Перспективи торговельного співробітництва між Україною та ЄС в межах поглибленої та всеохопнії зони вільної торгівлі


Анотація

Вступ. На сьогодні євроінтеграція визнана головним стратегічним напрямом зовнішньоекономічної політики України. Угода про поглиблену та всеосяжну зону вільної торгівлі між Україною та Євросоюзом (ПВЗВТ), підписана як частина Угоди про Асоціацію, вступила в силу з 1 січня 2016 року. Для України вона є основою модернізації торговельних відносин з ЄС та подальшого економічного розвитку через відкриття ринків.

Мета. Метою статті є огляд перспектив співробітництва України та ЄС в рамках ПВЗВТ із визначенням обмежень, що стримують розвиток торгівлі з ЄС, та виявленням можливостей і поточних досягнень економіки України щодо імплементації ПВЗВТ.

Методологія. При проведенні дослідження використано методи логічного аналізу, порівняння, статистичного спостереження, графічного аналізу.

Результати. На сьогодні ЄС є найбільшим торговельним партнером України, на який припадає 34,1 % українського товарного експорту. До обмежень, які стримують розвиток торгівлі з ЄС в межах ПВЗВТ за ключовими експорторієнтованими галузями, належать невідповідність продукції та технологічних процесів європейським стандартам, застаріла виробнича база і технології виробництва, брак коштів на модернізацію та впровадження європейських стандартів, надзвичайно висока конкуренція на ринках ЄС, слабка інформаційна підтримка співробітництва українських підприємств з європейськими компаніями. Ситуація ускладнюється проблемами на макрорівні, вплив яких посилюється фінансово-економічною кризою та військовою агресією. Утім, є і певні позитивні зміни, серед яких поступова адаптація вітчизняної законодавчої бази до європейських стандартів та стійкі наміри українського бізнесу щодо виходу на ринки країн ЄС. Перспективи подальшого торговельного співробітництва з ЄС в межах ПВЗВТ полягають в якогома скоршому переході на європейські стандарти та проведенні структурних економічних реформ на зasadах інноваційного розвитку.

Ключові слова: Європейський Союз; поглибленна та всеохопняя зона вільної торгівлі (ПВЗВТ); євроінтеграція; лібералізація торгівлі товарами; ключові експорторієнтовані галузі; квоти; європейські стандарти; державна підтримка; інноваційний розвиток.
PROSPECTS OF UKRAINE AND EU TRADE COOPERATION
WITHIN THE DEEP AND COMPREHENSIVE FREE TRADE AREA

Abstract

Introduction. Today European integration is recognized as the main strategic vector of Ukraine's external economic policy. The Deep and Comprehensive Free Trade Area (DCFTA) agreement is signed by the EU and Ukraine as a part of Association Agreement has started acting on the 1-st of January, 2016. It offers Ukraine a framework for modernizing its trade relations with the EU and for economic development through opening markets.

Purpose. The purpose of the article is to overview the prospects of Ukraine and EU trade cooperation within the DCFTA by specifying the constraints that restrain the development of trade and identifying the opportunities and progress of Ukrainian economy in DCFTA implementation.

Methodology. Methods of logical analysis, comparison, statistical observation, graphical analysis are used in investigation.

Results. Today the EU is Ukraine's largest trading partner providing 34,1% of Ukraine's goods export. Among the constraints restraining the trade development within the DCFTA in Ukrainian key export sectors there are incompatibility of products and technological processes with European standards, obsolete production base and technologies, lack of funds for modernization and European standards introduction, extremely high competition at the EU markets, poor informational support of doing business with EU companies. The situation is complicated with problems of macro-level forced by financial and economic crisis and external military aggression. However certain positive changes like adopting the legislative basis for European standards implementation and the strong intentions of Ukrainian business to enter the EU markets are taking place. The prospects of further trade cooperation within the DCFTA lie in the quickest transition to European standards and conduct of the structural economic reforms on the basis of innovative development.

Keywords: the European Union; Deep and Comprehensive Free Trade Area (DCFTA); European integration; goods trade liberalization; key export sectors; quotas; European standards; governmental support; innovative development.

