Economic Impact of the EU-Ukraine Association Agreement

THE IMPACT ON GENERAL GOVERNMENT

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
Impact on general government: general considerations

- The Association Agreement (Agreement) will have a range of consequences of fiscal and institutional nature for general government.
- A key AA component is approximation of the Ukrainian legislation and administrative procedures to the EU standards and procedures. The task has been assigned to the government. Its success will condition the Agreement impact and long-term effect for the country.
- The Agreement comprises a list of over 350 directives and other EU regulations with which the Ukrainian legislation should be gradually aligned.
- The EU stands ready to provide technical and financial assistance to implement the Agreement.
# Impact on fiscal revenues

## Factors behind revenue growth

- Increased economic activity in the country will positively affect fiscal revenues generated by personal income and enterprise profit taxes
- Consumption growth will lead to increased indirect tax revenues
- Gradual approximation of tobacco excise tax rates to the EU rates
- Increased cooperation in combating fraud, smuggling, and tax evasion
- More effective tax collection

## Factors causing revenue decline

- Abolished or reduced import duties in EU-Ukraine trade
- Abolished export duties in EU-Ukraine trade
- Increased competition may lead to declining profits and thus reduce profit tax revenues
## Impact on fiscal expenditure

<table>
<thead>
<tr>
<th>Factors behind expenditure growth</th>
<th>Factors leading to expenditure decrease</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Expenditures for implementation of commitments on approximation of the Ukrainian legislation</td>
<td>• Public procurement system will be fully adjusted to the EU system and thus become more efficient and transparent</td>
</tr>
<tr>
<td>• Expenditures for implementation of new legislation and adjustment of procedures and practices to the EU practices</td>
<td>• Increased efficiency of state aid</td>
</tr>
<tr>
<td>• Expenditures for active labor policies to provide jobs to released workforce</td>
<td>• Improved performance of public agencies</td>
</tr>
<tr>
<td></td>
<td>• Increased automation in administrative services</td>
</tr>
</tbody>
</table>
Legislation approximation timetable

<table>
<thead>
<tr>
<th>Year</th>
<th>Enacted</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
<th>Year 4</th>
<th>Year 5</th>
<th>Year 6</th>
<th>Year 7</th>
<th>Year 8</th>
<th>Year 9</th>
<th>Year 10</th>
<th>Year 11</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7</td>
<td>6</td>
<td>41</td>
<td>68</td>
<td>36</td>
<td>33</td>
<td></td>
<td></td>
<td>16</td>
<td>2</td>
<td>56</td>
<td>1</td>
</tr>
</tbody>
</table>

quantity
Legislation approximation by sectors

- Audiovisual policy: 1
- Public health: 5
- Social policy: 34
- Consumer protection: 15
- Company law, audit: 11
- Transport: 32
- Environment: 29
- Agriculture: 44
- Taxation: 6
- Energy: 16
- Competition: 4
- Public procurement: 4
- International maritime transport: 15
- Postal services: 1
- Communication services: 9
- Financial services: 30
- TBT: 32
- Customs: 4
Technical barriers to trade

Impact

- Establishment of the system of technical regulation aligned with the corresponding EU *acquis* and maintenance of the alignment
- Sector approximation of legislation and procedures will allow to sign ACAA Agreements
## Sanitary and phyto-sanitary measures

### Impact

- Development and implementation of the comprehensive strategy for the implementation of provisions of the Chapter on SPS, including approximation of Ukrainian legislation and procedures to those of the EU (the Strategy is to be developed within three months after the Agreement enters into force).

- Institutionalization of cooperation through establishment of SPS Sub-Committee with the following key functions:
  - to monitor the implementation of this Chapter and consider any matter relating to this Chapter, and examine all matters which may arise in relation to its implementation,
  - to review and modify the Annexes to this Chapter, notably in the light of progress made under the consultations and procedures provided for under this Chapter, and to give opinions and make recommendations as defined in the Agreement.

- Key SPS areas: recognition for trade purpose of animal health and pest status, regionalization, determination of equivalence, trade conditions, certification procedure, verification, import checks, safeguard measures, compliance with transparency principle, etc.
Customs and trade facilitation

Impact

- Legal framework and procedures are transparent, proportionate, non-discriminatory, effective, and applied uniformly
- Ukrainian legislation is adjusted to EU standards
- Institutionalization of cooperation through establishment of Customs Cooperation Sub-Committee
Establishment, trade in services

Impact

• Approximation of Ukrainian legislation in the following areas:
  • Financial services (30 EU directives)
  • International maritime transport (15 directives)
  • Communication services (10 directives)
• Simplified procedures for registration of branches, subsidiaries and representative offices
• Improved licensing of services
Public procurement

Impact

- Approximation of Ukrainian legislation to EU standards
- Increased institutional capacities of public authorities
- Reduced corruption risks
- After the transition period – reciprocal full access to public procurement markets
Competition

Impact

- Approximation of competition laws and enforcement practice to EU regulations
- Adoption of state aid legislation within three years to comply with the Agreement
- Establishment of an independent authority dealing with state aid issues
- Development of a comprehensive inventory register of state aid schemes
Energy-related issues

Impact

• Setting up competitive, transparent, and non-discriminatory energy markets
• Maintenance of cooperation within the framework of the Energy Community
• Coal sector restructuring
• Increased cooperation in areas related to energy efficiency, security, development and usage of alternative energy
Taxation

Impact

- Enhancement of good governance in the tax area
- Introduction of efficient models of tax administration
- Adjustment of policies to combat fraud and smuggling
- Approximation of tax legislation
Environment

**Impact**

- Approximation of Ukrainian legislation to EU *acquis*
- Development and implementation of a comprehensive environment strategy covering
  - Institutional reforms
  - Division of competence for the environmental administration at national, regional and municipal levels
- More efficient decision-making procedures
- Development and implementation of sector policies
Transport

Impact

- Transport sector restructuring and modernization
- Approximation of current Ukrainian standards and policies with the EU policies
- Development of a multimodal transport network linked to the Trans-European Transport Network
- Elimination/reduction of administrative, technical, and border obstacles for transport flows
Company law, corporate governance

- Legislation approximation in the following areas:
  - Accounting and audit
  - Corporate governance
  - Protection of the rights of shareholders, creditors, and other parties
Consumer protection

Impact

• Compatibility of consumer protection systems in Ukraine and the EU
Gradual approximation of Ukrainian legislation and procedures to EU law, standards and practices in the area of employment, social policy and equal opportunities
Public health

Impact

Approximation of Ukrainian legislation and practices to the principles of the EU *acquis* in particular regarding communicable diseases, blood, tissues and cells, as well as tobacco
Conclusions

- Signing the Association Agreement implies a commitment to implement significant and clearly defined economic reforms within a defined period.

- The Agreement comprises a list of over 350 directives, regulations and other EU legal acts with which Ukraine’s legislation and practices should be aligned.

- Implementation of the commitments will require considerable government funds which can be partially provided by the EU (technical and financial assistance).

- The regulatory changes foreseen by the Agreement will foster economic growth thus positively affecting fiscal revenues, while improved government performance should streamline its expenditures and increase their efficiency.
Contacts

Institute for Economic Research and Policy Consulting

www.ier.com.ua
movchan@ier.kiev.ua
8/5-A Reitarska St., Kyiv 01030, Ukraine
Tel. +38-044-278-6360
Fax +38-044-278-6336