International Review

№ 4(12) December 2009

UKRAINE / EU RELATIONS:
within dimension of the year

Foreign Policy Research Institute

FRIEDRICH EBERT STIFTUNG

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This issue of the quarterly International Review offers the results of Ukraine / EU relations monitoring in 2009. It is published as part of a joint project "Monitoring EU /Ukraine relations" initiated by the Regional Office of the Friedrich Ebert Foundation in Ukraine and Belarus together with the Foreign Policy Institute of the Diplomatic Academy of Ukraine at the Ministry of Foreign Affairs of Ukraine.

This project was brought about by the need to review Ukraine / EU relations, as well as to create a new model of Ukrainian integration strategy within the European Neighborhood Policy (ENP).

This review of Ukrainian integration strategy requires new approaches in order to introduce European standards in various spheres of public life and to bring Ukraine closer to EU membership requirements. Reaching a common understanding by the political elites of Ukrainian direction in Europe is one of the approaches. Raising public awareness about Ukraine's prospects for European integration is another way Ukraine may take in order to achieve its aspirations. The major task is also to make Ukrainian business representatives better aware of the significance of European integration and Ukraine's close connection to the European market and business culture.

Regional integration is an essential part of Ukraine's objectives for integration, which requires the regions to be regularly informed about the key events regarding EU / Ukraine relations and the EU itself.

This project's activity includes monitoring and analysis of EU / Ukraine relations, publication and targeted distribution of the results among regional authorities and foreign diplomatic missions and NGOs in order to achieve the objectives.

The ideas expressed in the publication are those of the authors and do not necessarily reflect the views of the Foreign Policy Institute and the Friedrich Ebert Foundation.

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Introduction

2009 is, first of all, a year of economic and financial crisis, a year of a decrease in production and demand, a year of fiscal deficit growth and national debt accumulation. Obviously, the EU / Ukraine economic cooperation could not avoid the impact of the global recession. The hardest the crisis has affected the merchandise trade, which has decreased more than in two times, and also flows of foreign capital, which experienced a reduction of direct foreign investments on the background of pure outflow of other capital.

Due to the active anti–protectionist position of WTO in the world, there was no dramatic increase in trade restrictions, which allowed the Ukrainian exporters to take advantage of the rapid devaluation of the national currency and partly to keep their positions in international markets. At the same time, Ukraine itself succumbed to protectionist sentiment and in March imposed a temporary surcharge to current import for certain goods of "uncritical" import nature.

The gas conflict between Ukraine and Russia earlier this year highlighted the importance of cooperation with the EU in the energy sector, where several important agreements were concluded. However, there was no fundamental changes in economic cooperation between Ukraine and the EU such as, for example, signing better developed free trade agreement in 2009.

This chapter gives a review of the key trends and developments in economic relations between Ukraine and the EU in 2009.

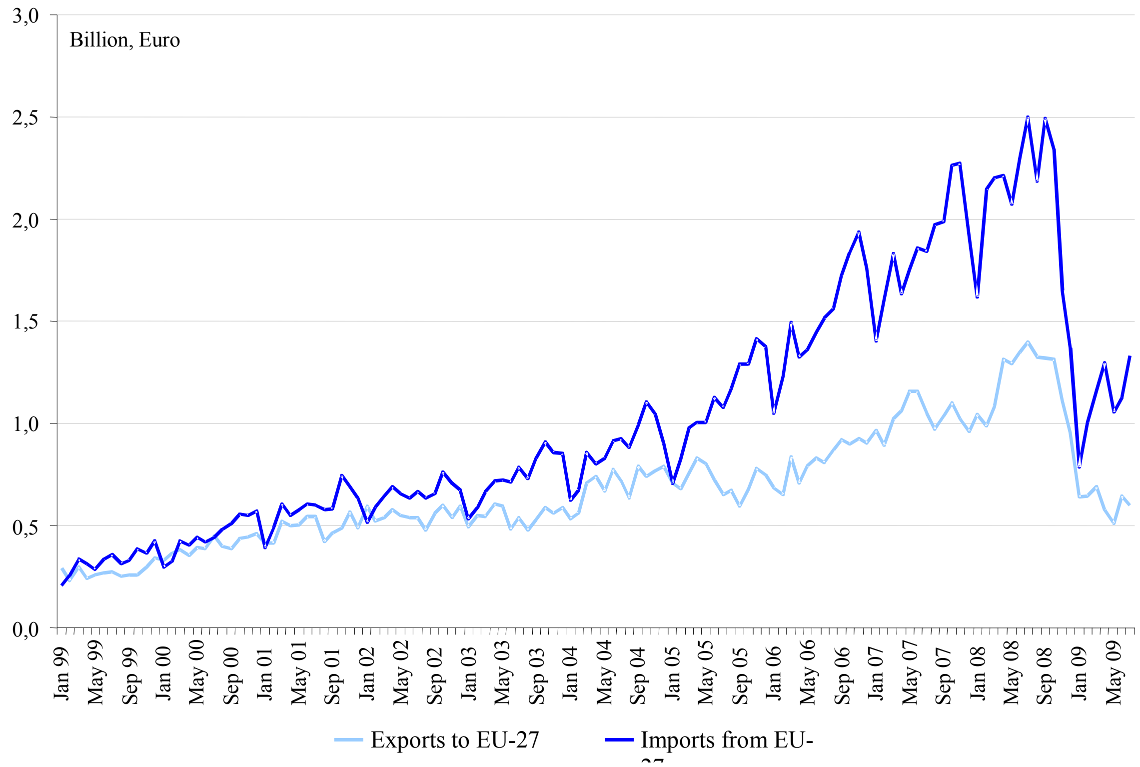
- **Trading relations**.