JEL classification: E66, F15

Introduction

The process of Ukraine's integration into global markets has been lasting for nearly twenty years since the Ukrainian State was formed. Today European integration is recognized as the main strategic vector of Ukraine's external economic policy: the course for Europe was finally defined by the Ukrainian Government in 2014 and has no alternatives now.

The current phase of Ukraine's European integration beginning from March 2007 is characterized by changing its format from “partnership and cooperation” to “political association and economic integration”. Signing the EU-Ukraine Association Agreement in June 2014 has become a crucial step on the way from the intentions of partnership and joint declarations towards the real trade and economic cooperation within the course for Ukraine's European integration. The Agreement was simultaneously ratified by Verkhovna Rada of Ukraine and the European Parliament on 16 September 2014. It is a comprehensive document that forms the basis for Ukraine's further membership in European Union and reforming national economy according to European standards.

The Deep and Comprehensive Free Trade Area (DCFTA) was signed by the EU and Ukraine on 27 June 2014 as a part of the broader Association Agreement. It came into affect on 1 January 2016. Yet the DCFTA actually was implemented on 22 April 2014, when the EU decision as for unilateral reducing of customs tariffs for Ukrainian goods export to the EU market had been made.

The DCFTA will offer Ukraine a framework for modernizing its trade relations and for economic development by opening markets via the progressive removal of customs tariffs and quotas, and by an extensive harmonization of laws, norms and regulations in various trade-related sectors creating the conditions for aligning key sectors of the Ukrainian economy to EU standards [1, p. 2]. It also provides an opportunity for Ukraine to make its export to EU countries more competitive and diversified. Yet the trade and economic
cooperation with EU on the way to European integration is constrained by a wide range of factors that prevent Ukrainian economy from using opportunities of the DCFTA in full. Such a contradiction causes the necessity of thorough examination of Ukraine-EU cooperation conditions as well as the modern economic situation in Ukraine and needs working out the ways of intensifying the European integration.

The process of Ukraine’s European integration including its trade and economic aspects is of keen interest for Ukrainian society, government and science, being the object of the great amount of scientific and journalistic discussions where different and even quite contrary points of view are expressed. Since the problem is comprehensive and has a strategic importance for the future of Ukrainian State, a great number of domestic scientists are involved in its solving by conducting profound investigations within the national research organizations. Among them one can mention V. Heyets, A. Danylenko, T. Ostashko, L. Shynkaruk, Y. Zhalilo [2; 3] (the Institute for Economics and Forecasting of National Academy of Sciences of Ukraine), I. Burakovsky, V. Movchan, V. Grechyn, M. Ryzhenkov [4] (the Institute for Economic Research and Policy Consulting), V. Rusan, O. Sharov [5] (the National Institute for Strategic Studies). The focus of their investigations lies in current issues of Ukraine-EU cooperation such as the strategy of European integration, the influence of the EU-Ukraine Association Agreement on Ukrainian economy and its sectors, the problems and progress on the way to the Agreement implementation, functioning of small and medium enterprises in frames of the Agreement. Besides, there are many consulting and research groups created with the European experts and working permanently on the problem of European integration of Ukraine.

Among the latest works of foreign scientists regarding the modern period of Ukraine-EU economic and trade cooperation such problems as constitutional challenges for the effective implementation of the Agreement, economic aspects of EU-Ukraine-Russia triangle, effects on Ukraine’s economy of the DCFTA implementation, Ukraine’s economic vulnerability and financing Ukraine for preventing its economic collapse are considered. These issues are discussed in papers written by G. Van der Loo, M. Emerson [6], A. Aslund [7], R. Dragneva, K. Wolczuk [8], J. Tombinsky [9] and others. Nevertheless, the contemporary challenges that European integration makes on the key Ukrainian economy sectors and the actual progress of Ukraine-EU trade cooperation within the DCFTA need to be investigated as well.

**The purpose and tasks of the article**

The purpose of the article is to overview the prospects of Ukraine-EU trade cooperation within the Deep and Comprehensive Free Trade Area. The tasks lie in specifying the constraints that restrain the development of trade with the European Union within the DCFTA and identifying the opportunities and progress of Ukrainian economy in its implementation.

