

The EU-Ukraine Association Agreement and its impact on East European security and stability

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Practical implementation of the EU-Ukraine Association Agreement (AA) could be considered as successful and relevant example of the positive impact on East European security and stability of stronger economic ties and greater connectivity in the region.

The AA was completely signed on 27 June 2014. The signature was followed by simultaneous ratification by the Verkhovna Rada and the European Parliament on 16 September 2014, almost two years ago from today's meeting. It is partially provisionally applied as of 1 November 2014; while Title IV of the AA (which establishes a Deep and Comprehensive Free Trade Area (DCFTA)) is provisionally applied since 1 January 2016.

The story of the AA is the only example where citizens paid an extremely high price to defend their right to dignity embodied in a rather routine, from a bureaucratic point of view, Association Agreement. The unprecedented struggle for the AA has already turned into a part of the political history of Europe, although this struggle is not over yet, not even taking into account difficulties with internal ratification procedure in some EU Member States.

At the beginning of the decade, almost a third of the Ukrainian exports went to the Russian market. Since the unleashing of the Russia's hybrid war against Ukraine, the Ukrainian exports to Russia has decreased by five times. Russia's share in the Ukrainian exports is now only 9% with a tendency of further reduction. And this is not the limit, the decline is going on - minus 34% in the first half of this year. Aggressive closing of the Russian market has become an economic shock for Ukraine that roughly costs about \$15 bn and resulted in loss of thousands of jobs and deepening economic crisis.

On the current backdrop, the EU market has become a main alternative for Ukraine effectively substituting the Russian one. The EU is Ukraine's largest trading partner, accounting for more than 40% of its trade in 2015. Ukraine accounts for 0.8% of EU's total trade, with a turnover of €1.16 bn in 2015. The EU exports to Ukraine amounted to over €13.9 bn in 2015. The main EU exports to Ukraine include machinery and transport equipment, chemicals, and manufactured goods.

Ukraine exports to the EU amounted to €12.7 bn in 2015. Last year Ukraine's trade in goods and services with the EU accounted for 37% of total trade (import and export), which is the highest share ever. The EU's share in exports of goods and services was 33% and in imports - 42% respectively. An increase in Ukrainian exports to the EU in the first half of 2016 is indicated by 7% and the EU's share in total exports of goods is 39.2%. The main Ukraine exports are raw materials (iron, steel, mining products, agricultural products), chemical products and machinery.

The EU is also the largest investor in Ukraine. According to the State Statistics Service, during 2015 Ukraine received from the EU countries \$2 bn share capital being more than a half of all revenues. At the end of 2015, direct investment in Ukraine from the EU countries amounted to \$33 bn or 76% of total investments. Joining DCFTA also creates new trade opportunities for Small and Medium sized Enterprises (SMEs) in Ukraine through receiving support from the EU's SME Flagship Initiative.

Political and economic crises, annexation and occupation of the part of Ukrainian territory along with ongoing military conflict heavily affected Ukrainian economy and country's ability to use all possibilities and instruments provided by AA/DCFTA. The EU has banned the import of goods originating in the illegally annexed Crimea and Sevastopol, as well as investments and a number of directly related services there

until at least 23 June 2017. This is in line with its policy of not recognizing the Russian Federation's illegal annexation of Crimea and Sevastopol.

The economic impact of AA/DCFTA implementation can be divided into two main parts - effect on foreign economic relations and stability in the region, and effect on relations within the country. The AA has direct influence on economic relations with the EU as such and other states as well, including the Eastern Partnership (EaP) countries. This fact is rather apparent in the context of analyzing the exports process. The impact on imports could be estimated on the results of 2016, having also in mind foreign direct investment and other sources of foreign capitals flows in the country.

Abolition of trade barriers and harmonizing legislation are vital elements for the external and internal economic relations. But the impact of these changes has a different time horizon. The abolition of import duties stimulates relatively quick response of economic agents, and thus the effects could be visible in short-term perspective. On the contrary, harmonization of legislation and development of internal economic relations are usually stretched in time, and therefore have no immediately visible effects. Hence, the AA provides that the process of gradual trade liberalization will last ten years, in fact until 2025, although for some Ukrainian goods longer transition periods are envisaged.