1.1. Merchandise trade.

Decline in economic activity both in Ukraine and in the EU, caused by the global economic crisis, and change in terms of trade adversely affected the volume of merchandise trade between Ukraine and EU. According to Eurostat, the second half of 2008 and in 2009 there was a dramatic reduction in cost volume of Ukrainian exports, and in May 2009 monthly Ukraine's exports to the EU dropped to the average level of exports in 2003 (Figure 1). In July 2008 Ukraine exported to the EU–27 in 2.72 times more than in May 2009.

Reduction of imports was even more dramatic: in January 2009 imports from the EU–27 was 3.2 times lower in July 2008 (Figure 1). It should be noted that the reduction of imports dynamics has changed into the rising one in early 2009, while imports remained significantly lower than its historical maximum. At the same time, despite the devaluation of UAH, the Ukrainian exports to the EU did restore in the first seven months of 2009.

Figure 1. Cost volume of trade between Ukraine and EU–27 in 1999–2009



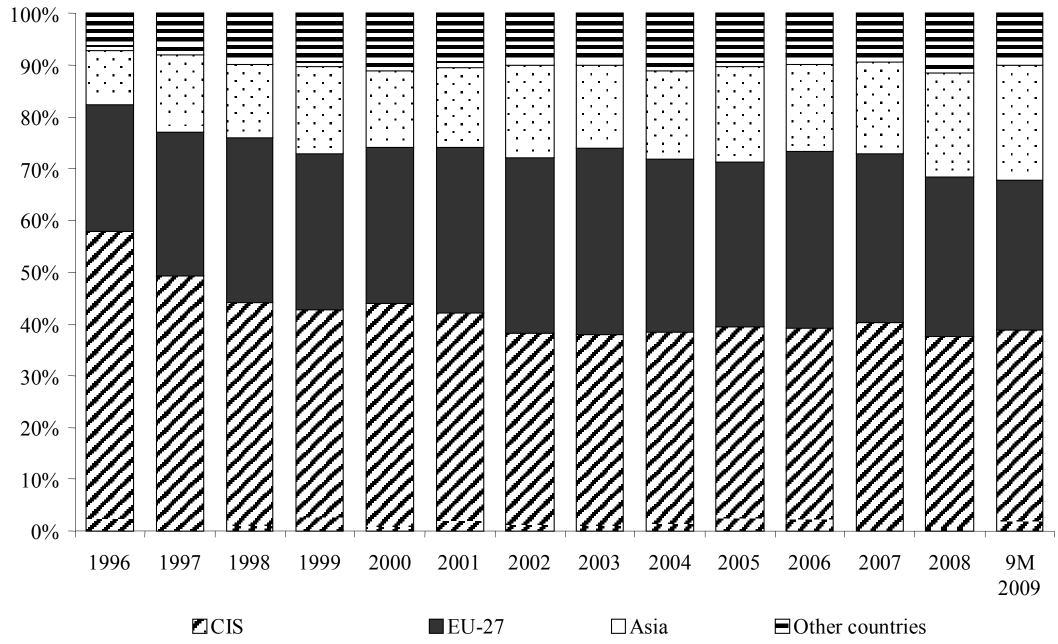
Info source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/external_trade/data/database

Lets also note that after a temporary exports / imports balance in late 2008 and early 2009, merchandise trade deficit again began to increase. Obviously, without a fundamental restructuring of exports, Ukraine will remain a net importer in trade with the EU, as there is a steady high demand for European products needed to upgrade domestic production and to meet customer's needs in durable goods.