**Main text of the article**

According to the results of 2015 the EU-Ukraine trade partnership profile can be described by the following crucial points:

1. As it was forecasted in [7, p. 5], Ukraine’s joining the DCFTA has worsened the terms of trade in the post-Soviet area. The partial reorientation of the Ukrainian export from Russian to European markets was completely finished in 2014. This tendency mostly concerns agricultural products. Now the EU is Ukraine’s largest trading partner providing 34,1% of Ukraine’s goods export (fig. 1). For comparison, in 2014 this part was 31,5% [10, p. 3].

**Fig. 1. The Ukrainian goods export regional structure in 2015 (million USD, %)**

(formed on the basis of [10, p. 3])
2. The main goods for export from Ukraine to the EU are agricultural and food products (31.2%), ferrous metals and their products (22.2%), mechanical and electrical machines (13.8%) [11, p. 1].

3. The main goods for import to Ukraine from EU are mineral fuels (22.3%), mechanical and electrical machines (17.4%), products of chemical industry (17.2%), agricultural and food products (9.8%) [11, p. 1].

The analysis of Association Agreement trade and economic aspects has shown an asymmetry in goods trade liberalization between Ukraine and the EU. This asymmetry lies in [1, 9]:
- postponing the beginning of trade liberalization from Ukraine’s side;
- transitional period leading to a full goods trade liberalization is longer for Ukraine comparing with the EU;
- providing by the EU the immediate trade preferences to Ukraine for 82.2% agricultural products, 83.4% processed food products and 94.7% industrial products [9];
- duty-free tariff rate quotas granted to the Ukraine for cereals, pork, beef, poultry and a handful of additional products [1, p. 2];
- trade preferences to the EU from Ukraine will be on a much smaller level even after the beginning of trade liberalization period: 52.6% agricultural products, 49.2% processed food products and 49.2% industrial products [9];
- extremely long (15 years) transitional period for an automobile industry importing from the EU to Ukraine [1, p. 3].

Thus, before DCFTA entered into force, the EU had already provided truly favorable conditions for Ukrainian key domestic industries with high export potential at the EU market. According to the calculations of the Institute for Economic Research and Policy Consulting, the average customs tariff for Ukrainian goods reduced from 4.9% to 0.5%, and average weighted customs tariff reduced from 5.0 to 2.6% [4]. But even through such a favorable number of terms, the dynamics of EU-Ukraine trade growth in the period from July-September 2014 (the first quarter after the beginning the trade liberalization for Ukraine) and to the first quarter of 2016 had a negative trend. The second half of 2015 shows some positive tendencies in export and import growth with the trade balance still being negative. But in 2016 the external trade volumes reduced again (Fig. 2).

![Fig. 2. The dynamics of EU-Ukraine goods trade in 2014–2016](formed on the basis of [12])

In order to understand these trends objectively as well as the prospects of Ukraine’s trade with the EU within the DCFTA it is necessary to distinguish the constraints restraining the opportunities of asymmetric trade liberalization and trade development by the key export sectors.

Agriculture and foods. Agricultural export plays a key role in Ukrainian trade and economic relations with the EU nowadays. It is agricultural sector that is currently compensating Ukraine’s loses from external trade policy changes and leaving the markets of Custom Union countries, especially the Russian one. Ukrainian large agricultural holdings producing grain crops, corn and wheat were presented on European markets before signing the Agreement. They quickly use quotas given by EU as being insignificant compared with their total export amount. In 2015 Ukraine fully used annual quotas for raw commodities: corn, wheat, honey, processed tomatoes, grape and apple juice, barley groats and flour, oats [13].

The EU foods market is characterized by extremely strict requirements to products quality. The main specific problem of Ukrainian food industry in context of its export to the EU lies in non-compliance of products to European technical, sanitary, phytosanitary standards [2, p. 4; 5]. The European quality control systems are still not applied on the Ukrainian enterprises. For example, milk processing enterprises almost have no purifying equipment. As for the meat producers, their obsolete equipment can not guarantee the quality of production in terms of sanitary and epidemiological rules. That’s why Ukrainian food producers can not even provide the
supply within the quotas set by the EU. In 2015 from the list of 37 quotas only 7 were completely used and all of them were raw quotas. Mutton, mushrooms, garlic, sugar syrup, starch, bran, sweet corn, milk and butter processed products are on the list of the quotas that haven't been fully used. Farmers did not also use quotas for the supply of processed products made of milk cream and cereals, cigars and cigarettes, as well as processed malt and starch [13]. The exception concerns the chicken meat producers who are absolutely ready to use duty-free tariff rate quotas for their supply to the EU and used three-quarters of annual quote in 2015. So, the main prospect of further Ukrainian agricultural export development is to implement European standards as soon as possible. To meet EU requirements in the area of food safety, Ukraine has to create laboratories, introduce inspections and carry out extensive training [8, p. 3].