Despite the overall decline in exports to the EU, due to the difficult economic situation in the country and the decline of world commodity prices, exports of goods grew very rapidly. In particular, the export of goods of animal origin increased significantly after the procedures for obtaining export permissions for the European market were put into place. In addition, the introduction of duty-free tariff quotas for some of them played a role.

Thus, despite the very difficult conditions in the country throughout 2014 and 2015, some Ukrainian producers intensified trade with the EU and the government prepared the framework for further economic integration by changing laws and building institutions. As long as both the producers and the authorities continue in this direction, the positive economic outcomes of the DCFTA should become much more visible and distinctive in the years to come.

The AA opens new opportunities for Ukrainian businesses that need specific knowledge and tools for accessing the EU market, which is the most effective and competitive market in the world. There is a need for practical recommendations for Ukrainian businesses, especially small and medium, on how to use such new opportunities provided by the AA in order to benefit from the single European market. At the same time, all suggestions and recommendations on entering the European market should be adapted to Ukrainian realities.

Although many Ukrainian companies already have considerable experience in exporting goods and services within the CIS market, the practice shows that exports outside the CIS area raise many additional questions, including those related to the lack of understanding of the EU export algorithm.

All these issues should be properly addressed within the margins of the OSCE second dimension directly related to trade facilitation measures in the OSCE area. And the OSCE field presences will play an important role here being actively involved in the process on the ground, namely the OSCE Project Coordinator in Ukraine, whose project activity could facilitate above opportunities created by AA/DCFTA to come true.

Ukrainian experience of the AA implementation should be a manifest example of country's ability to overcome serious economic and security challenges amid continuing hybrid aggression. This experience is also very useful for other affected partner countries in East European region, especially Georgia and Moldova, where respective AAs/DCFTAs with the EU fully entered into force on 1 July 2016. Furthermore, the majority of problems encountered by these partner countries while implementing AAs/DCFTAs has the similar character.

Thus, the AAs/DCFTAs with comprehensive reform agendas are the cornerstones of relations under the Eastern Partnership. The AAs might be considered as a powerful EU model for regional stabilization in terms of both security and economic developments in all Eastern Partnership countries enabling the functioning of market economies, improving macroeconomic stability and the business environment, as well as enhancing interconnectivity and opening new prospects for cooperation, contributing to trade, growth and competitiveness.

The implementation of AAs/DCFTAs will lead to economic integration of partners in the EU internal market and therefore to the creation of an economic area, as it was stated in the Joint Declaration of the Riga 2015

Eastern Partnership Summit. According to the document, this ambitious long-term vision for economic integration could contribute also to the longer-term goal of a wider area of economic prosperity throughout Europe and beyond based on WTO rules and sovereign choices of all partner countries.

Ukraine, with its partners, is just on the beginning of this way to understand and compare the level of ambitions and the reality on the ground. As one of the initial steps that may well be used is the agreed approach to develop closer ties among the EaP countries themselves, according to Joint Declarations of the Warsaw 2011 and Vilnius 2013 Eastern Partnership Summits. Proposed ties could support establishing close cooperation and economic integration between the EaP countries based on the above-declared conditions and adapted AAs/DCFTAs mechanism.

The OSCE using its second dimension instruments could be a platform facilitating such integration grounded on the shared commitments to stability, security and prosperity in the whole OSCE area.

East European Security Research Initiative (EESRI, <http://eesri.org/>), as a regional analytical and information-sharing network, being a member of the OSCE Network of Academic Institutions and Think Tanks and active participant of the Ukrainian National Platform of the EaP Civil Society Forum, also provides its contribution to developing multilateral cooperation between partner countries through establishing regional security dialogue among experts, civil society and academia representatives on the most sensitive issues of the comprehensive East European security agenda.