



Ministry of economic development  
of Ukraine and trade



**INSTITUTE**  
FOR ECONOMIC RESEARCH  
AND POLICY CONSULTING

# Ukraine's WTO Membership

## Institutional and Economic Effects

Kyiv 2014

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This report was prepared within the framework of the project «Trade Policy and Practice in Ukraine». The project is being implemented by the Institute for Economic Research and Policy Consulting in collaboration with the Ministry of Economic Development and Trade of Ukraine and Swedish National Board of Trade with financial support of the Government of Sweden.

Assessment and conclusions in this report belong to authors and not necessarily reflect position of the Government of Sweden or the Ministry of Economic Development and Trade of Ukraine.

ISBN 978 - 617 - 7161 - 10 - 2

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ABBREVIATIONS		ABBREVIATIONS
AA	Association Agreement	
ACAA	The Agreement on Conformity Assessment and Acceptance of Industrial Products	
CGE	Computable general equilibrium	
CRTA	The Committee on Regional Trade Agreements	
DC	Deep and Comprehensive	
DCFTA	Deep and Comprehensive Free Trade Agreement	
DDA	Doha Development Agenda	
DSB	The Dispute Settlement Body	
EN&IP	Enquiries, Notification and Information Processing	
EU	The European Union	
FTA	Free Trade Area	
GATT	General Agreement on Tariffs and Trade	
GEL	Georgian lari	
IER	The Institute for Economic Research and Policy Consulting	
KVED	Ukraine's Classification of Economic Activities	
MDL	Moldovan leu	
MEDT	The Ministry of Economic Development and Trade	
MFN	Most Favored Nation	
NAMA	Non-agricultural market access	
RAM	Recently acceded members	
SPS	Sanitary and phytosanitary measures	
SSM	Special Safeguard Mechanism	
TBT	Technical Barriers to Trade	
TFP	Total factor productivity	
TRIPS	The Agreement on Trade-Related Aspects of Intellectual Property	
UAH	Ukrainian hryvnia	
UN	United Nations	
USD	United States dollar	
WTO	The World Trade Organization	

## 1. INTRODUCTION

The present study aims at analyzing the impact of Ukraine's accession to the World Trade Organization on the national economy, primarily on manufacturing. Such an analysis is important for development of the country's short- and long-term trade policy strategies.

The implementation of the study is not trivial as, on the one hand, the accession of Ukraine to the WTO was not a momentary event and, on the other hand, WTO membership was granted when the world was already entering a financial and economic crisis.

Ukraine became a WTO member in May 2008 as a result of an almost fourteen-year negotiation process. Over those years, the country fulfilled the majority of its commitments on liberalization of import duties and harmonization of domestic laws with the WTO rules and requirements. Accordingly, in order to determine the impact of the WTO membership on the economy of Ukraine, one should not simply compare the performance of the economy before and after May 2008, but rather analyze the effects of trade regime liberalization in the years prior to obtaining a formal membership.

Ukraine's WTO membership nearly coincided with the onset of the 2008-2009 global financial and economic crisis, which was accompanied by a dramatic drop in foreign trade volumes, the national currency devaluation, a banking crisis etc. The crisis called forth substantial institutional and structural changes in the country, and those changes complicated the assessment of the WTO accession impact significantly.

Both quantitative and qualitative techniques were employed in the present work in order to perform the analysis. A total factor productivity model was used to analyze the impact of the WTO accession on the domestic manufacturing sector. It is a regression model, the best suitable for a study of ex-post effects. Moreover, that meth-

odology allows for assessment of the impact of trade liberalization on the production side of the economy, in contrast, for instance, to the gravity model, which shows the impact of trade regime changes on trade flows.

The general equilibrium model was instrumental in the analysis of expected changes in trade regime after the anticipated establishment of a Deep and Comprehensive Free Trade Area with the EU. That model is the most popular tool for ex-ante analysis of trade policy changes.

In addition, the Institute for Economic Research and Policy Consulting conducted a survey of business managers to determine their opinion about the impact of the WTO accession.

The study analyses also specific institutional effects of the country's WTO accession, in particular, observance of the transparency principle, use of the dispute settlement mechanism, possibility of participation in the Doha round etc.

## 2. IMPACT OF THE WTO MEMBERSHIP ON THE ECONOMY: A BUSINESS MANAGERS' PERSPECTIVE

Surveys of business managers are an important source of information on the impact of changes in government economic policy on business operations, taking into consideration that availability and quality of statistical data in Ukraine, like in other developing countries, are often insufficient.

In 2004-2013, the Institute for Economic Research and Policy Consulting (IER) conducted a series of surveys to capture manufacturing managers' views on the consequences of Ukraine's WTO accession. In 2004-2007, before Ukraine joined the WTO, the surveys investigated manager's expectations regarding the impact of the accession on export and import activities of their companies. After Ukraine joined the WTO, in 2008, 2012, and 2013 opinions about the existing impact were gathered.<sup>1</sup>

In the large, the results of the surveys suggest that the impact of Ukraine's WTO accession on exports and imports was positive to a substantial extent. That conclusion can be seen as reliable as the surveys were conducted using a sufficiently large sample during an extended period of time.

### Main findings

Before Ukraine joined the WTO about a half of business managers had positive expectations regarding the impact of the WTO accession on their companies' trade. The share of respondents believing the impact would be negative was relatively small, not exceeding one-fifth. About one out of three executives thought the accession would have no impact.

Immediately after Ukraine become a member of the organization managers turned neutral. At the end of 2008,

<sup>1</sup> The surveys about the impact of WTO membership were based on the panel sample of business managers that was used for the IER's Quarterly Enterprise Survey, aimed at monitoring managers' perceptions and expectations towards changes in general business climate and towards the indicators of company performance. See [http://www.ier.com.ua/en/proekt\\_dilova\\_dumka](http://www.ier.com.ua/en/proekt_dilova_dumka)

five months after the accession,<sup>2</sup> a vast majority of respondents did not see any impact of that event on both exports and imports. The percentages of managers who reported the impact had been positive or negative were substantially smaller than the shares of those with positive or negative expectations, respectively, in the previous years.

Later, opinions about the impact of Ukraine's WTO accession became more positive.

At a more detailed level, before Ukraine joined the WTO executives were slightly more enthusiastic about the impact of the accession on their companies' exports than imports. But later, the opinions almost converged. Common trends for exports and imports in the period both before and after the accession were the following. On average, executives of large size companies had a more favorable attitude to Ukraine's WTO accession than managers of small and medium size firms. At the industry level, executives from food industry companies had the most persistent positive views both before and after Ukraine joined the WTO. Positive opinions were expressed the least frequently by managers from "the other" industries (other than heavy, light, and food industries, and the manufacture of machinery and equipment).<sup>3</sup> After Ukraine joined the organization the largest decline in the share of managers with positive opinions was observed in the manufacture of machinery and equipment.

Before Ukraine was granted WTO membership, different categories of companies exhibited dissimilar trends in change of expectations over years, but after that event almost all of them showed the same pattern, which was de-

<sup>2</sup> Ukraine joined the WTO in May 2008, the survey was conducted in November-December 2008.

<sup>3</sup> Those industries include the manufacture of construction materials, the manufacture of wood and paper products, printing and reproduction of recorded media, and other industries.

**Exporters' Expectations And Evaluations**

scribed above (with the only exception of food industry). However, that pattern was very volatile over the years as at the time respondents' answers were based, presumably, on their experience rather than beliefs. A detailed analysis of the surveys' results is presented below.

Before Ukraine became a member of the WTO a tiny majority of the surveyed managers expected that Ukraine's accession to the organization would positively affect their companies' exports. In 2004-2007, the share of those respondents was from 50% to 56.1% (with the peak in 2006). The percentages of executives believing the impact would be neutral or negative were also relatively constant in those years — 29.6-33% and 14.3-17.2%, respectively. The portion of respondents with a pessimistic view was highest in 2007, just before Ukraine joined the WTO.

Five months after Ukraine completed the process of accession a vast majority of managers (70.3%) reported no impact on exports. The share of executives stating the impact had been positive (21.8%) was substantially

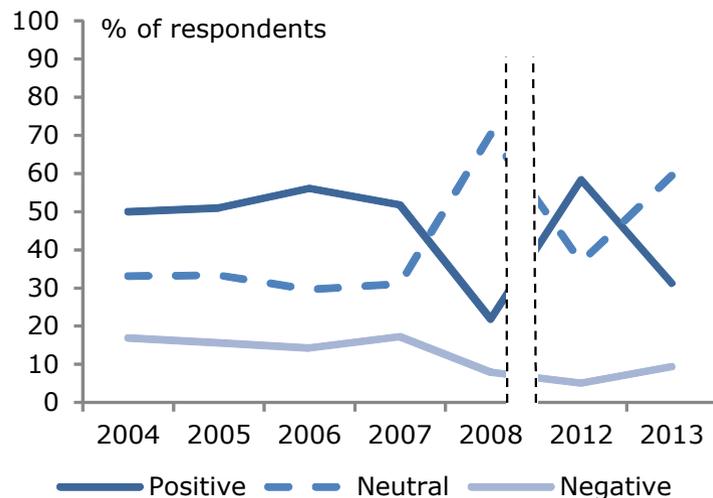


Figure 1. Impact of Ukraine's WTO accession on manufacturing exports

Source: IER

smaller than the share of those who had positive expectations previously. The trend was the same for managers who had negative opinions. Their share was only 7.9% in 2008.

Later views became more positive, although they were also volatile. The portion of managers who reported the impact of Ukraine's WTO accession on exports had been positive increased to 58.3% in 2012, but fell to 31.3% in 2013. The latter year most executives turned neutral again (the respective share reached 59.4%). The percentage of respondents stating the impact was unfavorable remained small in both years — 5% and 9.4%, respectively.

Opinions about exports were also marginally less volatile than opinions about imports.

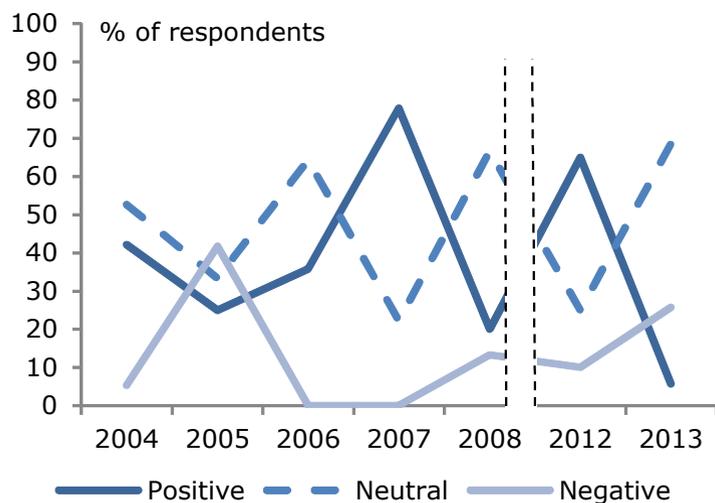
A closer look at the results of the surveys revealed that managers from different sized companies had, on average, dissimilar views on the impact of Ukraine's WTO accession on exports. First, executives of large and medium-size companies had more positive attitude to the WTO accession than managers of small ones in most years. Second, the larger a company was the more fixed an opinion of its representative was.

**Small exporters**

Opinions of small companies' managers varied widely. In 2004 most of the managers (52.6%) believed that Ukraine's WTO accession would have no impact on their companies' exports. In the next year the largest share of respondents (41.7%) had negative expectations. It was the only case in which that kind of expectations prevailed among all categories of respondents before the WTO accession. Later the expectations improved substantially: in 2006 most of the managers (64.3%) indicated the impact would be neutral, in 2007 a huge

**Analysis by company size**

Figure 2. Impact of Ukraine's WTO accession on small size companies' exports



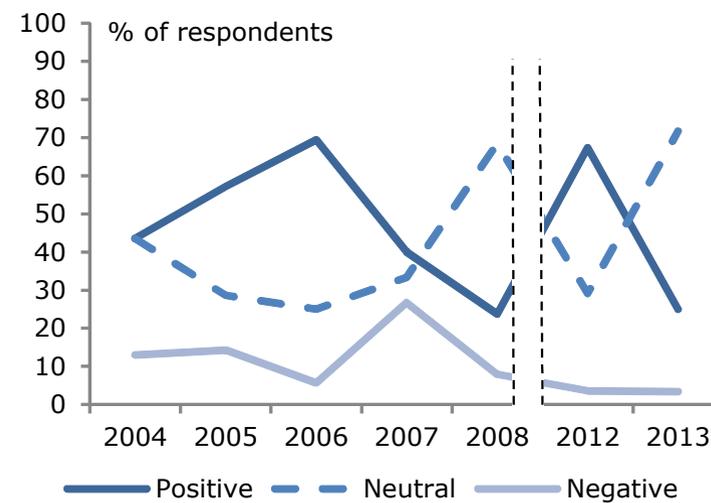
Source: IER

majority (77.8%) expected it would be positive. In 2006 and 2007 no respondents had negative expectations.

After Ukraine joined the WTO opinions of small companies' managers followed the general trend. In 2008, a majority (66.7%) reported no impact on exports. In 2012, after four year in the organization, respondents' views became more favorable: 65% of managers evaluated the impact as positive. But in 2013, managers turned neutral again. The share of managers stating the impact had been positive declined dramatically to just 5.7%, while the portion of those reporting no impact increased almost threefold to 68.6%. The share of managers who stated that the impact was negative increased substantially to 25.7% (in 2008 and 2012 it was 13.3% and 10%, respectively).

#### Medium-size exporters

Medium-size companies' managers had, on average, a more positive attitude to Ukraine's WTO accession than their colleagues from small firms. In 2004, opinions were split: 43.5% of respondents believed that that the impact of the accession would be positive and the same percent-



Source: IER

age thought it would be neutral. In the next two years the share of managers with positive expectations increased significantly (to 57.1% in 2005 and 69.4% in 2006). But in 2007, just before Ukraine was granted WTO membership, respondents became less enthusiastic: the share of managers anticipating the effect would be positive decreased to 40%. In 2004-2007, the portion of those with negative expectations did not exceed 26.7% (that level was reached in 2007).

After Ukraine became a WTO member, opinions followed the general trend. In 2008 most of the surveyed managers (68.4%) reported no impact. Four years later, over two thirds of respondents (67.3%) evaluated the impact as positive. But in 2013, the share of those reporting the impact was positive fell to 25%, while a huge majority (71.7%) thought it had been neutral. The share of managers reporting the impact had been negative remained small, at 3.3% (in 2008 and 2012 it was 7.9% and 3.6%, respectively).

Figure 3. Impact of Ukraine's WTO accession on medium size companies' exports

### Large exporters

Before Ukraine joined the WTO executives of large companies had mainly optimistic expectations regarding the impact of Ukraine's WTO accession on exports. But the percentage of managers who had positive expectations was gradually decreasing — from 58.5% in 2004 to 50% in 2007. In that period the share of managers who anticipated the impact would be negative was relatively large, ranging from 10.7% (in 2005) to 25% (in 2006).

In 2008, a vast majority of executives (72.9%) did not see any impact of the WTO accession on exports. The percentages of managers who reported the impact had been positive or negative (20.8% and 6.3%, respectively) were significantly smaller than the shares of those with positive or negative expectations in the previous years. Later, opinions improved: in 2012 the share of executives reporting the impact had been positive was 48.4%, in 2013 it increased to 50.8%. The percentage of respondents who evaluated the impact as negative remained small in those years, at 4.7% and 6.2%, respectively.

