by the party without prior on-the-spot inspections⁶.

Rules of origin

Rules of origin (RoO) specify the criteria to be met if a given product is to be considered to originate in a given country

⁶ Annex VIII to the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Georgia, of the other part. L261/4 30.08.2014

Table 2. Products covered by the anti-circumvention mechanism in the import from Georgia into the EU

Product category	Threshold value (tonnes)
Beef, pork and sheepmeat	4 400
Poultry meat	550
Milk products	1 650
Eggs in shells	6 600
Eggs and albumins	330
Mushrooms	220
Cereals	200 000
Malt and wheat gluten	330
Starches	550
Sugar	8 000
Bran, meal and other residues	2 200
Sweet corn	1 500
Processed sugar	6 000
Processed cereals	3 300
Cigarettes	500

Source: own study based on DCFTA.

or region and if the exporter is to make use of preferential customs duties. According to the nature of the DCFTA, only products coming from one party may use preferences provided they meet specific additional requirements.

In the analysed agreement, products originating in the given country are those which have been fully obtained in the given country (including plant products harvested there and live animals born and bred there, products derived from live animals bred there) as well as products obtained in the given country and containing materials which have not been fully obtained there, provided that those materials have undergone sufficient treatment or processing in the European Union. The RoO also takes into account the principle of *insufficient treatment or processing* which includes, *inter alia*, operations to ensure the preservation of products in good condition during transport and storage.

Geographical indications

The free trade agreements also govern the intellectual property rights, including the protection of geographical indications (GI). A geographical indication is a wordy indication referring, directly or indirectly, to the name of a place, town, region or country (land) which identifies

the goods as originating from there, if the specific quality, reputation or other characteristics are attributable mainly to the geographical origin of these goods. The European Union recognises two types of GI for foodstuffs – Protected Designation of Origin (PDO) and Protected Geographical Indication (PGI)⁷ – and similar categories for wines and spirits.

The GI protection is of major importance for the Union producers, both economic and cultural, therefore in the EU's interest is to extend the protection of these names also in international markets. As of 12 March 2018, the number of registered food product names with geographical indications (excluding wines and spirits) in the DOOR database was 1,425. Most protected names came from Italy (295), France (246), and Spain (195). In Poland, 39 products are currently registered (8 PDO, 22 PGI and 9 GTS).

Within the framework of the DCFTA, the EU has secured the selected 805 GIS for food products in the Georgian market, including six GI originating in Poland i.e.: *Bryndza*

⁷ The third category are traditional products, which are designated as Traditional Specialities Guaranteed (TSG), the production of which does not have to be linked to a specific geographical area, hence they are not officially classified GI. Currently, Poland has 9 TSG registered, while the entire EU – 56.

Table 12. RCA indices for the agri-food export of Poland to Georgia and for the agri-food export of Georgia to Poland (on average in the years 2014-2016)

HS section		Trade of Poland with Georgia	
		RCA in the Polish export to Georgia	RCA in the Georgian export to Poland
01	Live animals	0.12	0.00
02	Meat and offal	1.10	0.10
03	Fish and seafood	0.06	0.00
04	Milk products and eggs	1.43	0.00
05	Other animal products	0.90	0.00
06	Live plants and cut flowers	1.77	0.00
07	Vegetables	0.08	4.96
08	Fruit and nuts	0.85	19.46
09	Coffee, tea, spices	0.13	0.51
10	Cereals	0.00	0.00
11	Milling products, malt, starch	0.52	1.75
12	Oil seeds and oleaginous fruit	0.10	0.38
13	Plant extracts	6.34	0.00
14	Other plant products	0.68	0.00
15	Animal or vegetable fats and oils	1.18	0.00
16	Meat and fish preparations	0.40	0.00
17	Sugar and confectionery	2.22	0.00
18	Cocoa and cocoa products	2.25	0.00
19	Cereal products and pastries	0.90	0.00
20	Fruit and vegetable products	2.27	1.96
21	Miscellaneous food products	1.77	0.14
22	Non-alcoholic beverages and alcohols	1.13	66.42
23	Waste and animal feedstuffs	2.21	0.00
24	Tobacco and tobacco products	0.06	0.00
Total		1.07	4.82

Source: own study based on UN Comtrade data.