Ukraine's agriculture has a great potential. However, this potential can not be effectively used for the lack of favorable economic and institutional conditions of its realization. Although in 2015 the profitability in agriculture was rather high (50.9% for plant cultivation) due to the growth of procurement prices, for livestock farming this indicator was only 22.6% [14, p. 1-2]. Exports of livestock farming products from Ukraine to the EU are complicated by the small sizes of the most of Ukrainian producers – individual farms [5]. They have no opportunities to use the modern technologies and therefore no chances to win the competition with European high-productive and high-tech farms receiving the constant support from their governments. Besides, as for experts’ estimations, the quotas for Ukrainian producers are too small on the background of extremely strong competition with European manufacturers.

The DCFTA gives the great opportunities to domestic agricultural sector especially for small and medium producers like farms, but they need the governmental support by using benefits for producers as proposed in [5] as well as overcoming corruption, simplifying the business environment and creating favorable conditions for investments.

Metallurgy. Great decrease of metallurgical products export in 2015 (62.2% from the export of 2014 by section XV “Ferrous Metals and their Products” [10, p. 5]) was caused by loses of productive capacities in Donbass. But production placed in regions beyond occupied territories is quiet sufficient to satisfy the demand which greatly depends on world market conditions. The sector problems are of internal character. While Ukraine is among the top ten world producers of steel and metal products, they are inferior in quality to producers from other countries. The main reasons are technical slowdown of the sector (the fixed assets in metallurgy have 70-80% of amortization), high energy intensity of production, low quality of raw materials, low labor productivity [15, p. 185]. Without adapting to international standards Ukrainian industry has no chance of Prospering in the long-run [6, p. 12], so the presence of Ukrainian metallurgy on EU markets within DCFTA requires the urgent adaptation of production processes to the high European standards of labor conditions and ecology.

Despite the fact that the main consumers of Ukrainian metallurgical products are Asian countries [16, 18], the DCFTA is expected to influence positively on situation in the sector. Thus for many steel rolled products from Ukrainian customs tariffs on European market are already removed, so Ukrainian steel products will obtain a price advantage over similar products from Russia and China on the EU market. Removing further customs tariffs within the DCFTA will help at least to increase the steel works profitability as well as to accumulate funds for assets modernization and transition to European standards.

Machine building. Ukrainian machine building is the least promising sector in the context of trade cooperation with the EU. That’s because Ukrainian machine building is obsolete and outdated therefore incompatible with European customers’ demands. For many years the CIS countries have been the traditional markets for Ukrainian machine building products. On the CIS countries’ enterprises consuming machine building products there are fundamental technological differences of production comparing with European enterprises. Ukrainian machine building is characterized by using obsolete production technologies and by the minimal level of innovation activities [17]. Even in conditions of implementing the Association Agreement the Ukrainian machine building products would hardly be able to compete with the EU enterprises with their vast experience in producing the modern machines and equipment on the base of advanced technologies. These realities are extremely negative as the “Europe 2020” strategy gives the great priorities to innovative development, and it is machine building that is one of the most innovative and high-tech industries providing the high level of added value.

Nevertheless the DCFTA implementation will make favorable conditions for Ukrainian machine building modernization thanks to using the scientific and technical achievements of European countries [2, p. 5]. The governmental support for modernization may create the great opportunities for domestic machine building enterprises on the EU market, as its capacity is 4-5 times higher comparing with the market of the Customs Union countries. But in the nearest outlook experts are expecting the development of industrial cooperation with EU enterprises in machine building [18]. In Ukraine it will be realized by creating minor production entities such as small shops or European enterprises’ departments.