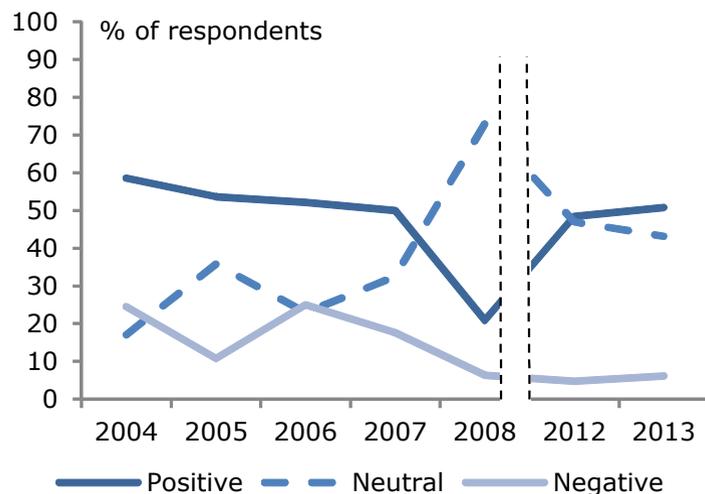


Figure 4. Impact of Ukraine's WTO accession on large size companies' exports

Source: IER

### Analysis by industry

Different manufacturing sub-sectors exhibited different trends in opinion regarding the impact of Ukraine's WTO accession on exports prior to that event. But after Ukraine joined the organization all but one sub-sector showed the same pattern: in 2008 most of the managers did not see any impact, in 2012 a majority reported that the impact had been positive, and in 2013 most of the respondents saw no impact (with the exception of food industry).

Food industry executives were, on average, the most positive about the accession both before and after it took place. Managers from "the other" industries were, on average, the least positive. After Ukraine joined the WTO the share of respondents with a positive attitude decreased the most in the manufacture of machinery and equipment, and in light industry.

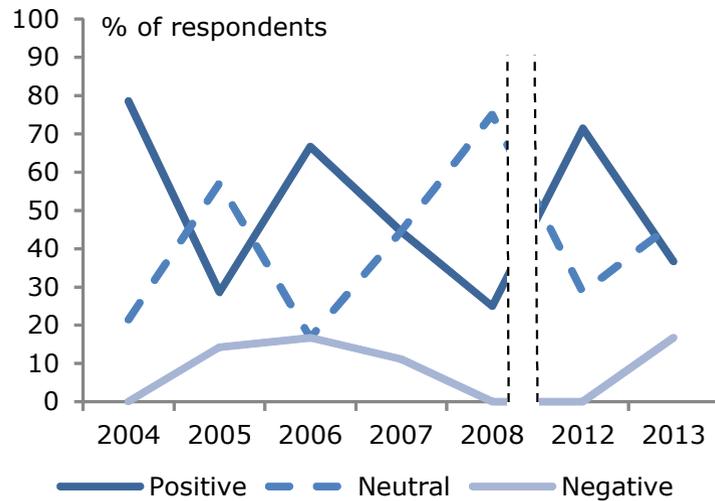
Changes in opinions were volatile in all sub-sectors with the exception of food industry in which they were relatively constant.

### Heavy industry

In 2004-2007, opinions of heavy industry managers regarding the impact of Ukraine's WTO accession fluctuated between positive and neutral. In 2004 and 2006 a vast majority anticipated that the impact would be positive (78.6% and 66.7%, respectively). In 2005 most of the respondents (57.1%) expected no impact. In 2007, opinions were split evenly between positive and neutral (44.4% each). In 2004-2007 the share of managers with negative expectations did not exceed 16.7% (that level was reached in 2006).

In 2008, after Ukraine joined the WTO, a huge majority experienced no impact. In 2012, over two thirds of respondents (71.4%) evaluated the impact as favorable. But in 2013 the share of those reporting the impact was positive fell to 36.7%. In that year the

Figure 5. Impact of Ukraine's WTO accession on heavy industry exports



Source: IER

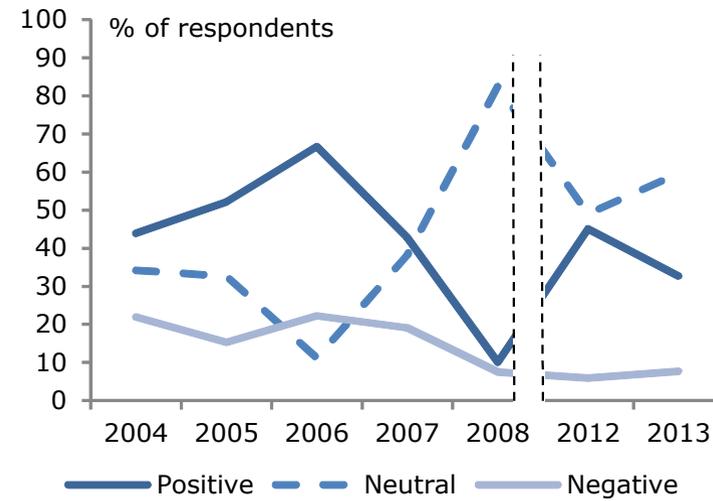
largest share of executives (46.7%) reported no impact. In 2008 and 2012 no respondents stated that the impact had been negative, in 2013 that point of view was supported by 16.7% managers.

#### Manufacture of machinery and equipment

Changes in opinion of managers from the manufacture of machinery and equipment industries were less volatile than changes in views of heavy industry executives. In 2004-2006, the share of the industries' managers who had positive expectations increased from 43.9% to 66.7%. In the next year, the respective share declined to 42.9% as more executives turned neutral (38.1%). In 2004-2007, the percentage of managers with negative views did not exceed 22.2% (in 2006).

In 2008, when Ukraine was granted WTO membership, only 10% of executives reported that the impact had been favorable while a vast majority (82.5%) reported no impact. In 2012 and 2013 the portion of managers who evaluated the impact as positive increased (to 45.1% and 32.7%, respectively) and the percentage of

Figure 6. Impact of Ukraine's WTO accession on exports of machinery and equipment

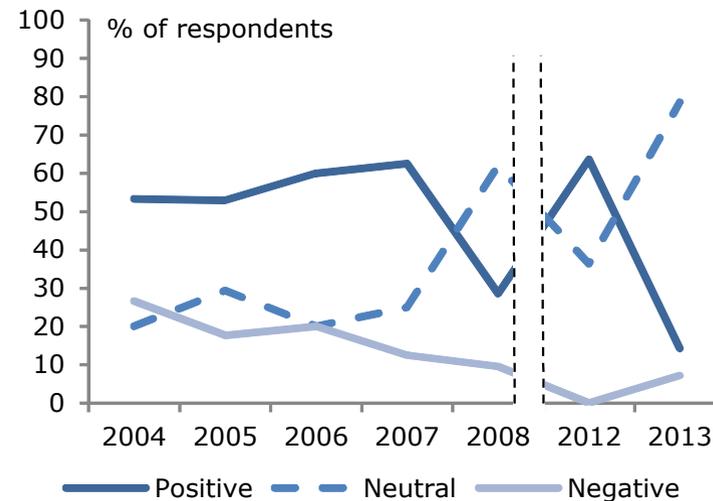


Source: IER

those stating no impact decreased (to 49% and 59.6%, respectively). In those years the share of managers with negative opinions (7.7%) was highest in 2013.

#### Light industry

Light industry managers were, on average, more optimistic about the impact of Ukraine's WTO accession on their companies' exports executives from the two previ-



Source: IER

Figure 7. Impact of Ukraine's WTO accession on light industry exports

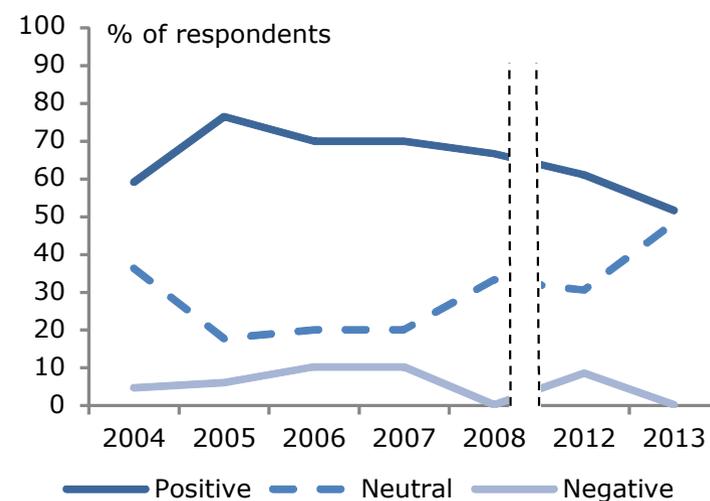
ously mentioned sub-sectors. In 2004-2007, a majority of light industry managers had positive expectations of the impact of Ukraine's WTO accession on exports. The share of respondents who anticipated the WTO membership would help to expand their companies' exports increased from 53.3% in 2004 to 62.5% in 2007. In 2004-2007 the share of managers with negative expectations did not exceed 26.7% (that level was reached in 2004).

But in 2008, five months after Ukraine joined the organization, the portion of light industry managers reporting the impact had been positive was much smaller — 28.6%. A majority of executives (61.9%) did not feel any appreciable effect of the WTO membership on their companies. The share of managers who reported the impact had been negative was 9.5% — smaller than the percentage of executives who expected the negative impact in previous years.

In 2012, after four years in the organization, opinions became substantially more positive. 63.6% of light industry managers thought the impact of the WTO membership on their companies' exports was positive, and 36.4% of respondents reported no effect. But in 2013, the share of executives with positive opinions fell dramatically to 14.3% while the percentage of those who saw no impact increased to 78.6%.

### **Food industry**

Food industry executives were, on average, the most enthusiastic among exporters. The share of executives who had optimistic expectations of the impact of Ukraine's WTO accession on their companies' exports exceeded 59.1% in the period before Ukraine joined the organization. The respective share was the highest in 2005 (76.5%). The percentage of executives who expected the impact would be negative was small—up to 10% (in 2006 and in 2007).



Source: IER

Figure 8. Impact of Ukraine's WTO accession on food industry exports

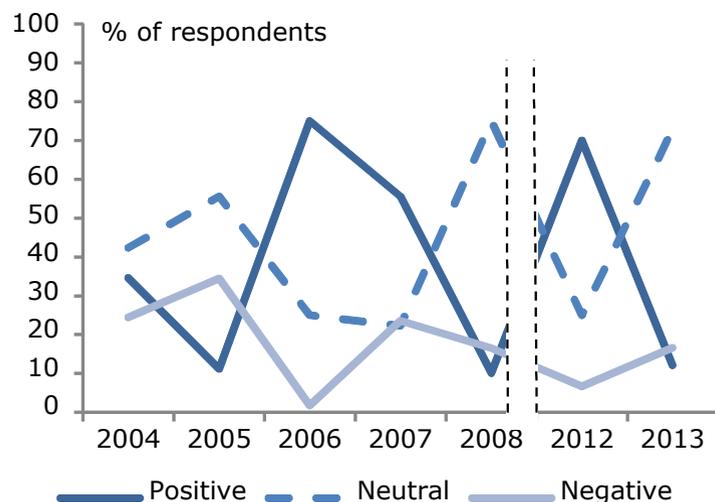
In 2008, when Ukraine was already a member of the WTO, the share of managers who reported the positive impact was slightly smaller than the portion of managers with optimistic expectations (66.7%) in the preceding year. None of the surveyed managers stated that the effect was negative.

In 2012, the percentage of executives of food industry exporters evaluating the impact as positive decreased to 61.1%, whereas 8.3% believed the effect was negative. The share of managers who reported no impact on their companies' exports was 30.6%. In 2013 the share of executives with positive views decreased further to 51.6%. In that year the percentage of respondents who felt no impact increased to 48.4%.

### **Other industries**

Managers from "the other" industries were, on average, the most negative about the impact among exporters. Their expectations varied between neutral and positive. In 2004 and 2005, the greatest share of managers foresaw that the impact of Ukraine's WTO accession on their companies' exports (42.3% and 55.6%, respectively)

Figure 9.  
Impact  
of Ukraine's  
WTO accession  
on other  
industries  
exports



Source: IER

would be neutral. In 2006 and 2007, expectations turned positive: a majority of executives believed the impact of the WTO membership would be favorable (75% and 55.6%, respectively). In 2004-2007, the share of managers who had negative expectations did not exceed 33.3% (that level was reached in 2005).

In 2008, just after Ukraine joined the organization, the portion of the managers reporting the impact had been positive was much smaller—10%. A majority of executives (75%) did not experience any effect of the WTO membership on their companies. The share of managers who reported the impact had been negative was 15%.

In 2012, the share of executives stating the positive effect increased substantially (to 70%), whereas the portion of respondents evaluating the impact as negative decreased (to 5%). But in 2013, the percentage of those reporting the impact was positive declined to just 12.1%. A huge majority (72.7%) experienced no impact.

On average, importers were slightly less positive about Ukraine's WTO accession than exporters before that event. In 2004, only a relative majority of the surveyed managers (47%) anticipated the impact of the accession on their companies' imports would be favorable. In the next year opinions improved: the share of executives with positive expectations increased to 58.5%. But later that share decreased (to 51.1% in 2006 and 49.1% in 2007). In 2004-2007, the share of managers who expected the impact would be negative was relatively small, ranging from 12.7% to 16%.

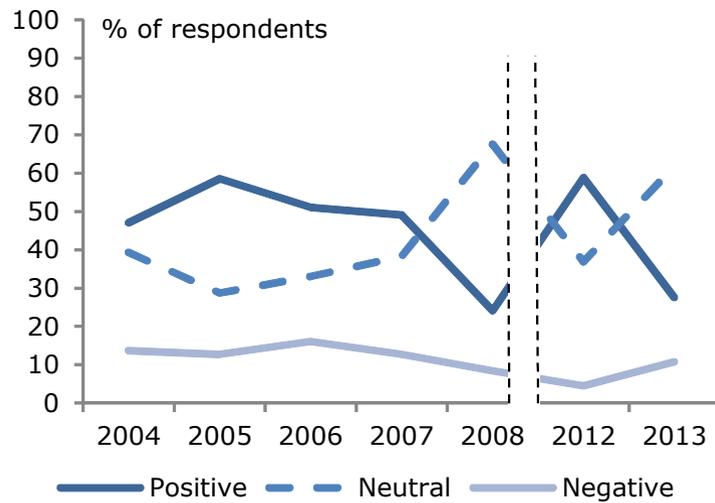
After Ukraine was granted WTO membership, importers' answers exhibited the same trend in opinion as exporters' ones. In 2008, over two thirds of respondents (67.5%) indicated the impact on their companies' imports was neutral and only 24.1% thought it was favorable. In 2012, much more positive views were observed. 58.8% of respondent believed the impact was favorable. But in 2013, managers turned neutral again. The share of executives who stated the effect had been positive decreased to 27.5%, and the portion of those reporting no impact increased to 61.7%. In these years, the percentage of managers who evaluated the impact as negative was smaller than before the accession — it did not exceed 10.7% (that level was reached in 2013).