Podhalańska, Oscypek, Wielkopolski Ser Smażony, Miód Wrzosowy z Borów Dolnośląskich, Andruty Kaliskie and Rogal Świętomarciński. In addition, the geographical indications of eighteen Georgian wines are to be protected in the European Union. Among the EU-protected GI there are 3 alcoholic products from Poland, i.e. „*Polska wódka, Wódka ziołowa z Niziny Północnopodlaskiej aromatyzowana ekstraktem z trawy żubrowej and Polish Cherry.*

4. IMPACT OF THE EU-GEORGIA DCFTA ON THE COMPETITIVENESS OF POLISH FOOD PRODUCERS

In order to show the comparative advantages in trade between Poland and Georgia, the competitive position in the Polish and Georgian agri-food export has been assessed by means of the Revealed Comparative Advantages index (RCA). The RCA index is interpreted as follows: if the share of a given group of goods in the export of the given country to the specific market is higher than the share of that group of goods in the global export to that market ($RCA > 1$), then this given country has the comparative advantage in the export to this market. Otherwise, it does not have such advantage⁸.

Analysis of the competitive position of Poland and Georgia shows that in the export to Georgia Poland had the comparative advantage in eleven product groups the largest of which concerned plant extracts, fruit and vegetable products, cocoa products and confectionery. In turn, in the Polish market Georgia had the comparative advantage in five product groups, including the largest in the export of non-alcoholic and alcoholic beverages (mainly wine), fruit and

nuts. Both Poland in the Georgian market and Georgia in the Polish market had the competitive advantage in the export of fruit and vegetable products.

The trade preferences granted by the EU to Georgia, which is a small food producer and exporter, had little effect on the Polish import. What mostly increased in the analysed period was the import of wines from Georgia. This means that the import from this country is rather complementary to the domestic offer and is not any threat to the domestic production. It seems that there are further possibilities for the development of the Polish export to the Georgian market, which is a net food importer, and its residents have a positive attitude towards Poland.

5. CONCLUSION

The signing of the EU-Georgia DCFTA opens up new opportunities for national producers of agri-food products and provides opportunities to benefit from the liberalisation of trade for both parties. The agreement is expected to act in the long term, and its positive effect depends, first and foremost, on whether the partner country actually adopts and then deploys the EU regulations contained therein.

From the Polish viewpoint, Georgia is not a significant trading partner. However, for many Polish companies, the entry into the Georgian market may be a part of the export diversification strategy aimed at reducing their dependence on sales to the EU Member States. The systematic increase in the Polish export to the Georgian market in recent years may indicate that Polish products are competitive in the Georgian market and the Georgians have a friendly attitude towards products originating in Poland. Poland imports from Georgia mainly wine and nuts, vegetables and fruit, which complement the domestic offer.

⁸ More on this cf. Ł. Ambroziak, I. Szczepaniak, Monitoring and assessment of the competitiveness of Polish food producers (4) Competitive position, series Multi-Annual Programme 2011-2014, No 74, IAFE-NRI, Warsaw 2013.

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SUMMARY

The EU signed the Association Agreements with Georgia on 27 June 2014. Substantial part of this Agreement, including the DCFTA sections are provisionally applied as of 1 September 2014. The agreements with Georgia have been ratified and officially entered into force in July 2016. Under the DCFTA, the EU and Georgia removed all their import duties on agricultural products. However, it seems that more important are non-tariff barriers in mutual trade because EU and Georgia had different approaches to food safety and different regulations. The purpose of this article is to assess the impact of DCFTA UE-Georgia on the development of agri-food trade

between Poland and Georgia. From the Polish perspective, Georgia is not a significant trading partner. However, for many Polish companies, the Georgian market may be a part of the export diversification strategy, which aims to reduce their dependence on sales to EU Member States. It seems that there are further opportunities for the development of Polish food export to Georgia. Poland imports from Georgia mainly wine, nuts and fruits, which are complementary to the domestic production. It can be expected that GIs protection may bring benefits to Georgian producers of wine, for which demand in the EU, including Poland, is systematically growing.