



**INSTITUTE**  
FOR ECONOMIC RESEARCH  
AND POLICY CONSULTING



# **Economic Impact of the EU- Ukraine Association Agreement**

## **IMPACT ON BUSINESS**

Results of the IER study conducted within the project  
*"Economic Component of the EU-Ukraine Association Agreement:  
Professional Analysis and Public Discussion"*  
with financial support of the International Renaissance Foundation

# Structure of the Association Agreement

- The EU-Ukraine Association Agreement is a voluminous and complex document.
- The Agreement comprises 7 Titles, 486 Articles, 43 Annexes, supplements, protocols, and declarations. In total, the document with the annexes has over 2,000 pages in English.
- The Agreement's economic aspects can be found in:
  - Title IV «Trade and Trade-Related Matters»
  - Title V «Economic and Sector Cooperation»
- Text in English:  
[http://www.europarl.europa.eu/RegistreWeb/search/simple.htm?language=EN&reference=COM\\_COM%282013%290290](http://www.europarl.europa.eu/RegistreWeb/search/simple.htm?language=EN&reference=COM_COM%282013%290290)
- Text in Ukrainian:  
[http://www.kmu.gov.ua/docs/Agreement/AA\\_Body\\_text.pdf](http://www.kmu.gov.ua/docs/Agreement/AA_Body_text.pdf)  
[http://comeuroint.rada.gov.ua/komevrint/control/uk/publish/article?art\\_id=56220&cat\\_id=45826](http://comeuroint.rada.gov.ua/komevrint/control/uk/publish/article?art_id=56220&cat_id=45826)

# Economic effect of AA for business:<sup>3</sup> general considerations

- The Agreement is a natural continuation of numerous reforms already under way in the country
- The specific arrangements and their consequences for business are multi-dimensional:
  - Some arrangements are not of sector nature (horizontal matters)
  - A part of the arrangements is directly related to certain sectors
- The key component of the Agreement is the regulatory approximation whose depth will determine the Agreement's impact on business and on the economy as a whole
- Estimates show that economic gains from reduced non-tariff protection are several times higher than gains associated with import duty liberalization alone

# Sector effect: key factors

- Arrangements about:
  - Import duties and tariff rate quotas
  - Export duties
  - Export subsidies
  - Bilateral safeguard measures
- Arrangements regarding harmonization of legislation and procedures for technical barriers to trade (TBT)
- Arrangements regarding harmonization of legislation and procedures for sanitary and phyto-sanitary measures (SPS)
- Separate sector cooperation arrangements

# Sector effect: agriculture

Benefits	Challenges
<ul style="list-style-type: none"> <li>• Average EU import duty will go down from 7.0% to 0.9% immediately after the Agreement takes effect</li> <li>• Duty free tariff rate quotas are introduced for animal products and grain exports to the EU</li> <li>• Export subsidies are abolished for EU agricultural products to be sold in Ukraine</li> <li>• Export duties are abolished</li> <li>• Harmonization with EU standards</li> <li>• Mechanisms of SPS equivalence determination are introduced</li> <li>• Broader possibilities for experience and technology exchange</li> </ul>	<ul style="list-style-type: none"> <li>• Increased domestic competition following the reduction of average import duty for agricultural products from 6.1% to 0.7% within 10 years</li> <li>• Costs of transition/ compliance with EU standards</li> </ul>

# Sector effect: food industry

Benefits	Challenges
<ul style="list-style-type: none"> <li>• EU import duty will be reduced immediately after Agreement takes effect: the average rate will drop from 18.9% to 0.6%</li> <li>• Duty free tariff rate quotas will be introduced for selected foodstuff exports to the EU</li> <li>• Harmonization with EU standards</li> <li>• Mechanisms of SPS equivalence determination are introduced</li> <li>• Opportunity to compensate raw material price growth following abolishment of export duties through introduction of a surcharge</li> </ul>	<ul style="list-style-type: none"> <li>• Increased domestic competition following the reduction of average import duty for food products from 10.8% to 1.5% within 10 years</li> <li>• Costs of transition/ compliance with EU standards</li> <li>• Sunflower oil production: raw material price growth following abolishment of export duties</li> <li>• Rebranding caused by commitments to comply with geographical indications</li> </ul>