Executives from different sized companies had different opinions about the impact of Ukraine's WTO accession on imports. The main pattern was basically the same as for exports, but it was more distinct. The larger a company was the more positive attitude to the WTO accession its manager had. Thus, executives from large companies were more likely to have a positive attitude to the accession than their colleagues from medium-size companies. In their turn, managers from medium-size companies were more likely to have a positive opinion

## Importers' expectations and evaluations

## Analysis by company size

Figure 10.  
Impact  
of Ukraine's  
WTO accession  
on manufacturing  
imports

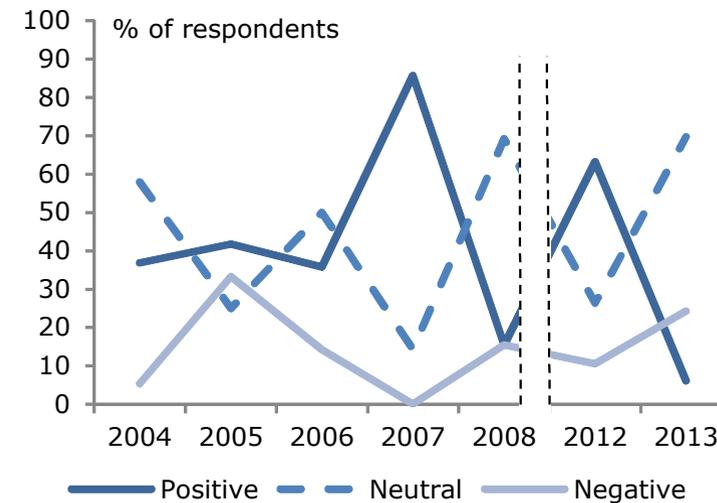


Source: IER

than managers from small firms. The opinions of large companies' executives were also substantially more stable than opinions of their colleagues from small and medium firms.

### Small importers

Among small companies' managers, expectations regarding the impact of Ukraine's WTO accession were changing between neutral and positive. In 2004, a majority of respondents (57.9%) expected no appreciable effect on their companies' imports. In the next year, the share of managers expecting the impact would be neutral declined significantly (to 25%), whereas a relative majority had positive expectations (41.7%). In 2006, opinions were reversed again: 50% of executives foresaw no impact. In 2007, the last year before Ukraine joined the WTO, expectations changed once more: 85.7% of respondents anticipated the impact would be favorable. In 2004-2007 the share of managers who had negative expectations did not exceed 33.3% (that level was reached in 2005).



Source: IER

In 2008, after Ukraine joined the WTO, the portion of small companies' managers reporting the impact had been positive was much smaller than the share of those expecting the impact would be favorable just before the accession (15.4%). A majority of executives (69.2%) did not see any effect of the WTO membership on their companies' imports.

In 2012, after four year in the organization, opinions became substantially more positive. 63.2% of managers thought the impact of the WTO membership on their companies' imports was positive, and 26.3% of respondents reported no effect. 10.5% stated the negative impact. However, in 2013 the share of executives with positive views fell dramatically to 6.1%. In that year a huge majority of respondents (69.4%) felt no impact. In those years, the share of managers who reported the impact had been negative did not exceed 24.2% (in 2013).

Figure 11.  
Impact  
of Ukraine's  
WTO accession  
on small size  
companies'  
imports

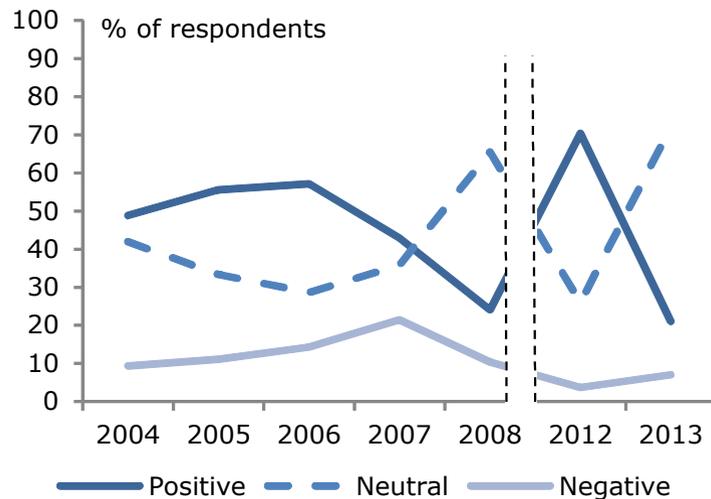
### Medium-size importers

Medium-size companies' managers had, on average, a more positive opinion about Ukraine's WTO accession than their colleagues from small companies. Before Ukraine joined the WTO at least a relative majority of respondents had positive expectations. In 2004-2006, the share of executives who anticipated the impact would be favorable grew from 48.8% to 57.1%. In the next year, the respective share declined to 42.9%, as more managers anticipated no appreciable impact (35.7%). In 2004-2007, the percentage of managers who had negative expectations did not exceed 21.4% (in 2007).

In 2008, when Ukraine was a member of the WTO, the share of managers who reported the positive impact was substantially smaller (24.1%) than the portion of managers with optimistic expectations in the previous year. 65.5% of executives stated no effect of Ukraine's WTO accession on their companies' exports and 10.3% reported that the impact was negative.

In 2012, the share of executives stating the positive impact of the WTO membership increased substantially

Figure 12. Impact of Ukraine's WTO accession on medium size companies' imports



Source: IER

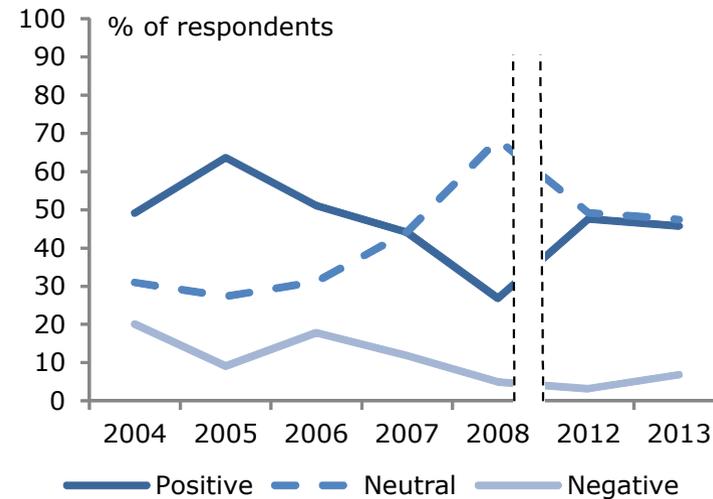
(to 70.4%), whereas the portion of respondents reporting the impact had been neutral or negative decreased (to 25.9% and 3.7%, respectively). But in 2013, opinions were reversed. The share of managers with positive opinions decreased to 21.1% while the percentage of those who saw no impact increased to 71.9%. The portion of respondents with negative opinions increased slightly — to 7%.

### Large importers

Large companies' managers were, on average, the most optimistic about the WTO membership. In 2004, 2005, and 2006, the share of managers anticipating the impact would be positive was the greatest (49.1%, 63.6%, and 51.1%, respectively). In 2007, managers became slightly less optimistic: the portion of respondents expecting the effect would be positive was equal to the share of those anticipating no effect (44.1% each). In 2004-2007, the share of managers who had negative expectations did not exceed 20% (in 2004).

In 2008, when Ukraine was already a member of the WTO, the share of managers who reported the positive

Figure 13. Impact of Ukraine's WTO accession on large size companies' imports



Source: IER

impact was significantly smaller (26.8%) than the portion of those with optimistic expectations in the preceding year. 68.3% of executives stated no effect of Ukraine's WTO accession on their companies' imports.

In 2012 and 2013 the portion of managers who evaluated the impact as positive increased (to 47.6% and 45.8%, respectively) and the percentage of those stating no impact decreased (to 49.2% and 47.5%, respectively). In those years the share of managers with negative opinions (6.8%) was highest in 2013.

### Analysis by industry

At the industry level, main trends for imports were similar to those for exports. Before Ukraine became a member of the WTO opinions varied substantially depending on a sub-sector. But later all but one sub-sector showed the same pattern: in 2008 most of the respondents did not see any appreciable impact, in 2012 a majority stated the impact had been positive, and in 2013 most of the respondents reported no impact again (the only exception was food industry).

Heavy industry executives and food industry managers were the most optimistic before Ukraine joined the WTO. Later, only food industry managers remained mostly positive about the impact of the country's WTO accession on imports. After Ukraine became a member of the organization, the share of respondents with a positive attitude decreased the most in heavy industry and in the manufacture of machinery and equipment. Managers from "the other" industries were, on average, the least enthusiastic.

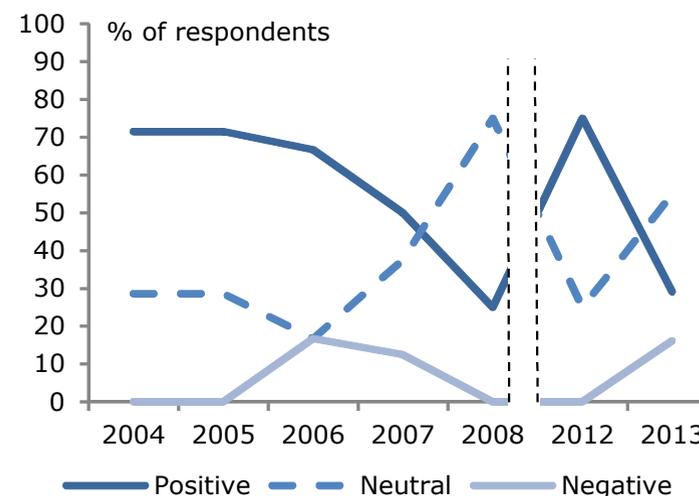
#### Heavy industry

Before Ukraine joined the WTO heavy industry managers had mainly optimistic expectations regarding the impact of Ukraine's WTO accession on their companies' imports. But the share of the managers who had posi-

tive expectations was decreasing — from 71.4% in 2004 to 50% in 2007. In that period the percentage of managers who expected the impact would be negative was small— up to 16.7% (in 2006).

In 2008, when Ukraine was a member of the WTO, the share of managers who reported the positive impact was significantly smaller (25%) than the portion of managers with optimistic expectations in the previous year. A majority of respondents (75%) reported no impact of Ukraine's WTO membership on their companies' imports.

In 2012, the opinions became substantially more positive. The percentage of executives of heavy industry importers reporting the impact had been positive increased threefold (to 75%). One fourth of managers stated no appreciable impact. But in 2013, the share of those reporting the impact was positive fell to 29%, while a majority (54.8%) thought it had been neutral. In 2008 and 2012 no respondents stated that the impact had been negative, in 2013 that point of view was supported by 16.1% managers.



Source: IER

Figure 14. Impact of Ukraine's WTO accession on heavy industry imports

### Manufacture of machinery and equipment

Among managers from the manufacture of machinery and equipment industries, expectations regarding the impact of Ukraine's WTO accession on imports were changing between neutral and positive. In 2004, a relative majority of respondents (45%) anticipated the impact would be neutral. In 2005 and 2006, the percentage of managers with positive expectations increased to 71.4%. But in 2007, just before Ukraine was granted WTO membership, managers became less optimistic: the share of respondents expecting the effect would be favorable was equal to the portion of those anticipating no impact (45% each). In 2004-2007, the share of managers who expected the impact would be negative did not exceed 22.2% (in 2006).

In 2008, after Ukraine joined the organization, a huge majority of executives (81.8%) did not experience any effect of the WTO membership on their companies' imports. In 2012, after four year in the organization, managers' opinions became more positive. The share of executives reporting no impact decreased to 52.2%, whereas the percentage of those stating the effect had

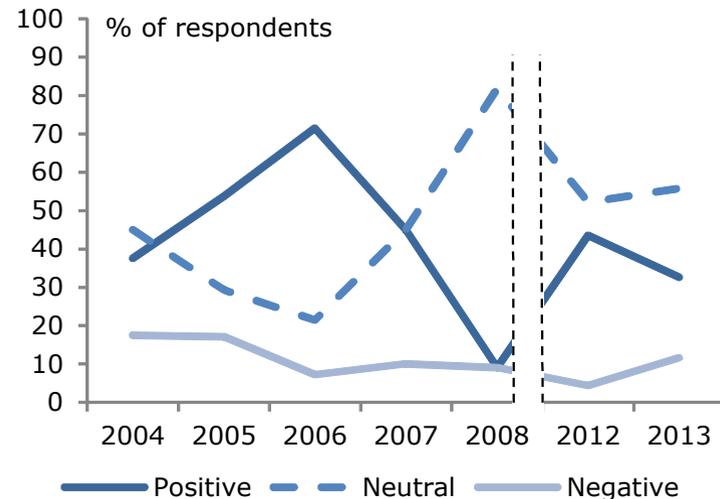
been positive increased to 43.5%. In 2013, the trend was reversed again, but the figures did not change significantly. The share of respondents with positive opinions decreased to 32.6% while the percentage of those who saw no impact increased to 55.8%. In those years, the portion of respondents with negative opinions did not exceed 11.6% (in 2013).

### Light industry

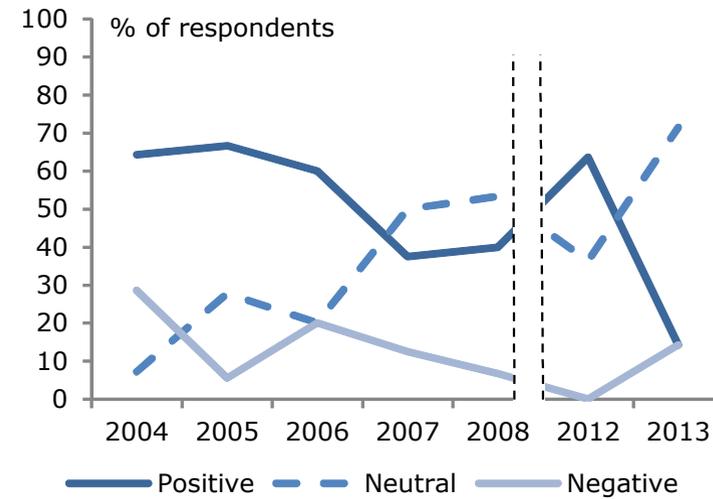
Light industry managers had mainly positive expectations regarding the impact of Ukraine's WTO accession on imports. In 2004, 2005, and 2006, be favorable (64.3%, 66.7%, and 60%, respectively). In 2007, managers became less optimistic: the portion of respondents expecting the effect would be positive fell to 37.5%, whereas the share of those expecting no impact increased to 50%. In 2004-2007 the percentage of managers with negative expectations did not exceed 28.6% (in 2004).

In 2008, after Ukraine joined the WTO, a majority of executives (53.3%) did not feel any appreciable effect of the WTO membership. But the portion of managers reporting the impact had been positive was relatively large

Figure 15. Impact of Ukraine's WTO accession on imports of machinery and equipment



Source: IER



Source: IER

Figure 16. Impact of Ukraine's WTO accession on light industry imports

(40%), whereas the share of those stating the impact had been negative was insignificant (6.7%).

In 2012, opinions improved. Almost two thirds (63.6%) of executives stated the impact of the WTO membership had been favorable. 36.4% of managers reported no effect. None of the respondents stated the effect was negative. However, in 2013 opinions turned neutral again. The share of managers with positive opinions declined dramatically to 14.3%, while the portion of those reporting no impact increased to 71.4%. The share of managers who stated that the impact was negative was also equal to 14.3%.

### Food industry

Food industry managers were, on average, the most optimistic about the impact of Ukraine's WTO accession on their companies' imports both before and after that event. In 2004-2007, the share of respondents who anticipated the impact would be favorable ranged from 50% to 76.5%. In that period the percentage of managers who expected the impact would be negative was small — up to 10% (in 2007).

