

The Ukraine EU FTA: What's it all about?



**A BASIC GUIDE EXPLAINING THE UKRAINE EU
FREE TRADE AGREEMENT**



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Overview

Ukraine and the European Union (EU) are currently engaged in a set of negotiations aimed at establishing closer economic and political ties in a New Enhanced Agreement. These negotiations began in March 2007. As part of this process, a Free Trade Agreement (FTA) will be negotiated to foster increased trade between Ukraine and the EU.

What is a Free Trade Agreement?

An FTA is an agreement between two countries that agree to liberalise their trade through the elimination of trade barriers, including trade-distorting policies, in an effort to increase the amount of trade. Principally these cover the reduction or elimination of tariffs and quotas for most if not all products.

Is the Ukraine EU FTA just a tariff reducing Agreement?

No. The Ukraine EU FTA will be a comprehensive, deep and meaningful agreement which aims not only at reducing and eliminating the tariffs applied to each other's products, but also at Ukraine aligning its rules and regulations with those of the EU, recognising each other's institutions so that products can be traded freely.

When did the Negotiations begin?

Negotiations began immediately after the finalisation of Ukraine's Accession to the WTO in February 2008. Negotiations have taken place on a quarterly basis progressively addressing the different areas.

What will be the benefits of the Free Trade Area?

In the long run, it has been estimated¹ that the Ukraine EU FTA will result in an increase in welfare in Ukraine of 5% across the population. In terms of wages, average wages in Ukraine would rise by 4-5%.

What will be the scope and coverage of the Agreement?

Discussions cover a wide and complex range of topics including:

- Market access (tariffs)
- Rules of origin
- Trade facilitation
- Technical regulations
- Sanitary & phytosanitary measures
- Trade in services
- Competition policy
- Intellectual property

¹ ECORYS (2008): Trade Sustainability Impact Assessment for the FTA between the EU and Ukraine within the Enhanced Agreement

- Public procurement
- Trade-related energy issues
- Trade and sustainable development

Dispelling the Myths

There are a number of misconceptions surrounding the implications of the FTA which will be addressed by this guidebook, they are:

1. An FTA will just mean a flood of imports into Ukraine
2. The EU wants an FTA more than Ukraine
3. There are no opportunities for Ukrainian Businesses in EU markets
4. An FTA Agreement will only benefit large agricultural and industrial manufacturers in Ukraine
5. Immediately after conclusion of negotiations, Ukraine's commitments will apply
6. Ukraine will have to change or cancel all its other FTA agreements with CIS and other countries
7. Implementing the FTA will simply mean changing some Ukrainian laws
8. Only those who export or want to export to the EU will be affected by the FTA
9. My business will not benefit from the FTA – winners and losers
10. Ukraine will no longer be able to protect itself from unfair competition.

An FTA will just mean a flood of imports into Ukraine

Many businesses in Ukraine fear that all an FTA will do is open Ukraine's door to a flood of imports from the EU and mean increased competition with Ukrainian products. However this is not the case. Firstly, an FTA is reciprocal so that there are equal opportunities for Ukrainian business in the EU Market as there are for EU companies in the Ukrainian market. Secondly, EU products are already widely accepted in the Ukrainian market already with de facto few barriers to entry to the market except for tariffs. Even for tariffs, the barriers are relatively low with average tariffs on imports from all markets (including the EU)² of 5% for non-agricultural and 11% for agricultural products. Average applied tariffs on actual imports from the EU are even lower so this means the impact of tariff liberalization for EU products will be very limited.

The EU wants an FTA more than Ukraine

Although the perception is that the EU wants a FTA agreement more than Ukraine, the EU has few offensive interests. Whilst Ukraine and the EU are equally committed politically to the conclusion of a deep and meaningful FTA, economically, an FTA is more significant to Ukraine than the EU. EU exports to Ukraine are less than 2%³ of EU exports whereas Ukrainian exports to the EU represent 33%⁴ of Ukraine's exports.

² World Trade Organization

³ United Nations COMTRADE Database

⁴ Ibid.

There are no opportunities for Ukrainian Businesses in EU markets

The European Union is the largest single market in the world with 27 countries and a population 11 times that of Ukraine at almost 500 million consumers, each with average income of US\$39,000⁵ (compared with only US\$ 3,000 in Ukraine). For Ukraine to easily and effectively sell to this market, product regulations and health standards must be aligned with those of the EU. Following the adoption and implementation of a comprehensive and deep FTA, closer economic integration to this market will provide Ukrainian products with open access to an EU market 13 times greater than its own, valued at US\$ 20,000 bn.

Recent studies⁶ have identified a number of sectors in Ukraine with potential for increased production resulting from alignment with EU rules and regulations. These include:

⁵ Eurostat Database

⁶ CEPS, IFW & ICPS (2006): The Prospects of deep free trade between the EU and Ukraine and; ECORYS (2008): Trade Sustainability Impact Assessment for the FTA between the EU and Ukraine within the Enhanced Agreement

	Ukrainian Production
Agriculture, fisheries, forestry	+1.1%
Cereals/oil seeds	+1.1%
Meat	+2.2%
Sugar/sugar confectionary	+4.7%
Animal/Vegetable Fats	+5.5%
Fruits and nuts	+3.8%
Machinery and Electronics	+7.4%
Motor vehicles/parts	+4.7%
Transport equipment	+3.3%
Ferrous Metals	+2.6%
Metal Products	+5.8%

An FTA Agreement will only benefit large agricultural and industrial manufacturers in Ukraine

Although there will be huge opportunities for large producers in Ukraine, aligning Ukraine's laws with those of the EU will mean that all businesses (large, medium and small) will have to adopt and apply these rules. This means that small and medium sized producers will be ready to trade into the European market at any time, when the opportunity presents itself. Moreover, the agreement will also cover other areas which will provide further opportunities such as access to EU services markets for Ukrainian businesses. In addition, harmonisation in horizontal areas such as public procurement will provide opportunities for Ukrainian businesses to participate in EU works, supply and services public tenders directly at an EU, national and regional level which total almost US\$ 2,500 bn.