# Sector effect: light industry

Benefits	Challenges
<ul style="list-style-type: none"> <li>• Zero rate import duties will be established within several years after the Agreement takes effect. Import duties on textile and clothes will be reduced from current 9.2% to 0.0% immediately after the Agreement takes effect. Import duty on leather and leather products will be reduced from current 6.7% to 0.0% within 5 years</li> <li>• Opportunity to compensate raw materials price increase following abolishment of export duties through introduction of a surcharge</li> </ul>	<ul style="list-style-type: none"> <li>• Increased domestic competition following the reduction of average import duty for textiles and clothes from 6.4% to 0.0%, and for leather products from 8.9% to 0.0% within 3-5 years</li> <li>• Leather products manufacturing: increased prices for raw materials following abolishment of export duties</li> </ul>

# Sector effect: metallurgy

Benefits	Challenges
<ul style="list-style-type: none"><li>• Import duties to EU are abolished. Average rate goes down from 2.1% to 0.0%</li><li>• Opportunity to compensate raw materials price increase following abolishment of export duties through introduction of a surcharge</li><li>• Exchange of information and best practices about basic situations, outlook, sustainable development, etc.</li></ul>	<ul style="list-style-type: none"><li>• Increased domestic competition following the reduction of import duties from the average 2.4% to 0.0%</li><li>• Increased prices for raw materials following abolishment of export duties</li></ul>



# Sector effect: chemical industry

Benefits	Challenges
<ul style="list-style-type: none"><li>• EU import duties are abolished. Average import duty rate will go down from 4.1% to 0.0% within 5 years</li><li>• Technical regulations are to be approximated with EU <i>acquis</i></li></ul>	<ul style="list-style-type: none"><li>• Increased domestic competition following the reduction of average import duty from 2.9% to 0.0%</li><li>• Costs of compliance with technical regulations requirements</li></ul>

# Sector effect: machine building

Benefits	Challenges
<ul style="list-style-type: none"> <li>• EU import duties will be abolished within 1-6 years. Average rates will go down from 2.6% to zero for electric machinery, and from 4.1% to zero for transport equipment.</li> <li>• Technical regulations are to be approximated with EU <i>acquis</i></li> <li>• Opportunity to conclude the ACAA Agreements</li> <li>• Safeguard measures for motor vehicles lasting up to 15 years</li> </ul>	<ul style="list-style-type: none"> <li>• Increased domestic competition following the reduction of average import from 3.5% to 0.0% for electric machinery, from 5.0% to 0.0% for transport equipment</li> <li>• Costs of compliance with technical regulation</li> <li>• Gradual disappearance of the market for products that do not meet EU standards in sectors where technical regulations have been aligned with the EU <i>acquis</i></li> </ul>

# Sector effect: energy

Benefits	Challenges
<ul style="list-style-type: none"><li>• Abolishment of cross-subsidies at the gas and electricity markets and introduction of market prices for industrial consumers which may lead to price decrease</li><li>• Increased investment attractiveness of the sector</li><li>• Increased security of deliveries thanks to a clear mechanism of conflict resolution</li></ul>	<ul style="list-style-type: none"><li>• Sector reforms, such as division of vertically integrated monopolies at the gas and electricity markets, free transit and third party access to the energy infrastructure</li><li>• Development of a competitive environment and emergence of new players</li></ul>

# Sector effect: financial service market

Benefits	Challenges
<ul style="list-style-type: none"><li>• Increased reliability of the financial system due to development of efficient government prudential oversight based on international standards and more transparent licensing system</li><li>• Opportunities for new financial services development</li><li>• Opportunities to attract investments</li><li>• Guaranteed free access to payment and clearance systems and financing and refinancing sources</li></ul>	<ul style="list-style-type: none"><li>• Increased competition</li><li>• Systemic risks typical for modern financial systems</li></ul>