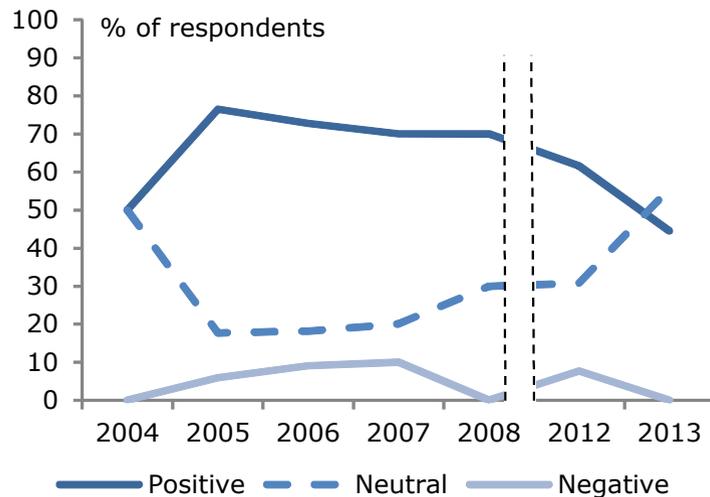


Figure 17. Impact of Ukraine's WTO accession on food industry imports

Source: IER

Just after Ukraine joined the organization, most managers evaluated the impact as positive. In 2008, a vast majority of executives (70%) stated the impact of Ukraine's WTO membership had been positive. 30% did not see any effect on their companies' imports. None of the managers reported that the effect was negative.

In 2012, opinions were similar to those of 2008. 61.5% of managers thought the impact of the WTO membership was positive. 30.8% of respondents reported no effect, and 7.7% stated it was negative. However, in 2013 opinions turned neutral. The share of executives with positive opinions decreased to 44.4% while the percentage of those who saw no impact increased to 55.6%. In that year, none of the respondents stated the effect was negative.

### Other industries

As regards other manufacturing sub-sectors, initially executives' expectations were neutral. Later, they improved. In 2004 and 2005, a relative majority of executives foresaw no impact of Ukraine's WTO accession on imports (44.4% and 45.5%, respectively). In 2006

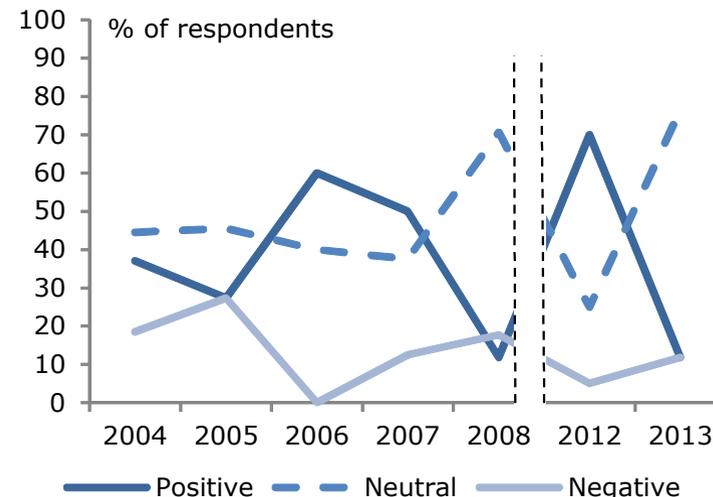


Figure 18. Impact of Ukraine's WTO accession on other industries imports

Source: IER

and 2007, the share of managers expecting the impact would be neutral declined, whereas most of the managers had positive expectations (60% and 50%, respectively). In 2004-2007, the percentage of respondents who had negative expectations did not exceed 27.3% (that level was reached in 2005).

In 2008, after Ukraine joined the organization, the portion of managers reporting the impact had been positive was much smaller than the share of managers with optimistic expectations in the previous year (11.8%). A majority of executives (70.6%) did not see any effect of the WTO membership on imports. The share of respondents who reported the impact had been negative was 17.6%.

In 2012, the share of the managers stating the positive effect increased substantially (to 70%), whereas the portion of the respondents evaluating the impact as negative decreased (to 5%). One fourth of the executives reported no impact. In 2013, the trend was reversed again. The share of respondents with positive opinions fell dramatically to 11.8% while the percentage of those who reported no impact increased to 76.5%. In that year, the portion of managers with negative opinions was 11.8%.

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### **Concluding remarks**

Several conclusions can be drawn from the results of business managers' surveys. First, in general, the impact of Ukraine's WTO accession on trade was not negative, both in manufacturing as a whole and at the industry level. It follows from the fact that the share of managers with negative opinions about the WTO accession impact was small. It was, on average, less than one fifth before Ukraine became a member of the organization, and decreased significantly after the accession. The above stated conclusion can be considered as reliable because that trend was observed in all years, and for all categories of companies (with only a few exceptions).

Second, the impact was at least partially positive, but the question remains, to what extent it was positive. In 2008, five months after Ukraine joined the WTO, a majority of managers reported no impact. Four years later, most of the executives stated the impact was positive. That difference may be explained by the idea that the impact became more evident with time. However, in 2013, just one year later, a majority of managers turned neutral again. That fact casts doubt on the idea stated above. The fact, in its turn, can be explained in different ways. For instance, managers' answers could have been influenced by other factors such as market conditions, which worsened substantially in 2013, when external demand for Ukraine's exports weakened and the economy experienced a slowdown. In any case, the question, to what extent the impact was positive, needs additional study.

Third, two groups of businesses benefited the most from Ukraine's WTO accession: food industry companies (of all sizes) and large companies (from all industries).

Lastly, mechanics of the impact of Ukraine's WTO accession on exports and imports was beyond the scope of the surveys. It can be researched using econometric methods. The results of such study are discussed in the next section of the present report.

### 3. IMPACT OF THE WTO MEMBERSHIP ON THE ECONOMY: PRODUCTION EFFICIENCY

The economic literature suggests that foreign trade liberalization promotes economic growth through increased productivity of domestic firms, which become more efficient as barriers to trade are reduced. Does this mechanism work in Ukraine? A study of productivity changes in Ukraine's manufacturing sector provides evidence in support of an affirmative answer to this question<sup>4</sup>.

By becoming a member of the WTO, Ukraine agreed to reduce barriers to trade. Duties were revised both during the accession process and after the country joined the organization. Tariff reduction led to an increase in competition in the domestic market.

This very effect of becoming a WTO member — an increased competition — is the focus of the analysis in terms of the impact on the national economy. The reason to use such an approach is convincing: in order to understand the impact of the WTO membership on Ukraine's macroeconomic conditions one must examine first microeconomic shifts, namely industry-level and firm-level changes. If those changes are structural they will have a long-run effect on the national economy.

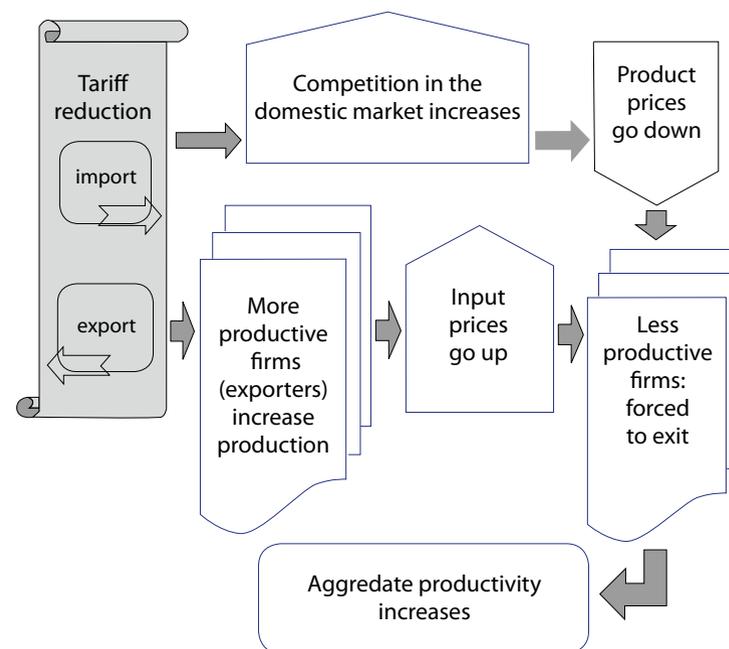
#### Link between tariffs and productivity

From the perspective of structural changes, the main result of increased competition is that the least efficient firms exit the market. The underlying mechanism is simple: a reduction of import duties leads to an increase in supply of foreign goods, and thus pushes goods prices down. The domestic firms that turn out to be uncompetitive face the choice: either to leave the market or to become more efficient. In both cases the average productivity on the market goes up. It is less obvious but the same effect is caused by elimination of export barriers (export duties and other barriers that prevent Ukrainian companies to access foreign markets). The point is

<sup>4</sup> Impact analysis was carried out by K. Kravchuk on the basis of the study: Kravchuk K., 2012: The Impact Of Trade Liberalization On Productivity Dispersion: Evidence From Ukraine, Kyiv School of Economics, Master thesis

that more of relatively efficient firms from Ukraine get an opportunity to become exporters as the barriers are relaxed, so they expand production driving input prices up, and push their less productive competitors out of the market<sup>5</sup> (see Figure 19). It is worth adding that a part of firms that remain competitive after the relaxation of the barriers gets an incentive to enhance efficiency: they have to become more efficient in order to preserve their profits or market shares.

Therefore, in case of Ukraine, accession to the WTO should have led to productivity gains through increased competition in the industries in which import and export duties were reduced. Did the above mechanism work in Ukraine during the WTO accession process? It is possible



Source: own presentation

<sup>5</sup> Melitz, Marc J. 2003. The impact of trade on intra-industry reallocations and aggregate industry productivity. *Econometrica* No. 71: 1695–1725.

Figure 19. Impact of tariff reduction on average productivity of an industry

to answer this question by analyzing available statistics. Ex-post analysis is justifiable in that case. Firstly, the tariff reduction process took a long time and occurred mostly before Ukraine was granted WTO membership. Thus, a significant amount of data is already accumulated and allows for making conclusions about to the economy's response to foreign trade liberalization.

Secondly, statistical analysis allows for separating the effect of tariff reduction on productivity from other effects. Efficiency enhancement can be achieved in various ways. In particular, innovation and internally driven competition may contribute to productivity gains. In addition, one should take into account that tariff reduction affects productivity in different sectors at different paces, depending on the cost of entry of new firms (which is determined by the capital-output ratio in each sector). (See the «Study methodology» section for technical details).

## Study methodology

The study of the impact of tariff reduction on productivity during Ukraine's WTO accession process<sup>6</sup> was conducted in three steps. First, firm level productivity was estimated, including both labor productivity and total factor productivity (TFP) (using Olley and Pakes methodology<sup>7</sup>). Second, productivity dispersion measures for subsectors of Ukraine's manufacturing sector for 2001-2009 were calculated. A decrease in dispersion implied that the least efficient firms drop out of the market provided that the upper limit of productivity distribution did not change or increased at a slower pace than the lower one.

Third, the effect of import tariff reduction on within-industry productivity dispersion was estimated using multivariate linear regression. The cumulative market share

<sup>6</sup> Kravchuk K., 2012: The Impact Of Trade Liberalization On Productivity Dispersion: Evidence From Ukraine, Kyiv School of Economics, Master thesis

<sup>7</sup> Olley, G. Steven and Pakes, Ariel. 1996. The dynamics of productivity in the telecommunications equipment industry. *Econometrica* No. 64: 1263–1297.

of the five largest (in terms of sales) companies was used as a proxy for domestic competition for each sub-sector. The ratio of total investment to fixed assets was chosen as an indicator for innovations. As regards the cost of entering the market in a subsector, the ratio of sales to fixed assets was selected as a proxy<sup>8</sup>.

Performance of Ukraine's manufacturing sector was the subject of the study. The performance depended considerably on the country's foreign trade regime because the sector produced mainly tradable goods, which could be exported and imported. Accordingly, the functioning of the sector was influenced by changes in the trade regime caused by WTO accession. Apart from that, manufacturing was a driver of economic growth in the developing countries that experienced fast and steady growth in the last decades.

When Ukraine was preparing to become a WTO member, a dramatic increase in productivity in the sector occurred simultaneously with a tariff reduction. In 2001-2009, the simple average import duty was reduced from 8.54% to 6.15%, and the weighted average duty rate went down from 8.66% to 6.12%<sup>9</sup>. At the same time, the average labor productivity in the manufacturing sector increased by 92%. The total factor productivity index, which reveals firms' efficiency controlled for the difference in fixed assets and intermediate inputs, increased by 26% on average (Figure 20).

In 2009, the next year after Ukraine joined the WTO, most of the companies were more efficient than in 2001<sup>10</sup>

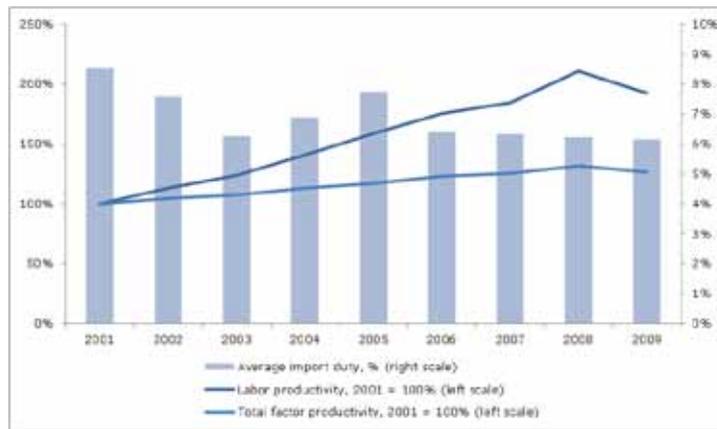
<sup>8</sup> Syverson, Chad. 2004. Product substitutability and productivity dispersion. *Review of Economics and Statistics* No. 86 (2): 534–550

<sup>9</sup> UNCTAD-TRAINS database, <http://wits.worldbank.org>

<sup>10</sup> Productivity evaluation was carried out based on analysis of financial statements of 57,734 manufacturing companies of Ukraine. All indicators were recalculated for hryvnia of 2001 using producer price index published by the State Statistics Service

## Study findings

Figure 20. Average import duties and productivity in Ukraine's manufacturing in 2001-2009

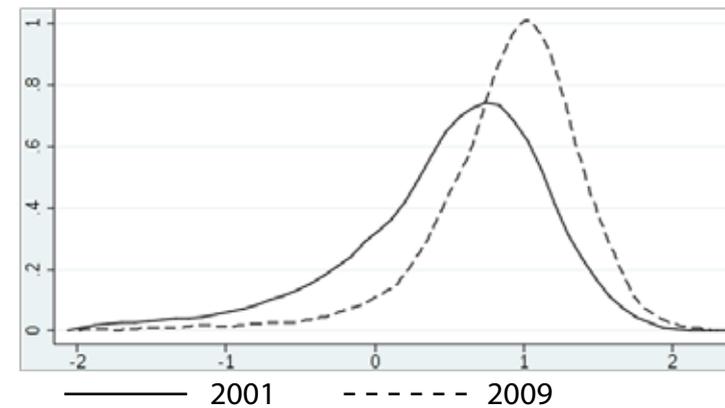


Source: Kravchuk K., 2012: *The Impact Of Trade Liberalization On Productivity Dispersion: Evidence From Ukraine, Kyiv School of Economics, Master thesis*

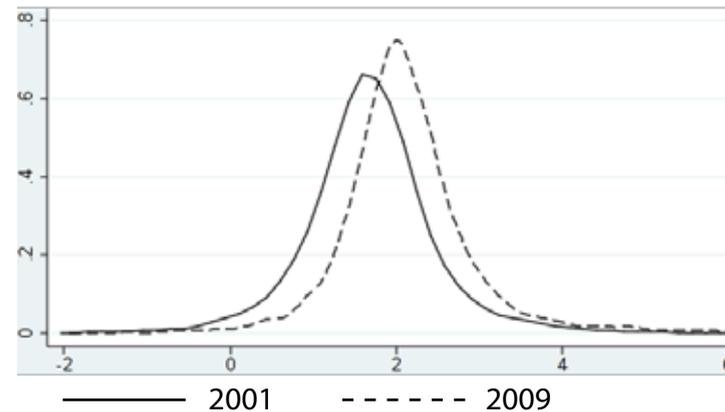
(Figures 21 and 22). At the same time the difference in productivity between the most and the least efficient companies decreased. It happened because the lower limit of productivity distribution grew faster than the upper one. Those results implied that the least productive companies exited the market or became more efficient.