After conclusion of negotiations, Ukraine's commitments will apply immediately

It is often believed that Ukraine will have to adopt all the EU rules immediately after conclusion of the negotiations which will lead to huge costs immediately to both the Ukrainian government and Ukrainian business. However, this is not the case. The FTA will be implemented progressively, with Ukrainian business rules changing gradually over a period of time, at least 10 years and for some areas, this could be longer. Therefore, Ukrainian business will have time to adjust and adapt its operations before it has to comply with new rules.

Ukraine will have to change or cancel all its other FTA agreements with CIS and other countries

It has been said that Ukraine will have to change all its existing FTA agreements to comply with an FTA with the EU and this would adversely affect Ukraine's relations with its traditional trading partners. This is not true. Ukraine's existing FTA agreements are tariff based and the preferences granted under these agreements will still stand. The only difference will be that EU products will gain access to Ukraine's markets with the same or better tariff rates than those of Ukraine's existing trading partners. In this way, Ukrainian consumers may elect to buy from the EU rather than existing sources. Moreover, as Ukraine adopts more of the EU rules for products, these traditional trading partners will have to comply with these rules if they wish to continue to sell into the Ukrainian market.

Implementing the FTA will simply mean changing some Ukrainian laws

Many people believe that to implement the FTA, Ukraine will just have to change some of its laws. However, Ukraine will have to change its laws, administrative procedures and restructure some of its institutions so that it mirrors some of the rules and regulations of the EU. By doing this, the EU will accept the judgement and authority of selected Ukrainian institutions and treat them as if they were EU institutions. This means, a product approved in Ukraine will be accepted without any further checks in the EU market.

Only those who export or want to export to the EU will be affected by the FTA

Many people think that the FTA will not affect them as they are not involved, and do not want to be involved in trade with the EU. However, a comprehensive FTA and closer links with the EU will affect all businesses and consumers as Ukraine adopts many EU laws and procedures and then applies these nationally throughout Ukraine.

This will have a number of benefits for all businesses in Ukraine. Firstly, it will establish the clear and transparent business laws and procedures in many areas which are currently onerous. This means that all Ukrainian businesses will have a certain business environment enabling them to effectively plan and grow their businesses. Also, because the laws will be transparent

and be implemented with systems similar to those used in the EU, there will be less scope for unfair abuses in the system which simply raises the costs for legitimate business.

Moreover, better health and safety standards will benefit Ukrainian consumers as they will be assured of the quality and hygiene of the products on sale and reduce the risk of harm to all.

My business will not benefit from the FTA

It should be recognised that there will be winners and losers amongst Ukrainian businesses as a result of the FTA with the EU. However, there will be, in the long run, more winners than losers. Meanwhile, since the FTA will be implemented progressively, over a long period of time, the Government of Ukraine, working with business, will have to identify those who will find the transition difficult and put in place policies and actions to mitigate these circumstances so that any negative impacts can be minimised.

Moreover, the Government of Ukraine and business also need to work together to identify areas of opportunities and ensure that business makes the most of the opportunities provided within the FTA – these benefits do not come automatically and Ukrainian business will have work at it to take advantage.

Ukraine will no longer be able to protect itself from unfair competition

It is often reported that by entering into an FTA with the EU and adopting its laws, Ukraine will lose some of its “policy space” and will no longer be able to protect against unfair competition, especially from EU companies. This will absolutely NOT be the case. In situations of unfair competition such as dumping, illegal subsidies and fraudulent claims of origin, Ukraine will be able to use its existing policy instruments, as provided by the WTO, to stop such trade or impose countervailing measures.

Role of Business during the Negotiations

Business in Ukraine can play an important role in supporting and shaping the Ukraine EU FTA during the negotiation process. Businesses need to get together and assess the opportunities and effectively engage with the Government of Ukraine and inform them of what it would like out of the agreement and support it needs during implementation to ensure business takes advantage of the opportunities.

By actively contributing to the negotiating process, the Government of Ukraine will be able to engage effectively and more quickly with the EU to agree a mutually beneficial FTA between them and the early conclusion of the EU-Ukraine FTA which will benefit all in Ukraine.

Businesses can contact the Ukrainian negotiation coordinators directly:

Ministry of Economy, Department for European integration

Tel: 044 226 33 78

Fax 044 272 5375

e-mail: ukraine-eu@mfert.gov.ua

Where to go for more info:

More detailed information including an overview of each thematic topics, specific issues for Ukraine and policy positions of Ukrainian stakeholders, can be found on CTA's website:

www.ctaeconomic.com/ukraine1.htm

OTHER USEFUL SOURCES:

www.me.gov.ua

www.wto.in.ua

http://ec.europa.eu/delegations/ukraine/index_uk.htm