# Horizontal matters: customs and trade facilitation

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Benefits	Challenges
<ul style="list-style-type: none"><li>• Simplified and more automated customs procedures leading to a customs environment similar to the one in the EU</li><li>• Setting up a mechanism of regular consultation between customs agencies and business</li><li>• Ban on use of the minimum customs value</li><li>• Reduced costs of customs procedures</li></ul>	<ul style="list-style-type: none"><li>• Increased responsibility of business for correct paperwork</li></ul>

# Horizontal matters: establishment, trade in services, electronic trade

Benefits	Challenges
<ul style="list-style-type: none"><li>• Simplified access to EU markets due to introduction of symmetrical regulation principles for business establishment</li><li>• Strengthened investment protection</li><li>• Increased investment attractiveness of Ukraine</li><li>• Reciprocal qualification recognition will facilitate movement of individual service providers</li></ul>	<ul style="list-style-type: none"><li>• Increased competition resulting from presence of EU companies or their subsidiaries in Ukraine</li></ul>

# Horizontal matters: business development

Benefits	Challenges
<ul style="list-style-type: none"><li>• Implementation of SME development strategy based on the principles of the European Charter for Small Enterprises</li><li>• Improved business environment due to simplified and streamlined rules and regulation practices</li><li>• Regulatory dialog on corporate management</li></ul>	<ul style="list-style-type: none"><li>• Proper institutional capacities for implementation / use of existing capacities</li></ul>

# Horizontal matters: competition 16

Benefits	Challenges
<ul style="list-style-type: none"><li>• Increased transparency and efficiency of the Antimonopoly Committee of Ukraine will positively affect domestic business environment</li><li>• Increased competition potentially leads to price cuts</li><li>• State aid will target small business, regional development, etc</li></ul>	<ul style="list-style-type: none"><li>• Increased competition</li><li>• Producers may have less freedom in arranging sales, particularly in price fixing for end consumers</li><li>• State aid reform may lead to reduced/abolished aid to the sectors that enjoy it now</li></ul>



# Horizontal matters: intellectual property rights protection

Benefits	Challenges
<ul style="list-style-type: none"><li>• Incentives for innovation and economy modernization</li><li>• Increased investment attractiveness of the economy</li><li>• Sector effect: EU supports brand changes related to commitments to comply with intellectual property rights (geographical indications)</li></ul>	<ul style="list-style-type: none"><li>• Increased cost of purchasing products containing intellectual components</li><li>• Sector effect: the need to change brands because of commitments to comply with intellectual property rights (geographical indications)</li></ul>

# Horizontal matters: compliance with transparency principles, conflict resolution, mediation mechanisms

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Benefits	Challenges
<ul style="list-style-type: none"><li>• More predictable changes of economic policies in Ukraine and the EU</li><li>• Opportunity to affect expected changes using comments and explanations</li><li>• Opportunity to obtain information on request</li><li>• Instruments to protect business interests with a clear conflict resolution procedure and mediation mechanisms</li></ul>	<ul style="list-style-type: none"><li>• Proper institutional capacities for implementation / use of existing capacities</li></ul>

# Conclusions

- Analysis of the Agreement text confirms previous conclusions that the Association's main value is about the regulatory approximation.
- The Agreement moves on the economic reforms presently under way in Ukraine.
- The Agreement brings Ukraine much closer to the common market with the EU and in fact it creates the common market for certain industrial products if ACAA agreements are signed.
- Asymmetric reduction of import duties, quite numerous zero duty tariff rate quotas for goods about which there was no agreement to abolish EU import duties, as well as bilateral safeguard measures for sensitive Ukrainian exports and imports establish favorable conditions where Ukrainian business can make use of the possibilities offered by the Agreement and level up challenges presented by increased domestic competition and adaptation to the new regulations.

# Contacts

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