The results of the regression analysis indicated that the WTO-related liberalization of foreign trade was an important driver of productivity growth in 2001-2009. It was the tariff reduction that forced the least efficient firms to stop operations (or to enhance their efficiency). The largest impact of the change in trade regime on productivity was observed on the second year and on the third year after the tariff reduction. The effect on labor productivity was greater than that on total factor productivity. The presented results also implied that the impact of a tariff increase was exactly the opposite: either existing companies became less efficient or less productive firms entered the market.

Figure 21. Labor productivity distribution in Ukraine's manufacturing sector, 2001-2009



Source: Kravchuk K., 2012: *The Impact Of Trade Liberalization On Productivity Dispersion: Evidence From Ukraine, Kyiv School of Economics, Master thesis*



Source: Kravchuk K., 2012: *The Impact Of Trade Liberalization On Productivity Dispersion: Evidence From Ukraine, Kyiv School of Economics, Master thesis*

Figure 22. Total factor productivity distribution in Ukraine's manufacturing sector, 2001-2009

Group	Industry codes, by Ukraine's Classification of Economic Activities (KVED)	Labor productivity		Total factor productivity	
		2001-2009	2004-2011	2001-2009	2004-2011
Food and tobacco industry	15, 16	++	++	++	-+

*Table 1.  
The effect  
of the tariff  
reduction  
on productivity  
in Ukraine's  
manufacturing  
sector in 2001-2009  
and 2004-2011,  
by industry groups*

Light industry	17, 18	++	-+	+ -	+ -
Wood processing and paper industry	20, 21, 22, 36	+ -	+	++	+
Manufacture of chemicals and construction materials	23, 24, 25, 26	+	++	0	++
Steel industry	27, 28	+	+	0	+
Manufacture of machinery and equipment	29, 34, 35	+	+	0	++
Manufacture of electrical and electronic products	30, 31, 32, 33	++	0	0	0
<i>Legend</i>		++ <i>strong positive effect</i>	+ <i>mixed effect: mostly positive</i>		
		+ <i>weak positive effect</i>	-+ <i>mixed effect: mostly negative</i>		
			0 <i>no effect</i>		

*Source: own presentation*

WTO related tariff cuts had positive impact on productivity in all analyzed industry groups. The greatest positive effect was observed in the group that included food processing industry and tobacco industry. In other two groups (light industry<sup>11</sup>, wood processing and paper industry<sup>12</sup>) the effect was mixed in the year of tariff change, the effect of the tariff reduction on productivity was negative, whereas in the following two years it turned into posi-

<sup>11</sup> Manufacture of textiles, wearing apparel, leather and related products

<sup>12</sup> Manufacture of wood, of products of wood and cork, of paper and paper products, printing and reproduction of recorded media, manufacture of furniture, other manufacturing

tive. As regards the aggregate results (for three years), in light industry the effect was positive, and in wood processing and paper industry it was weakly negative (the only case of the negative impact in the study).

Tariff reduction time	Labor productivity			Total factor productivity		
	Standard deviation	Interdecile range	Interquartile range	Standard deviation	Interdecile range	Interquartile range
Current year	2.2%	0%	0%	1.5%	0%	-1.6%
Last year	2.9%	3.4%	2.7%	1.5%	2.0%	1.5%
Year before last	3.6%	4.2%	3.7%	1.3%	1.8%	0%

*Source: own presentation*

The effect of the tariff reduction on productivity was found to be weakly positive in steel industry, in chemical industry, and in manufacture of transport equipment and industrial equipment. In those industry groups the tariff changes affected only labor productivity (see Table 1 for details).

The above stated results are consistent with findings of the studies that showed Ukrainian exporters were more productive than companies operating only in the domestic market<sup>13</sup>. The presented results are also consistent with conclusions of studies conducted abroad.

<sup>13</sup> Besedina Elena. 2008. Exporting and Productivity under Endogenous Trade Policy: Theory and Evidence from Ukraine. Universita L. Bocconi  
Shevtsova Yevheniya. 2010. Ukrainian Firm-Level Export Dynamics: Structural Analysis. ESC IRRU Working Paper No. 21

*Таблиця 2.  
Ефект зниження  
імпортного  
тарифу на 1%  
на розподіл  
продуктивності  
у переробній  
промисловості  
України  
у 2001-2009 роках*

It should be noted that the effect on productivity in the next two years after the tariff were reduced was greater than the effect in the year in which the tariff was changed. For example, on average a 1% decrease in import duty led to 2.2% decrease in standard deviation of the labor productivity distribution immediately, and to additional 2.9% and 3.6% decreases on the second and the third year, respectively.

The results of the analysis were robust to different measures of productivity dispersion. In addition to standard deviation, two others measures of dispersion were used in the study — article interdecile range and interquartile range. The former measure represents the difference in efficiency between two selected companies. The companies are chosen such that the productivity level of one company is higher than that of 90% firms in the sample, the productivity level of another company is higher than that of 10% of firms (i.e. the interdecile range is the difference between 90th and 10th percentiles of productivity distribution). The latter measure, the interquartile range, is calculated in similar way and shows the difference between the companies that are at 75% and 25% level in the list of firms ranked by productivity. Both ranges shrank in response to the reduction of import duties although at a slower pace than standard deviation did (see Table 2).

More than half of nonzero coefficients from the regression analysis were statistically significant at the level of 1%, the rest were significant at levels up to 10%. Changes in import duties explained from 33.5% to 42% of variation in different measures of labor productivity dispersion (the coefficient  $R^2$ ). As regards total factor productivity, the corresponding coefficient ranged from 0.156 to 0.253 (explaining from 15.6% to 25.3% variation in the dispersion).

The research described above was focused on the effect of trade liberalization on productivity mostly in the period before Ukraine joined the WTO (2001-2009). An additional study was conducted also to evaluate whether any effect was present after Ukraine became a member of the organization. In the latter study the data for 2004-2011 was examined using a methodology similar to the one presented earlier. The latter study confirmed that in general a decrease in import duties led to an increase in productivity by forcing less productive firms to exit the market or to enhance their efficiency. The effect was more pronounced for labor productivity, and at the level of manufacturing subsectors. The results for the effect of tariff reduction on total factor productivity were mixed, which may be attributed to heterogeneity of the effect in time or across industries.

It should be stressed that the impact of a tariff increase was exactly the opposite: either existing companies became less efficient or less productive firms entered the market. Given that the weighted average import duties increased in certain years (in particular, in 2010 and 2011), it means that those trade regime changes affected productivity negatively, and the observed productivity growth was due to other factors (innovation, internal competition etc.).

A comparison of the two studies (for 2001-2009 and for 2004-2011) showed that the main effect of tariff reduction on productivity in Ukraine's manufacturing took place in the years before the WTO accession, when a major part of the reduction occurred.

As Ukraine joined the WTO the internal market competition increased, and that was painful for some companies. But the analysis showed that the tariff reduction had a substantial positive impact on the economy. Above all, an increase in the competition contributed to the increase

## Concluding remarks

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in productivity of national companies. As a result of Ukraine's WTO accession, domestic manufacturers not only got a better access to foreign markets but became more competitive in those markets.

The mentioned changes are structural and, thus, will have a long-run impact on the national economy. One can note that negative scenarios that describe possible events after the tariff reduction have not eventuated, the economy responded to the new trade regime the way it should have responded.

The productivity growth would have been much greater if there had been fewer obstacles to redistribution of the factors of production between firms in the economy. In particular, the effect of tariff reduction would have been greater if there had been less corruption, less regulatory pressure on companies, and better protection of property rights. Nevertheless, even under actual conditions, Ukraine's WTO accession induced an increase in the efficiency of the national economy.

**4. UKRAINE'S  
WTO  
MEMBERSHIP:  
INSTITUTIONAL  
EFFECTS**

***Deep and comprehensive FTA between Ukraine and the EU***

As far as is known, Ukraine's WTO membership was a prerequisite to start formal negotiations between Kyiv and Brussels on establishing deep and comprehensive free trade area (FTA) as a part of the Association Agreement (AA).

Ukraine's commitments under the Deep and Comprehensive Free Trade Agreement (DCFTA) cover the broad range of country's economic policy issues. Overview of core commitments and brief analysis of their impact on Ukraine's economy is present below.

**Essential  
provisions  
of the agreement**

***National treatment and access to the goods market***

Import duties and tariff quotas.

The DCFTA provides for reciprocal liberalization of trade between the EU and Ukraine in industrial and agricultural goods, which will help to bring down costs of exporting for businesses. Import duties will be eliminated or substantially reduced for 95% of tariff lines immediately after the agreement is entered into force. For some of the remaining tariff lines import duties will be phased out according to the agreed schedule. The EU will also introduce duty-free tariff quotas for certain agricultural products originating from Ukraine. In addition, quantitative restrictions on imports will be abolished with some exceptions, in particular the exceptions regarding Article XI of the GATT-1994.

Export duties.

Elimination of Ukrainian export duties was one of the key requirements of the EU in the FTA negotiations. The parties agreed not to impose any export duties and not to use any measures with the equivalent effect. The duties currently applied by Ukraine will be phased out within a 10-year transition period after the agree-

ment is enacted. However, during the transition period Ukraine may use a safeguard measure in the form of a surcharge to the export duty on certain goods including sunflower seeds, raw hides, and some scrap metals. The amount of the surcharge is limited and is different for each product.

Export subsidies.

The EU and Ukraine pledged not to use export subsidies or equivalent measures for agricultural products in the bilateral trade after the agreement comes into effect.

***Trade safeguards***

The parties agreed to comply with the regime described in Article XIX of the GATT-1994 and in the WTO Agreement on Safeguards. The EU also reserved the rights and obligations arising from Article 5 of the WTO Agreement on Agriculture, with the exception for trade in the goods that would be entitled to preferential treatment under the AA. The EU and Ukraine committed also to try to minimize damage to the bilateral trade when applying safeguards.

It should be added that application of safeguards for passenger cars by Ukraine is regulated by the agreement separately.

***Technical barriers to trade***

The EU and Ukraine agreed to strengthen cooperation in the field of technical standards and regulations in order to improve compatibility of the regulations and, thus, facilitate access to markets. Ukraine pledged to harmonize progressively its systems of standardization, metrology, accreditation, conformity assessment, and market surveillance with the EU norms. Ukraine also committed to implement principles and practices that arose from the relevant EU regulations and directives.

In detail, Ukraine will incorporate the relevant EU acquis into national legislation and make administrative and institutional reforms that are needed to implement the AA and the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA), which is included into the DCFTA as an addendum. Incorporation of EU directives into legislation will take place according to the agreed schedule. The country will ensure that the efficient and transparent administrative system that is necessary to meet the requirements of the corresponding section of the AA will be put in place. Ukraine also committed to ensure membership of its relevant bodies in European and international organizations for standardization, legal and fundamental metrology, and conformity assessment.

Discussions of regulatory issues can be initiated both at the horizontal and at the sectoral levels to implement the above mentioned plans.

#### ***Sanitary and phytosanitary measures***

Ukraine committed to harmonize its legislation on sanitary and phytosanitary measures (SPS) and animal welfare with the EU acquis. The list of the EU directives in the area that are to be implemented into the country's legislation is contained in the AA.

Moreover, the agreement makes provision for institutional capacity building. Specifically, the EU and Ukraine will establish the SPS Management Sub-Committee, which will monitor the harmonization process on a regular basis, and issue recommendations.

The Sub-Committee may also determine the equivalence of sanitary and phytosanitary measures in the EU and in Ukraine at different levels: (1) an individual measure, (2) a group of measures, (3) a system of measures relevant to a sector, sub-sector, commodity or group of commodities. The procedure of deter-

mination of the equivalence is specified in the AA. It includes consultations, and may include also inspection or verification. If some measures are officially seen as equivalent, physical checks at the border can be reduced, certification can be simplified, and production capacity approval procedures can be facilitated.

#### ***Establishment of businesses, trade in services, e-commerce***

The EU and Ukraine pledged to provide for national treatment and the MFN treatment for cross border supply of services (including electronic commerce) and for establishment of businesses. The parties also agreed to move towards further liberalization in those areas.

However, the commitments do not apply to some sectors, in particular to operations with nuclear materials, weapons, munitions and military material, to audiovisual services, to national maritime cabotage, and to domestic and international air transport services (excluding aircraft repair and maintenance services during which an aircraft does not fly), sale of air transportation services, computer reservation system services, ground handling services, and airports operation services.

#### ***Public procurements***

The AA envisages reciprocal access to public procurement markets in the traditional sector and in the utilities sector of the economy. The access will be based on the principle of national treatment at the national, regional, and local levels. Mutual opening of markets will be gradual and simultaneous, and will depend on successful approximation of Ukraine's legislation in the sphere of public procurement to the EU acquis. Harmonization of the legislation will be accompanied in Ukraine by an institutional reform and establishment of an effective public procurement system based on the principles that govern public procurements in the European Union.

### ***Intellectual property***

Ukraine committed to approximate its legislation to the EU acquis in the field of intellectual property rights. According to the commitments, the country will modify its laws that regulate use of a number of intellectual property right objects: copyrights (including copyrights on computer programs and their databases, and rights related to copyrights), rights related to patents on biotechnological inventions, trademarks, trade names, and designs. The obligations also cover designations of origin, indications of source, plant varieties, and include provisions on protection of undisclosed information and protection against unfair competition.

Moreover, the AA contains provisions regarding protection of the EU geographical indications in Ukraine (about 3000 titles, including cognac, champagne, roquefort, feta) and vice versa. Ukraine agreed to prohibit the use of the titles by domestic producers after a ten-year transition period. For its part, the EU will provide the compensation package for modernization of the enterprises that will be affected by the change of product titles as a result of protection of geographic indications, and for promotion of Ukrainian products under new brands to the EU markets.

The EU and Ukraine also agreed to ensure appropriate and effective implementation of the WTO Agreement on Trade-Related Aspects of Intellectual Property (TRIPS) and other international agreements on intellectual property, to which they are parties.

### ***Competition policy***

The AA covers a wide range of issues related to competition policy and practices. First, the agreement lists the anti-competitive business practices and transactions that the EU and Ukraine are to refrain from (to the extent, to which those practices affect the bilateral trade):

- the agreements and concerted practices between enterprises that are aimed at distorting competition in the EU or Ukraine,
- the abuse by one or more enterprises that have a dominant position in the EU or Ukraine,
- the concentrations that lead to monopolization in the market in the EU or Ukraine.