So as we can see there are a lot of challenges to Ukrainian key export industries on the way to European integration. There are also a number of problems typical of all sectors that must be mentioned. Although from May to December 2014 over 5302 companies began their exports to the EU for the first time [19], the great part
of domestic economic entities is still not informed about the advantages that European markets give to them [20]. The problem of searching trade partners in EU countries is significant for small and large enterprises as their representatives are poorly involved in seminars, exhibitions and trade fairs taken place in EU and beyond.

The situation is complicated with system problems of macro-level in Ukraine forced by the hard financial and economic crisis and insufficient level of the market relations development in conditions of external military aggression. Among these problems one can mention:

- corruption (Ukraine has very low rating in Index of perception of corruption from Transparency International – the 130-th place from 167 countries in 2015 [21]);
- slow progress in reforms;
- surplus governmental regulation creating conditions for corruption;
- lack of governmental programs for supporting the most sensitive industries;
- Ukrainian population poverty (there is a great correlation of profits of the richest and poorest citizens in Ukraine).

But it is necessary to emphasize that from the date of signing the Association Agreement between Ukraine and the European Union some positive changes on the way to European integration are taking place.

Firstly, for today the Government of Ukraine within the framework of the Agreement implementation (that is the introduction of international legal norms into Ukrainian laws and normative documents) has already done such an important step as adaptation of domestic production to the European standards. According to the Order of Ministry of Economic Development and Trade №1493 from 30 December 2014, the European and international technical standards (normative documents) will be used on the territory of Ukraine instead of existing national technical standards. This norm started from the 1st of January 2016. On the beginning of 2016 from 27 sectoral technical regulations provided by DCFTA there are 8 maximally put to the compliance with EU standards and 16 are based on them [4].

Secondly, many enterprises of large, middle and small business have already done a lot for introducing the European standards and are preparing for competition both at the demanding markets of the EU and to the hard competition at the internal markets of Ukraine. Already in October 2014 the crew of European inspectors visited some Ukrainian companies which declared about their willingness to show the standards and relevance of their products. The European Commission has provided the access to EU market for 10 Ukrainian dairy producers from January 10, 2016. In April 2016 two Ukrainian dairy companies received permission to export their products to the EU. The inspection of enterprises-producers of meat is planned in 2016 [22].

Ukraine obtains an extensive technical and financial support from the European Union to implement the Agreement. This includes technical assistance to various state authorities for preparing technical regulations and standards, food safety rules, intellectual property legislation and public procurement, as well as direct support to the private sector. The EU’s assistance involves business support organizations from the EU and Ukraine and focuses mainly on small and medium-sized enterprises. These programmes aim at increasing the competitiveness of Ukrainian enterprises, improving their access to finance, enabling them to comply with new standards on food safety, and technical and quality standards, as well as with environmental protection measures – an essential precondition to benefit from the new market access opportunities [23, p. 2].

Conclusions and prospects

There is no doubt that the prospect of integration into the EU single market offers the best chance for Ukraine to modernize and foster economic growth [8, p. 2]. Having analyzed the trade and economic aspects of European integration of key export industries of Ukraine economy it is possible to determine the number of «common» issues which keep down the development of trade and economic relations between Ukraine and European Union and brake European integration processes: non-compliance of products and technological processes to European standards; obsolete production base and production technologies; lack of funds on modernization and European standards introduction; extremely high competition at the EU market; poor informational support of doing business with EU companies.

According to the points that were mentioned above, the prior way to strengthening the Ukraine-EU trade cooperation is to proof the Ukraine’s ability to comply with regulations and standards doing in European economic, political, social and cultural space [3, p. 133].

Economy liberalization, improving the business climate, overcoming corruption, improving the tax system, developing financial institutions, increasing the competitiveness of domestic enterprises on the basis of innovational development must be the purposes of Ukrainian structural reforms as a background for implementation of European norms and standards in Ukraine. The role of informational policy in this process is quite important; it has to provide people and businesses with full and objective information concerning European integration and its economic benefits. The DCFTA as a new stage of European integration requires deep changes in Ukrainian economy and will not have immediate positive results, but in a prospect it is an opportunity for Ukraine to become the European state with the developed market economy.
Another Two Ukrainian Companies Received Permission to Export to the EU

Corruption Perception Index 2015


Ukraine's 2015 quotas for supply of lamb, mushroom, garlic to EU not used


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