

# **EU-Ukraine DCFTA: model for EaP regional trade cooperation**

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# EU and former Soviet Union countries: overview of relations

Several distinct groups:

- **Integrated into the EU:** Estonia, Latvia, Lithuania
- **“Neighbors” (EaP):** Armenia, Azerbaijan, Belarus, Georgia, Moldova, Ukraine  
*Featured: PCA, AP under ENP, EaP, AA talks, (forthcoming) DCFTA talks*  
*Exemption: Belarus (TCA signed by the SU)*
- **“Special neighbor”:** Russian Federation  
*Featured: PCA, New Agreement talks, Common Economic Space (Dialogs)*
- **“Not in focus”:** Kazakhstan, Kyrgyzstan, Uzbekistan, Tajikistan, Turkmenistan  
*Featured: PCA or even no PCA (Turkmenistan and Tajikistan)*



# Structure of presentation

- Currents status and opportunities faced by six EaP countries in relations with the EU
- Discussion of EU-Ukraine DCFTA:
  - Main features
  - Expected pros and cons
- Concluding remarks



# Current trade links between the EU and the EaP countries

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- The EU was “number one” trading partner for all the EaP countries except for Belarus
- EaP countries’ merchandise trade turnovers with the EU vary between 30% and 50% of total, while the share of these countries in the EU turnover is small
- The EaP countries export to the EU primary products and semi-manufactures, like energy or metals, while import mostly final products, like machines and equipment
- The most of the EaP countries enjoy some preferences in access to the EU market, being eligible either to the Generalized System of Preferences (GSP) or even the GSP+



# Options for deeper integration

In the framework of the Eastern Partnership (2009) as the specific Eastern dimension within the European Neighborhood Policy (2004), the EU offers:

- new association agreements (AA) including deep and comprehensive free trade agreements (DCFTA)
- gradual visa liberalization, accompanied by measures to tackle illegal immigration



# How far the EaP countries progressed in AA/DCFTA talks

	AA talks	DCFTA talks
Armenia	AA talks launched in July 2010	WTO member DCFTA feasibility assessment is positive Talks will start as soon as the country progresses in reforms
Azerbaijan	AA talks launched in July 2010	No WTO membership DCFTA as perspective
Belarus	No ratified PCA, no AA perspective	No WTO membership
Georgia	AA talks launched in July 2010	WTO member DCFTA feasibility assessment is positive Talks will start as soon as the country progresses in reforms
Moldova	AA talks launched in January 2010	WTO member DCFTA will start as soon as the country progresses in reforms
Ukraine	AA talks launched in March 2007	DCFTA talks completed



## Formal objective of the DCFTA

This FTA is supposed to become the first of a new type of 'deep and comprehensive' trade agreement involving the EU, covering a wide range of trade-related matters ("comprehensive") and aiming at eliminating 'behind the border' obstacles to trade through processes of regulatory approximation, thus partially opening/extending the EU internal market to Ukraine ("deep").

The agreement must be compatible with the rules of the WTO and take the possible results of the WTO Doha Round into consideration.



# Features of EU-Ukraine DCFTA

## Duty-free trade in industrial products:

- Duty free exports to the EU for industrial products starting the date when the Agreement comes into force;
- Duty free exports to Ukraine for industrial products with *transition periods* for tariff liberalisation in Ukraine;
- *Special regimes* for imports of motor vehicle (HS code 8703) and for second-hand clothes in Ukraine under so called "*bilateral protection measures*";
- Gradual elimination Ukraine's export duties, but introduction of *temporary surcharges* on exports of nonferrous metal scrap under so called "*bilateral protection measures*";





# Features of EU-Ukraine DCFTA

## Significant trade liberalization for agricultural products:

- Significant quotas on duty-free exports of selected agricultural products, including dairy products, grain and cereals, and sugar, to the EU;
- Duty free exports to Ukraine for majority of agro products with *transition periods* for tariff liberalisation in Ukraine;
- Abandonment of EU agricultural exports subsidies in trade with Ukraine;
- Gradual elimination Ukraine's export duties, but introduction of *temporary surcharges* on exports of sunflower oil seeds and skins under so called "*bilateral protection measures*";



# Features of EU-Ukraine DCFTA

**Freedom of establishment**

**Service trade liberalization**

**Strong regulatory rapprochement component:**

- Competition policy
- State aid
- Public procurement
- Sanitary and phyto-sanitary measures
- Technical regulation
- Protection of intellectual property rights
- Sustainable development issues (ecological issues, labour and social issues)



# Expected DCFTA benefits for Ukraine

- **Improved welfare of people** through better access to higher variety of products, stricter safety requirements, and higher incomes thanks to new business opportunities and improved domestic resource allocation. The CGE model showed that the DCFTA would result in 4.3% welfare increase in medium term;
- **Duty-free access to the largest world market** for vast majority of products creating opportunities for exports;
- **Improved access to markets of the third countries** through harmonization of standards with the EU and thus acquisition of internationally acceptable standards;
- **Better domestic investment climate** as the adjustment to the EU regulations would mean changes in national legislation. In turn, these changes would result in transparent and set of rules familiar to foreign investors;
- **Technical assistance** to implement necessary regulatory changes



# Expected DCFTA costs for Ukraine

- **Spending associated with legal and administrative adjustments** like establishment of independent regulatory bodies, introduction of new – likely technologically more advanced – procedures, etc.
- **Higher costs of standard obedience**, as the EU standards are generally more stringent and thus compliance with them would require more efforts and expenses. The experience of EU enlargement showed that higher standards could even drive some business out of specific market segments
- **Increased domestic competition** due to elimination of tariff barriers and a significant reduction of non-tariff measures resulting in market restructuring and reallocation of factors of production. Higher competition is beneficial for the country in the medium-term, but short-term effects of reallocations could be painful



## Concluding remarks

- The EU is not ready to offer membership perspective to the EaP countries, but it offers tighter integration using the AA and DCFTA tools within the ENP/EaP initiatives
- So far, Ukraine is the front-runner in AA/DCFTA talks
- Agreed text of the EU-Ukraine DCFTA features:
  - Liberalization of trade for all categories of products
  - Elimination of the EU agricultural subsidies in trade with Ukraine
  - Special provisions for sensitive products (so called 'bilateral protection measures')
  - Freedom of establishment
  - Extensive regulatory approximation
- The DCFTA seems to be interesting tool for regional integration offering some benefits usually associated with deeper levels of integration, but without sacrificing freedom of trade policy setting



# Thank you!

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