Second, the AA contains provisions regarding state owned enterprises and entities granted special or exclusive rights. The EU and Ukraine are to apply competition legislation to such entities in a way that does not impede implementation of tasks assigned to the entities, either by law or in practice.

Third, the agreement establishes principles of state aid policy. The aid granted by the EU or by Ukraine through state resources is declared inconsistent with the AA if that aid distorts or may distort competition by granting preferences to certain enterprises or to the production of certain goods (to the extent, to which that aid affect trade between the parties). But exceptions are made, in particular for the aid that has a social character and is provided to individual recipients, and for the aid aimed at offsetting the damage caused by a natural disaster.

In order to fulfill the commitments of this section of the AA Ukraine will harmonize its legislation with the relevant EU acquis. The country also will set up an adequate and effective institutional system of state aid control including an operationally independent body with appropriate powers within three years from the date the agreement is enacted. The list of the EU directives in the areas of competition policy and state aid policy that are to be implemented into Ukraine's legislation is contained in the AA.

### ***Trade-related energy issues***

The agreement contains provisions regarding trade in natural gas, electrical energy and crude oil. In particular, the EU and Ukraine agreed to facilitate transit supplies of those goods and minimize the risk of interruption or reduction of the supplies. They also committed not to stop transit supplies in case of a dispute, in which a party of the agreement is involved, before a dispute resolution procedure is completed (unless a contract for transit makes provision for a stoppage). If transit supplies are interrupted, they are to be resumed quickly. The parties of the agreement are not liable for an interruption if it is caused by an action of a third country.

Furthermore, the AA envisages establishment of an early warning mechanism designed to consolidate measures aimed at preventing emergencies and reacting rapidly to them. The mechanism will include early assessment of potential risks associated with supply and demand for natural gas, crude oil or electrical energy. The mechanism will also ensure a fast response to an emergency or a threat of an emergency, namely a situation that results (or may result) in interruption or reduction of supply of energy goods between Ukraine and the European Union.

The agreement also makes provisions regarding price regulation (prohibiting dual pricing), customs duties, quantitative restrictions, cooperation in infrastructure development, and unauthorized energy goods taking.

### ***Transparency***

The agreement has special provisions on the measures of general application<sup>14</sup> that are aimed at creating and supporting effective and predictable legal environment for businesses, especially for small ones, by fulfilling the requirements of legal certainty and proportionality.

<sup>14</sup> The laws, regulations and decisions of general application that may have an impact on any matter covered by the agreement.

The EU and Ukraine confirmed their relevant obligations to the WTO and committed to develop and clarify provisions regarding transparency, consultation and better implementation of measures of general application.

### ***Trade and sustainable development***

The AA stipulates that policies promoting trade between Ukraine and the EU have to fully take into account social issues and protection of environment. Economic, social, and environmental aspects of the development have to be mutually supportive. Moreover, not only interests of the existing society, but also interests of future generations have to be taken into consideration.

With this purpose, the agreement creates a framework for ensuring that economic development, environmental protection and social policy complement each other. The document also confirms that it is necessary to effectively apply available international instruments of social policy and protection of environment.

The implementation of the Deep and Comprehensive Free Trade Agreement will have a large impact on the economy of Ukraine. The effect will vary for different sectors of the economy (business, household, government).

### ***Business sector***

For businesses the implementation of the economic component of the Association Agreement, including the DCFTA, will imply:<sup>15</sup>

#### **A. Possible economic benefits of reciprocal trade liberalization for a country are positively correlated**

<sup>15</sup> The analysis is to a great extent based on the studies (1) Movchan V., Giucci R., Kutsenko K. (2010) "Trade Policy of Ukraine: Strategic Aspects and Next Steps to Be Taken", consultation work of IER, April 2010 (see: [www.ier.com.ua](http://www.ier.com.ua)), and (2) Movchan V., Giucci R., (2011) Quantitative Evaluation of Variants of Ukraine's Regional Integration: Deep and Comprehensive Free Trade Area with the EU, or Customs Union with Russia, Belarus and Kazakhstan, consultation work, November 2011 (see [http://www.ier.com.ua/ua/publications/consultancy\\_work/?pid=3107](http://www.ier.com.ua/ua/publications/consultancy_work/?pid=3107))

with the market size of a partner country. The larger is the market of the country with which a free trade area is established, the larger are potential benefits in absolute terms. Therefore, the effect of tariff reduction and relaxation of non-tariff barriers on the economy of Ukraine is expected to be large.

B. An enhanced access to third country markets due to harmonization of Ukrainian technical regulations with the relevant EU regulations, which are consistent with international standards. Ukraine will become a part of the regulatory space that includes the EU and the countries, in which the regulations are compatible with the European ones. As a result, exporters will be able to facilitate their operations, whereas enterprises oriented to the domestic market will get opportunity to enter new markets.

C. A better domestic business climate as a number of Ukrainian laws will be adapted to be in line with the EU legislation. As a consequence, business regulation in Ukraine will be more transparent and more favorable to foreign investors. A more attractive domestic business environment is expected to encourage an inflow of foreign investment and decrease the cost of capital.

D. A gradual increase in domestic competition due to tariff liberalization and relaxation of non-tariff restrictions. Increased competition will result in reallocation of labor and capital across enterprises or across sectors of the economy, and will be beneficial for more competitive enterprises. In the long run that will contribute to aggregate productivity enhancement and, thus, make the national economy healthier and more resilient. However, policy actions are required from the government to offset negative effects of tougher competition.

E. Increased costs of compliance with social standards, in particular safety requirements, environmental stand-

ards, and social protection requirements. The provisions regarding those requirements are contained in the section of the DCFTA covering trade and sustainable development.

### ***Households***

For households the agreements will have the following outcomes:

A. Growth of income due to new jobs and production growth. However, the increase in income will be distributed unevenly and will depend on the enterprise or the sector, in which an individual works. Accordingly, the labor market conditions will change, although the changes will be extended over time because the DCFTA provides for long transition periods.

B. Improvement of social protection because the agreement makes provisions on occupational safety and health, environmental standards, and social security requirements.

C. A wider choice of products because the DCFTA will facilitate movement of goods by relaxing tariff and non-tariff barriers. However, Ukrainian consumers will fully benefit from those changes only in fifteen years after the agreement enter into force, after all transition periods are over.

D. Enhanced safety goods on the domestic market due to harmonization of safety requirements with the relevant international standards. That aspect of the agreement is substantial for Ukraine because the existing product safety control system is not sufficiently effective.

E. New professional skills requirements because competitive enterprises will demand higher productivity and the ability to ensure compliance with new technical regulations from their workers. The government

should improve active labor market policies providing for training and retraining of workers in order to meet market demand.

### **Government**

For the government the implementation of the DCFTA will imply:

A. A budget revenue increase due to expansion of economic activity in the country. As will be discussed below, the results of modelling of the impact of the DCFTA suggest that the implementation of the agreement will increase welfare by 11.8% in the long run.

B. Better public finance management because the DCFTA provides for reforms of budget policy, public internal control, external audit, state aid, and public procurement. Ukrainian legislation in those areas will be approximated to the EU acquis.

C. Incentives and new opportunities to complete the economic reforms that were started earlier. For instance, Ukraine has already made considerable progress in reforms in the field of technical regulations, standards, sanitary and phytosanitary measures, harmonizing them with international norms and practices. The DCFTA stresses the commitment of the country to the WTO to expand those costly reforms, and provides an opportunity to obtain technical and financial assistance, which will help to complete them.

D. Costs for rapid implementation of reforms. According to the Association Agreement, Ukraine committed to implement more than 300 EU directives and other regulations into the national legislation within 10 years after the agreement enters into force. However, as it was mentioned above, the country can get technical and financial assistance from the EU.

E. Expenditures for mitigation of adverse effects of the DCFTA. First of all, Ukraine will have to allocate funds to advance active labor market policies in order to mitigate effects of adjustment on households.

To quantify economic impact of the establishment of the Deep and Comprehensive Free Trade Area with the EU, the CGE model for Ukraine has been applied<sup>16</sup>. In the framework of this study we consider the following scenarios:

- Scenario 1: Simple FTA with the EU: Mutual elimination of import tariffs.
- Scenario 2: DC FTA with the EU: Mutual elimination of import tariffs + 2.5% reduction in border dead-weight costs on exports to EU + 2.5% reduction in border dead-weight costs on imports from EU. Reductions in dead-weight costs are associated with approximation of regulatory framework in Ukraine and improvement of customs and other procedures.

Before discussing results, several important notices should be made:

Time horizon. Time is not explicitly fixed in the model. Tentatively, we refer to medium-term horizon in case when factors reallocate and thus full adjustment of the economy to the shock occurs, but no changes in factor endowment are modelled (static model). We refer to long-term horizon when steady-state formulation of the model is applied, and complete factors reallocation is complemented by capital stock adjustment to the new equilibrium.

<sup>16</sup> The model used in the paper has been developed in the framework of the project "Analysis of the Economic Impact of Ukraine's WTO Accession" conducted by Copenhagen Economics, Denmark; Institute for East European Studies Munich, Germany; and Institute for Economic Research and Policy Consulting, Ukraine, in 2005 by Copenhagen Economics et al. (2005) and later modified by Veronika Movchan.

### **Quantification of the DCFTA impact**

Trajectory. Results do not give indications concerning the adjustment path from benchmark to the new equilibrium.

Shock separation. The results present economic impacts of pre-specified shocks and don't take into account any other economic developments that might occur in the country at the same time.

The modelling of the FTA scenarios of regional integration reports net welfare gains for Ukraine in case of FTA between Ukraine and the EU, with increase in gains in the case of the DCFTA. Specifically, the establishment of simple FTA with the EU the total welfare of Ukraine will increase by 1.3% in the medium run and by 4.6% in the long run ceteris paribus, while for the DCFTA welfare increase would be 4.3% and 11.8% respectively.

Gains for trade, labor income (wages) and capital accumulation were observed only in scenarios involving a FTA with the EU. Joining the Customs Union of Belarus, Kazakhstan, and Russia (CU) may lead to losses in foreign trade, a decrease in wages of both skilled and unskilled workers, and lower capital returns (except for capital returns in the long run).

The results are also comparable with other studies of the impact of trade regime changes in Ukraine. According to CEPS (2006)<sup>17</sup>, the simple FTA results in negligible welfare gains, while for the deep FTA, gains constitute 4-7%. Also, CASE (2007)<sup>18</sup> concluded that the positive welfare effects are largest in the extended FTA between Ukraine and the EU. They estimated that the integration leads to 2% increase in welfare for Ukraine using static model formulation.

17 CEPS (2006). The Prospect of Deep Free Trade Between the European Union and Ukraine. Report prepared by Centre for European Policy Studies (CEPS), Brussels; Institut für Weltwirtschaft (IFW), Kiel; International Centre for Policy Studies (ICPS), Kyiv

18 CASE (2007). Global Analysis Report for the EU-Ukraine TSIA. Ref: TRADE06/D01. Concept Global Analysis Report prepared by ECORYS and CASE

As well as the membership in the WTO, the DCFTA offers Ukraine an opportunity to participate in establishment and use of global and regional trade rules, and influence a global trade agenda. Such an advantage cannot be offered by any other integration project in the region.

Index	Simple FTA EU		DCFTA EU	
	static	steady state	static	steady state
<b>Aggregate welfare</b>				
Change in welfare	1,3	4,6	4,3	11,8
<b>Trade</b>				
Change in imports	1,0	2,4	2,6	5,9
Change in exports	1,0	2,5	2,8	6,3
<b>Returns to mobile factors</b>				
Change in the unskilled real wage	0,5	2,5	1,2	5,7
Change in the skilled real wage	0,4	2,3	1,2	5,5
Change in the rental return to capital	1,2	0,1	2,2	-0,4
<b>Factor adjustments</b>				
Unskilled labor adjustment	2,3	2,5	2,9	3,5
Skilled labor adjustment	0,8	0,9	1,0	1,3
Capital adjustment	0,8	0,4	0,9	0,2
<b>Capital in steady state</b>				
Capital stock change		3,6		8,1

Source: Ukraine model, authors' estimates

Table 3: Economy-wide effects of different FTA scenarios, % cumulative change

## Dispute settlement

One of the core mechanisms for enforcing the rules of the global trade system is a set of WTO procedures for trade dispute settlement. The disputes arise between member countries in case of violation of commitments made to the WTO. The organization's body responsible for dispute resolution is the Dispute Settlement Body (DSB), which appoints expert panels to consider cases and oversees implementation /of their rulings and recommendations. All WTO member countries have representatives to the DSB.

The WTO dispute settlement system pursues three key objectives:

- facilitate dispute settlement through negotiation and consultations between stakeholders;
- provide for an independent and trustworthy opinion on rights and responsibilities of the parties in the event of failure to find a solution through consultations;
- clarify WTO norms and requirements to the benefit of all member countries.

The results of dispute resolution may indirectly affect all WTO members: interpretation of WTO regulations may be modified, the categorization of measures that WTO members are to notify about may be altered, and requirements for the member countries' behavior may be changed.

A dispute settlement process can be divided into two major stages: consultations (up to 60 days) and the panel (up to 45 days to appoint a panel and up to 6 months to prepare a report to the disputing parties). At the first stage, the parties negotiate to resolve a dispute, with possible mediation by the WTO Director General. If the parties fail to come to an agreement at that stage, any party may ask for a panel to be appointed. The panel, which is composed of other

member countries, has to consider the dispute in detail and prepare a report. In addition, the third stage is also possible when the WTO Appellate Body considers a case to make the final decision.

After Ukraine joined the WTO the country used the dispute settlement mechanism four times as a complainant (disputes with Georgia, Armenia, Moldova, and Australia) and once as a respondent (dispute with Moldova).

Ukraine launched a dispute at the WTO for the first time in 2009. It was a dispute with Georgia regarding its excise tax levied on imported tobacco products. A Ukrainian manufacturer filed a complaint with the Ministry of Economy of Ukraine that the tax was discriminatory: it was GEL<sup>19</sup> 0.6 (USD 0.358) per pack of imported filter cigarettes and 0.4 GEL (USD 0.239) per pack of a similar domestic product. The dispute was resolved without involvement of the DSB. After consultations between the two countries Georgia agreed to equalize the tax rates.<sup>20</sup> That was a striking start for Ukraine in using the WTO dispute settlement mechanism to protect the interests of domestic companies. Since the dispute was resolved at the consultation stage without establishment of a panel, it has not been present on the map of disputes between WTO members.

The second dispute was initiated by Ukraine in July 2010, when the country launched consultations with Armenia regarding certain measures of the latter country that affected import of cigarettes and alcoholic beverages. Specifically Armenia's law "On Presumptive Tax

## Ukraine as complainant

<sup>19</sup> Georgian lari

<sup>20</sup> <http://news.finance.ua/ua/~2/0/all/2009/11/10/177217>

<http://www.georgiatimes.info/en/articles/24623.html>

Georgia: Recent Economic Developments and Selected Issues. IMF country report #211 (November 2001)

<http://books.google.com.ua/books?id=UoGEUY6AMBAC>

for Tobacco Products”, adopted on March 24, 2000, introduced higher taxes on imported tobacco products than those on similar domestic products. According to the law, imported tobacco products were also subject to an import duty of 24%, which was higher than the corresponding bound rate of 15%. In addition, the law “On Excise Duty” of July 7, 2000 introduced higher excise duties on imported alcoholic beverages than excise duties on similar domestic products. Ukraine alleged that the measures violated articles of the General Agreement on Tariffs and Trade of 1994 (GATT-1994)<sup>21</sup>, were inconsistent with Armenia’s commitments to the WTO,<sup>22</sup> and violated the Free Trade Agreement between Ukraine and Armenia.<sup>23</sup>

In September 2010, after consultations failed to resolve the dispute, Ukraine requested the DSB to set up a panel. But before it was formed, Armenia expressed its intention to resume bilateral negotiations with Ukraine<sup>24</sup>, and in November 2010 both parties came to an agreement. In December 2010, the Government of Armenia decided to apply the free trade agreement between the two countries to imports of alcoholic products from Ukraine.<sup>25</sup>

The third dispute was the one with Moldova. In February 2011, Ukraine requested consultations with the country on environmental taxes that were imposed on imported products only. According to the law “On Charge for Contamination of Environ-

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21 Articles II:1, III:1, III:2 and III:4 of GATT-1994

22 These provisions imply that goods originating from any party’s territory when imported into another party’s territory should not be subject (directly or indirectly) to internal taxes and other internal charges of any kind that are higher than taxes and charges directly or indirectly applied to similar domestic goods.

23 Articles 1 and 2 of the Agreement between the government of Ukraine and the government of Armenian Republic on free trade of 07.10.1994

24 [http://wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds411\\_e.htm](http://wto.org/english/tratop_e/dispu_e/cases_e/ds411_e.htm)

25 <http://wto.in.ua/index.php?search=1&get=3&id=1937>

ment” of February,<sup>25</sup> 1998, two such taxes existed: (a) a charge on products, the use of which polluted the environment, at a level of 0.5-5 % of the declared value of the products, and (b) a charge on plastic or “tetra-pack” packages (except packages for dairy products) at the level of MDL 0.80-3.00 (USD 0.06-0.23) per package.<sup>26</sup> Ukraine argued that the charges violated the GATT-1994 because they were not imposed on domestic products.<sup>27</sup> The charges had a negative impact on Ukrainian producers of beer and juices. From January to November 2010 exports of beer from Ukraine to Moldova shrunk by 32.6% (from USD 9.2 m to USD 6.2 m), exports of juices decreased by 34.8% (from USD 3.8 m to USD 2.5 m).<sup>28</sup>

In June 2011, the DSB established an expert panel to consider the complaint, but the panel was not composed. In November 2011, after bilateral negotiations Ukraine and Moldova agreed that the discriminatory charges would be cancelled, but that agreement has not been fulfilled. Argentina, China, and the EU reserved their rights as third parties to the dispute.<sup>29</sup>

The fourth dispute started by Ukraine was the one with Australia on its cigarette packaging rules. In March 2012, Ukraine requested consultations with the country regarding its Tobacco Plain Packaging Act (2011) and certain related documents.<sup>30</sup> The Act demanded that tobacco products were sold only in identical olive-brown packs covered with graphic health warnings (specifically

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26 Case DS421

27 Articles III:1, III:2, and III:4 of GATT-1994  
[http://wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds421\\_e.htm](http://wto.org/english/tratop_e/dispu_e/cases_e/ds421_e.htm)

28 <http://ictsd.org/i/news/biores/107608/>

29 [http://wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds421\\_e.htm](http://wto.org/english/tratop_e/dispu_e/cases_e/ds421_e.htm)

30 Ukraine challenged the following measures: (1) Tobacco Plain Packaging Act (2011) and its implementing Tobacco Plain Packaging Regulations (2011), (2) the Trade Marks Amendment (Tobacco Plain Packaging) Act (2011), and (3) all policies or practices adopted to implement the first two measures.

the warnings contained large pictures of organs damaged by smoking or ill people, the warnings covered 75% of the front of the pack and 90% of the back).<sup>31</sup> Ukraine claimed that the cigarette packaging rules violated certain trade agreements.<sup>32</sup>

As consultations failed to settle the dispute, Ukraine requested the establishment of a panel. In September 2012, the DSB set up the panel, but it has not been composed. WTO member countries<sup>33</sup> reserved their rights as third parties to the dispute.<sup>34</sup>

## Ukraine as respondent

In March 2011, Moldova started a trade dispute with Ukraine regarding its excise duty on alcoholic beverages. It was an action in response to the mentioned above complaint by Ukraine regarding Moldova's environmental taxes. Moldova requested consultations with Ukraine claiming that the law «On Excise Duty Rates on Ethyl Alcohol and Alcoholic Beverages» imposed a higher excise duty on imported distilled spirits than an excise duty on like products manufactured domestically, and thus infringed Article III:2 of the GATT 1994. At the time the request was made the law was not effective, but similar provisions were contained in the Tax Code of Ukraine. It imposed a UAH 20 excise duty on cognac (including products under that name produced in Ukraine), and a UAH 42.12 excise duty on other spirits obtained by distilling grape wine or grape marc (including Moldova's brandy referenced to as divin).

31 [http://wto.in.ua/index.php?lang=ua&search=1&get=wto\\_news&id=2309](http://wto.in.ua/index.php?lang=ua&search=1&get=wto_news&id=2309)

32 Articles 1, 1.1, 2.1, 3.1, 15, 16, 20 and 27 of the Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS); articles 2.1 and 2.2 of the Agreement on TBT; article III:4 of GATT 1994

33 Argentina, Brazil, Canada, Dominican Republic, Ecuador, European Union, Guatemala, Honduras, India, Indonesia, Japan, Korea, New Zealand, Nicaragua, Norway, Oman, Philippines, Singapore, Taiwan, Turkey, the USA, Uruguay, Zambia, Zimbabwe, Chile, China, Cuba, Egypt, Nigeria, Malaysia, Mexico, Moldova, Peru, and Thailand.

34 As for August 2013. Source: [http://www.wto.org/english/tratop\\_e/dispu\\_e/cases\\_e/ds434\\_e.htm](http://www.wto.org/english/tratop_e/dispu_e/cases_e/ds434_e.htm)

In July 2011, after consultations failed to settle the dispute, the DSB set up a panel to consider the complaint. But the panel has not been formed. In November 2011, Ukraine and Moldova agreed to resolve the two disputes between the countries by equalizing the controversial taxes in each country. However, that agreement has not been carried out neither by Ukraine nor by Moldova.

In March 2011, the European Union requested to join the consultations as a third party with interest in issues related to use of the name "cognac" in Ukrainian laws. Later on China, Chinese Taipei, Colombia, and the United States also reserved their third party rights.

The WTO multilateral trading system is based on a set of fundamental principles, including:<sup>35</sup>

- non-discrimination between trade partners, between domestic and foreign goods and services, and between own and foreign nationals,
- reduction of barriers to trade, including both customs duties and non-tariff restrictions (like import bans or quotas), to make economies more open,
- enhancement of competitiveness through curbing export subsidies, dumping sale, and other practices recognized as "unfair", and specifying how governments can respond to those practices, including imposing additional import duties,
- predictability and transparency of trade policy, which are meant to prevent arbitrary formation of barriers to trade, and which implementation contributes to an increase in investment, lower prices, and a wider choice of goods and services for consumers (through increased competition).

35 Understanding the WTO. What it stands for. [http://www.wto.org/english/thewto\\_e/whatis\\_e/what\\_stand\\_for\\_e.htm](http://www.wto.org/english/thewto_e/whatis_e/what_stand_for_e.htm)

## Trade policy transparency

Trade policy transparency is understood as the degree to which trade policies and practices, as well as policy development processes are open and predictable.<sup>36</sup>

Exporters, importers, and investors need a reliable regulatory environment, both in their own countries and abroad. Hence, the WTO tries to improve predictability and stability of the trade policy and the business environment in member countries.

The WTO agreements require member countries to ensure that their trade rules are clear and transparent. In particular, countries have to inform the organization and fellow states about changes in their policies and practices using the WTO notification system. Every member of the organization has a government body that is responsible for handling enquiries from the WTO and other stakeholders.

The WTO also reviews trade policy of its member countries on a regular basis. Initially the WTO trade policy reviews were prepared under GATT and covered only trade in goods. But since the establishment of the WTO in 1995 they deal with trade in services, as well as intellectual property issues.

**Notification process in Ukraine: organization structure and operations**

Ukraine has undertaken the WTO commitments toward the general transparency regime for trade-related normative and regulatory acts and generally fulfilled its transparency and notification obligations. In particular, the single Enquiry and Notification Point (“Centre for Processing Enquiries from the World Trade Organization Member-States and the World Trade Organization”) had been established before the date of Ukraine’s accession to the WTO. It was an independent body according to its legal status responsible for processing members’ notifications, preparation

<sup>36</sup> Glossary of WTO terms. See.: [http://www.wto.org/english/thewto\\_e/glossary\\_e/transparency\\_e.htm](http://www.wto.org/english/thewto_e/glossary_e/transparency_e.htm)

and submission notifications by Ukraine to the WTO, which had enough powers and competencies to directly turn to other ministries, agencies, bodies.

After the introduction of administrative reform the Center had lost its independence and was reorganized to the Unit for Enquiries, Notification and Information Processing, which became operational in 2011. At present the Unit has three levels of subordination within the reorganized Ministry of Economic Development and Trade (MEDT) as presented below:

Ministry of Economic Development and Trade — Department for WTO Cooperation and Trade Remedies— Division of WTO cooperation Unit for Enquiries, Notification and Information Processing

The functions of the Unit remained almost unchanged. It is still promoting effective cooperation and exchange of operational information and documents with the WTO Secretariat and WTO members. Besides, it collaborates with public authorities on preparation of notifications of Ukraine and comments on WTO Member’s draft measures; analyzes and responds to enquiries from the WTO and businesses regarding trade issues.

However, the organizational change has had negative impact on Unit’s institutional and professional capacity. Its decision-making was substantially reduced as the Unit was not empowered to work independently. Time for the Unit’s operations increased significantly as many working contacts were lost and the redesigned communication models and channels have not yet stabilized.

### Preparation and submission notifications by Ukraine to the WTO

The most typical activity of the Unit for Enquiries, Notification and Information Processing is to ensure the process of notification and carefully examine all outgoing messages, paying attention to whether they are correctly formulated. The process of notifications preparation remains time-consuming and lacks efficiency (see Figure 23).

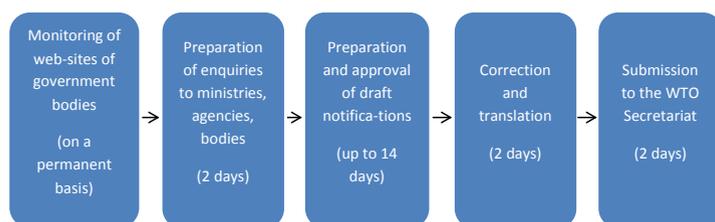


Figure 23. Process of preparation of a notification

Source: Ministry of Economic Development and Trade of Ukraine

Ministries or other government bodies related to TBT/SPS issues do not inform the Ministry of Economic Development and Trade about expected changes in their areas of responsibility on a permanent basis. Thus, the Unit has to monitor the web-sites of relevant government bodies on its own searching for events (new measures and changes to existing measures) that can be considered important enough to be a subject of a notification to the WTO. Much time is spent on preparation of notifications and getting them approved (with all corrections and translation) by all relevant ministries.

In addition, the Unit spends time on submission of notifications. In particular, the Unit for EN&IP fills in a special form for notifications developed by the WTO Secretariat and sends it to the Secretariat through the Permanent Mission of Ukraine to the UN Office and other International Organizations in Geneva. The Permanent Mission checks notification text and transfers a notification to the WTO Secretariat, which adds

it to a general WTO database. In 2013, the Unit for EN&IP started using an on-line TBT/SPS notification submission system to speed up preparation of notifications and make the process of notifying more efficient. The Unit instructed experts from other ministries how to use the system. Like any other WTO member state, Ukraine has the right to recall notifications.

Most of the notifications from Ukraine cover TBT rather than SPS measures<sup>37</sup> (see Table 4).

Type of measures	Products
TBT	Food products (especially containing GMO); construction products; electrical equipment; machinery of all types (especially agricultural); mobile and telecommunications terminal equipment; medicinal products
SPS	Plants, products of plant origin, plant protection means; meat products and raw materials (primarily poultry and pork); pedigree cattle; insecticides (except remedies); seeds of agricultural plants

Table 4. Key products that were in focus of notifications from Ukraine

Source: Ministry of Economic Development and Trade

### Enquiries from the WTO

The WTO members can make their comments on notifications from Ukraine by sending their enquiries to the Unit for EN&IP within the period specified in the notification (usually up to 60 days after publication of a notification on the WTO web-site).

In 2008-2012, according to the Ministry of Economic Development and Trade, the Unit for EN&IP prepared 454 notifications to the WTO and responded to 386 enquires from the WTO members. In 2012, the number of notifications (regular and ad hoc) submitted by Ukraine to the WTO was lower by 39% compared

<sup>37</sup> According to WTO data on TBT and SPS: <http://spsims.wto.org>; <http://tbtims.wto.org>

with 2008 (the number was large in 2008 because just after joining the WTO Ukraine had to submit necessary initial notifications). In 2008-2012, the number of enquiries from the WTO increased eight times (Figure 24).

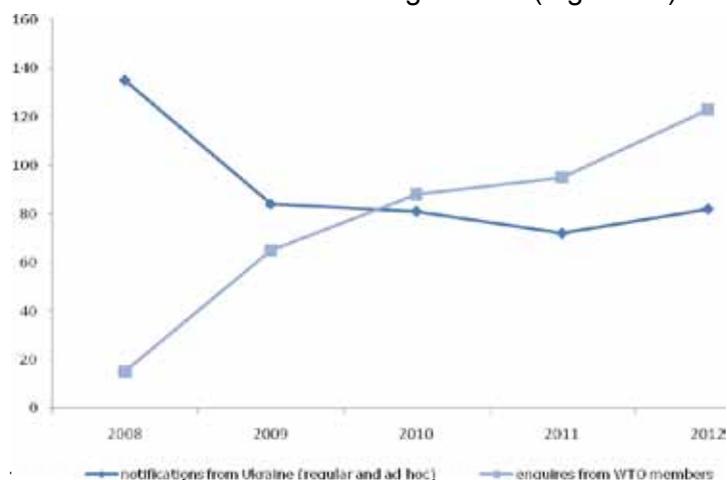


Figure 24. Number of notifications submitted to the WTO and enquiries to which responses were provided, in 2008-2012

### Monitoring and analysis of notifications from WTO members

The Unit for EN&IP is also responsible for monitoring of the notifications from the WTO member states and the WTO Secretariat on proposed and adopted trade measures. The Unit analyzes these notifications, evaluates their impact on the export potential and priority markets of Ukraine and provides information for all interested parties (primarily, executive authorities and business). All processed notifications are placed on the web-site of the Ministry of Economic Development and Trade under the dropdown menu “Cooperation with the WTO”.<sup>38</sup> The Unit consults with relevant ministries and agencies in case of making enquiries concerning notifications. In addition, the Unit facilitates preparation of enquiries from businesses. Feedback contacts and instructions for making an enquiry or a comment are indicated on the web-site.

<sup>38</sup>[http://www.me.gov.ua/control/publish/article/main?art\\_id=92531&cat\\_id=92530](http://www.me.gov.ua/control/publish/article/main?art_id=92531&cat_id=92530)

After the 2010-2011 administrative reform the Unit continued sending its regular letters directly to business associations and companies drawing their attention to specific measures that may have direct impact on their trade in a certain market encouraging them to provide comments on the proposed draft measure. Besides, notifications and all related information are sent by e-mail to direct contacts in the associations. Nevertheless, the feedback from enterprises remains weak. According to the Ministry of Economic Development and Trade, there were only 14 enquires received from business in 2012 (compared to 8 in 2011, 6 in 2010, 15 in 2009, and 25 in 2008). Evidently, Ukrainian business did not use to a full extent real opportunities and mechanisms obtained after the country’s accession to the WTO to promote their business interests abroad.

In 2008-2012, the Unit analyzed and processed 13 227 notifications from WTO Member States and the WTO Secretariat. The number of processed notifications grew each year, except for 2011 when it dropped by 28% par-

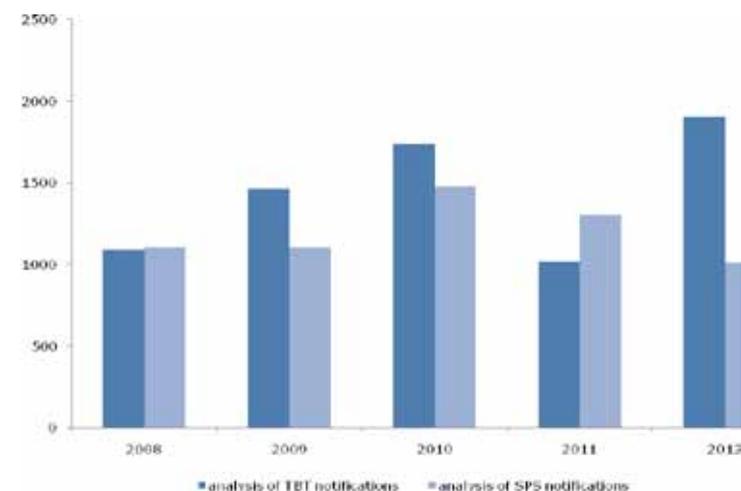


Figure 25. TBT/SPS notifications from the WTO processed by the Unit for EN&IP in 2008-2012

Source: Ministry of Economic Development and Trade of Ukraine

tially due to the administrative reform<sup>39</sup> (see Figure 25). In 2008 and 2011, SPS notifications prevailed, in other years the number of TBT notifications was greater than the number of those related to SPS measures.

### **Doha round: significance for Ukraine**

The new round of multilateral trade negotiations within the WTO framework — the Doha Development Agenda (DDA) — started in November 2001. Issues on the agenda and the mandate of the round were defined by the Declaration of the 6th Ministerial Conference. Further negotiations at the ministerial level were going on in Cancun in 2003, in Geneva in 2004, in Hong Kong in 2005, in Geneva in 2006, 2008, and 2011. However, in spite of several months of intense negotiating, no agreement has been achieved. On May 31, 2011, the WTO Trade Negotiations Committee divided Doha round documents into three blocks (the “three-lane approach”) based on how achievable an agreement was: the fast lane (pertaining to the least developed countries), the middle lane, and the slow lane (covering such issues as trade in agricultural, industrial goods and in services).<sup>40</sup> However, the countries failed to adopt even the first block of documents. At the last Ministerial Conference in 2011, the ministers adopted a so-called «waiver». It releases member countries from their legal obligation to provide non-discriminatory treatment to all trading partners, and allows to provide suppliers from the least developed countries with preferential access to the country’s service market, even in contrast with the WTO’s Most-Favored-Nation Treatment principle.<sup>41</sup>

Fundamental areas of multilateral negotiations of the Doha Development round are as follows: implementa-

39 SPS and TBT combined.

40 [http://wto.in.ua/index.php?search=1&get=wto\\_news&id=2128](http://wto.in.ua/index.php?search=1&get=wto_news&id=2128)

41 [http://wto.in.ua/index.php?search=1&get=wto\\_news&id=2341](http://wto.in.ua/index.php?search=1&get=wto_news&id=2341)

tion-related issues;<sup>42</sup> agriculture;<sup>43</sup> market access for non-agricultural products<sup>44</sup>; WTO rules;<sup>45</sup> trade in services;<sup>46</sup> trade-related aspects of intellectual property rights<sup>47</sup>; dispute settlement;<sup>48</sup> trade facilitation;<sup>49</sup> e-commerce;<sup>50</sup> environment protection;<sup>51</sup> development issues.<sup>52</sup>

Upon attaining WTO membership in May 2008, Ukraine joined the group of Recently Acceded Members (RAM),<sup>53</sup> which, apart from Ukraine, includes 17 more countries.<sup>54</sup> Participation in this group allows for reconciling with member countries those provisions that relate to non-deterioration in Ukraine’s major commitments on agriculture; non-agricultural market access regardless of the level of commitments that are being negotiated or have already been agreed upon within the round framework, in particular:

- not to apply further reduction to general aggregate support to agriculture;
- not to reduce tariffs on agricultural products;
- not to revise schedules of future tariff cuts and aggregate support;

42 §12 of Doha Declaration. See [http://www.wto.org/english/tratop\\_e/dda\\_e/dda\\_e.htm#declaration](http://www.wto.org/english/tratop_e/dda_e/dda_e.htm#declaration)

43 §§13-14 of Doha Declaration.

44 §16 of Doha Declaration.

45 §§28-29 of Doha Declaration.

46 §15 of Doha Declaration.

47 §§17-19 of Doha Declaration.

48 §30 of Doha Declaration.

49 §27 of Doha Declaration.

50 §34 of Doha Declaration.

51 §§31-33 of Doha Declaration.

52 §§38-41, 42-44 of Doha Declaration.

53 [http://www.wto.org/english/tratop\\_e/dda\\_e/negotiating\\_groups\\_e.htm#grp011](http://www.wto.org/english/tratop_e/dda_e/negotiating_groups_e.htm#grp011)

54 Albania, Armenia, China, Cape Verde, Taiwan, Ecuador, Macedonia, Georgia, Jordan, Kyrgyz Republic, Moldova, Mongolia, Oman, Panama, Saudi Arabia, Tonga, and Vietnam (as of October 2013)

- not to apply further reduction to tariffs related to non-agricultural market access.

Central executive bodies of Ukraine are developing proposals to position papers on the most important DDA issues.

The agenda for one of the most complicated and controversial areas of Doha Development round — «Agriculture» - is of extraordinary interest for Ukraine. Special attention of WTO member countries is focused on further liberalization of trade in agricultural produce, in particular, on reducing tariffs and subsidies. Participation in the negotiation process will allow Ukraine to determine in advance the potential and the most promising areas of agricultural exports. In 2008 joint work with the Ministry of Agrarian Policy resulted in designing a draft in-depth position statement of Ukraine at negotiations of Doha Development round in the domain of agriculture.<sup>55</sup>

Ukraine submitted a position paper material<sup>56</sup> on its need to secure the right for using the Special Safeguard Mechanism (SSM) discussed within the Doha round framework. Ukraine's stand gained official support of RAM.<sup>57</sup>

One of the fundamental areas for multilateral WTO negotiations under the Doha Development round is non-agricultural market access (NAMA) that covers issues of reducing and eliminating tariffs, including tariff peaks; defining systemic approach to reducing high tariffs, eliminating non-tariff barriers to non-agricultural produce, in particular, to goods that are of export interest for developing countries.

Ukraine supported a joint initiative of the USA and the EU regarding agreement on technical barriers to trade

<sup>55</sup> TN/AG/W/4/Rev.4 of 06.12.2008

<sup>56</sup> JOB/AG/14 of 20.09.2010

<sup>57</sup> Document by WTO Committee on Agriculture of July 6, 2010: JOB/AG/12

in its part pertaining to labelling of textile commodities, clothing, shoes, and travel goods.<sup>58</sup> In addition, the Ministry of Economic Development and Trade, in collaboration with stakeholder ministries and agencies ( the Ministry for Industrial Policy and the Ministry for Fuel and Energy) refined the Draft Protocol on Transparency in Export Licensing<sup>59</sup> and sent a letter to the WTO Secretariat on Ukraine joining this initiative.<sup>60</sup>

Negotiations on the WTO rules aim at improving provisions of WTO agreements on anti-dumping measures, subsidies, and countervailing measures, with account of the needs of the developing and the least developed nations. Apart from that, attention of member countries is focused on harmonizing regional trade agreements with provisions of WTO multilateral agreements.

As Ukraine gets engaged in bilateral negotiations with the third parties, and due to intensification of discussions on whether Ukraine should join the Customs Union of Russia, Belarus and Kazakhstan, transparency of regional trade agreements and their compliance with WTO requirements are extremely important for protecting national trade interests. In the Doha round framework Ukraine supports enhancing transparency of all agreement categories, supported WTO members intentions to conduct reviews of all agreements, including agreements with non-member countries.<sup>61</sup>

During the discussion on issues of trade in services<sup>62</sup>, the report by the Chair of the Council for Trade in Ser-

<sup>58</sup> TN/MA/W/93/Rev.1/Add.1. <http://www.ukrexport.gov.ua/ukr/wto/ukr/5226.html>

<sup>59</sup> Protocol on Transparency in Export Licensing to the General Agreement on Tariffs and Trade 1994

<sup>60</sup> Letter by the Ministry of Economy of Ukraine of 29.01.2010 № 4801-25/14

<sup>61</sup> List of issues related to regional trade agreements (TN/RL/W/8/Rev.1 of August 01, 2002) and Transparency mechanism for regional trade agreements (TN/RL/W/252 of April 21, 2011)

<sup>62</sup> 15 of the Ministerial Declaration

vice featured draft agreement on problematic issues in completing negotiations in this field<sup>63</sup>: improving conditions for access to service markets; rules and discipline pertaining trade in services; other issues related to expanding participation of developing countries in the negotiation process, as well as special and differential treatment of the least developed countries encouraging independent liberalization.

Fundamental areas of Doha round negotiations in the field of trade-related aspects of intellectual property rights are as follows: TRIPS and public health, geographical indications, relationship between the TRIPS Agreement and the Convention on Biological Diversity, traditional knowledge and folklore protection.

The WTO General Council adopted the Protocol Amending the TRIPS Agreement<sup>64</sup> on temporary release (under specific conditions) of WTO members from obligations stipulated by Article 31 (f) and (h) of the TRIPS Agreement: (1) governments will be allowed to grant licenses for manufacturing and export of pharmaceutical goods without authorization from the license holders (now governments may grant licenses for manufacturing of such goods primarily for internal market), and (2) manufacturers will have to pay adequate remuneration to license holders only in exporting countries. The Protocol Amending the TRIPS Agreement should have been approved by WTO members by December 31, 2009.<sup>65</sup> As of October 2013, 47 WTO members confirmed approval of the Protocol. The timeline for Protocol consideration and reconciliation has been extended initially to December 31, 2011 and later to December 31, 2013.<sup>66</sup>

63 TN/S/33 of 26.03.2008

64 WT/L/641

65 For WTO member countries that would not approve the Protocol, the resolution of WTO General Council of 30.08.2003 retains effect.

66 [http://www.wto.org/english/tratop\\_e/trips\\_e/amendment\\_e.htm](http://www.wto.org/english/tratop_e/trips_e/amendment_e.htm)

In terms of geographical indications, countries discuss the procedure for creating a multilateral system for notifying and registering geographical indications for wines and spirits as well as application of increased protection to geographical indications for other goods. WTO members continue their discussion of the three proposals on establishing a multilateral system for notification and registration of geographical indications for wines and spirits: EU proposals<sup>67</sup>, a “joint” proposal by a group of WTO member states<sup>68</sup>, and a compromise proposal by Hong Kong and China<sup>69</sup>.

The core of the EU proposal is that should a geographical indication for a wine or a spirit be registered in the multilateral registry, such a geographical indication shall enjoy protection in other WTO member countries, with exception of invent when another WTO member expresses a reservation as to the mentioned period.

According to the “joint” proposal, the TRIPS agreement needs no amendments. At the same time, the proposal was voiced for the TRIPS Council to initiate a voluntary registration system for geographical indications for wines and spirits in a special database.

The proposal by Hong Kong is a compromise compared to the EU proposal and the “joint” one. In particular, it suggests that in case of registering a geographical indication for a wine or a spirit in the multilateral registry, such a geographical indication shall enjoy protection within territories of those WTO member countries who decided to participate in the multilateral system.

It is worth noting that within the framework of FTA negotiations with the EU, the issue of geographical indications was one of the most complicated issues for Ukraine.

67 TN/IP/W/11

68 TN/IP/W/10/Rev.1

69 TN/IP/W/8

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Under the Doha round consideration of trade facilitation aspects aims at determining the needs and priorities of member countries in terms of trade facilitation, in particular with respect to developing and least developed countries. The Ukrainian party is working on a consolidated document of the negotiation group on trade facilitation dated July 25, 2011.<sup>70</sup> This document takes account of proposals submitted by Hong Kong, China, Japan, Mongolia, Norway, Switzerland, Turkey, and Honduras.

Ukraine developed position papers and is a part in groups on the most important issues for its economy and trade policy: agriculture, trade facilitation, non-agricultural market access, WTO rules, etc. Involvement in the Recently Acceded Members Group allows Ukraine to participate in shaping a unified stand on important trade issues and defend this position at the Doha Development round.

At present, WTO aims its effort at resolving issues faced by the least developed countries: duty-free trade, non-tariff regulations, rules of origin, absence of quotas, trade facilitation, and regional integration.<sup>71</sup> Regarding the most complicated issues, it is planned to develop a schedule for their resolution and consideration under the Doha round while Ukraine, in turn, will have time to promote its stand and agree it within the group.

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<sup>70</sup> TN/TF/W/165/Rev.10

<sup>71</sup> TN/TF/W/165/Rev.10

## 5. CONCLUSIONS

Analysis of the impact of Ukraine's WTO accession is extremely important for formulation of effective economic policy given the tough economic situation in Ukraine as well as globally. It is also very important to perform the analysis regularly, using modern tools of economic research. Only on such conditions the discussion of effectiveness of Ukraine's integration in the global trade system will be correct and result in well-weighted economic policy proposals.

The key question of the analysis — what impact did the WTO accession have on national producers — can be answered from different perspectives. It should be kept in mind that ex-ante approaches to evaluation of the economic effects of the WTO membership differ from ex-post evaluation approaches.

Direct surveys of business managers showed that the impact of the WTO membership on operations of companies was neutral-to-positive. In few years after accession (when the elapsed time became sufficient to make valid conclusions) at least a quarter of the managers said that the impact was positive. The share of managers with negative opinions about the WTO accession impact was between 5% and 9% depending on industry. Two groups of businesses benefited the most from Ukraine's WTO accession: food industry companies (of all sizes) and large companies (from all industries).

A study of the impact on production efficiency demonstrated an increase in labor productivity in manufacturing due to trade liberalization. It implies the national economy became more competitive. The mentioned changes are structural and, thus, will have a long-run impact on the national economy. One can note that negative scenarios that describe possible events after the tariff reduction have not eventuated, the economy responded to the new trade regime the way it should have responded.

The productivity growth would have been much greater if there had been fewer obstacles to redistribution of the factors of production between firms in the economy. In particular, the effect of tariff reduction would have been greater if there had been less corruption, less regulatory pressure on companies, and better protection of property rights. Nevertheless, even under actual conditions, Ukraine's WTO accession induced an increase in the efficiency of the national economy.

The WTO accession had important institutional impacts, in particular:

- opportunity for negotiating a deep and comprehensive FTA with the EU,
- access to the dispute settlement mechanism,
- enhanced transparency of trade policy,
- opportunity to defend national interests at the Doha round.

The WTO membership should be considered as a process that has positive potential. The extent to what this potential will be used depends on the national economic policy, conditions of global and national economy, and the ability to effectively develop and implement what is called economic diplomacy.