Although the global crisis sharply reduced the volume of foreign trade between Ukraine and EU countries, the importance of the EU–27 as a trade partner of Ukraine in 2009, has hardly changed. EU–27 remained the largest trading partner of Ukraine in 2009 as a single customs territory. According to State Statistics Committee of Ukraine, the EU trade turnover totalled 17.2 billion U.S. dollars in January–September 2009, a trade deficit – 4.4 billion U.S. dollars. This equals 29.1% of the total turnover of Ukraine for nine months, compared with 23.6% of turnover with the Russian Federation, another the most important trading partner of Ukraine.

At the same time in 2009 the role of the EU–27 as a trade partner of Ukraine continued to decrease of after the peak reached in 2003 when the turnover of Ukraine and the EU reached 35.9% of the total turnover of the country (Figure 2). Partially, decrease of the EU's share was due to increased imports from CIS countries, caused by relatively smaller imports reduction from CIS countries comparing with decreased imports from the EU. However, an ongoing geographical diversification of trade is more important as evidenced by the increasing importance of Asia in the Ukraine's turnover.

Figure 2. Structure of Ukraine' turnover with other countries in 1996-2009



Source: State Statistics Service, data by IER

Dramatic reduction in Ukraine's exports to the EU–27 took place in all product categories except for trading in beverages and tobacco, which are still of a fairly stable demand even during the crisis. However, the low share of exports in this category (0.3 percent of total exports) did not allow Ukraine to take advantage of a lower elasticity of demand for this commodity category.

In value terms, exports of mineral fuels and fuels and lubricants have decreased the most: by 67.9 percent in January–July 2009 year–on–year (YoY). This could be explained by world prices fall for oil and its derivatives after the record values that had been recorded in the first half of 2008 (the price of crude oil reached 140 dollars per barrel) and by a decrease in demand for these products on the background of lower economic activity in the EU. In the second quarter of the year real GDP of the EU–27 decreased by 5.6 percent (measured year to year). 54.3 percent of decreased exports for manufacturing output goods, especially exports of metals, was caused by similar reasons–lower prices and demand. This category of goods is the largest share of Ukrainian merchandise trade, and changed market conditions led to a radical reduction of the industrial goods' role in the exports to the EU. Instead, the value exports of agricultural products, food raw materials (including Rapeseed), as well as oils and oils of botanical and animal origin increased. In 2009, the share of machinery and transport equipment business also continued to grow due to a relatively smaller reduction in exports in this category.

Table 1. Ukraine's exports to the EU-27 by main product categories

	Structure,% of total**		Rate of growth / decline, % YoY **	
	2008*	2009*	2008*	2009*
Food and live animals	5,2	8,2	142,4	-20,2
Beverages and tobacco	0,2	0,3	19,9	5,6
Non-food materials, except fuels	11,9	17,6	5,4	-25,0
Mineral fuel, oil and lubricants	20,5	12,9	87,5	-67,9
Oils of animal and vegetable origin, fats and waxes	2,9	4,7	-2,7	-17,3
Products of chemical and related industries	6,5	5,8	6,3	-54,3
Industrial goods, mainly classified by the materials (including metals)	36,8	29,1	6,6	-59,7
Machinery and transport equipment	9,6	11,7	37,3	-38,1
Mixed industrial items	4,2	6,4	-3,1	-22,5

Source: Eurostat (http://epp.eurostat.ec.europa.eu/), , data by IER

Comments: * based on the data for the period of 7 months (of the year)

** estimated according to values figures in Euro

There were also significant changes in the structure of imports from the EU–27 (Table 2). All commodity categories suffered import relief, except for oil of botanical and animal origin, the imports of which continued to grow, albeit much slower than prior to the crisis. Probably the continued growth of oil imports is caused by the demand for these products in the food industry, which suffered the least production decrease among other secondary sectors due to lower demand elasticity for food products compared with non–food items.

`The imports of mineral fuels, as well as machinery and equipment experienced the most rapid imports decrease and, therefore, a dramatic imports reduction of these goods in overall imports structure. Imports of these both categories decreased by almost one/third.

Dramatic imports relief to Ukraine can be explained by several factors. Firstly, a currency depreciation, which has made the imports less affordable. Secondly, general income reduction in all economic actors (enterprises, households, state) against the backdrop of production decrease. Thirdly, limited access to financial resources due to the banking crisis and cut–off of foreign capital flow. As a result, in 2009 there was a rapid fall in domestic demand, including the demand for imports. In particular, in the second quarter of 2009 actual gross fixed capital formation estimated 57.8 percent (YoY), while actual final household consumption decreased to 11.6 percent. The decrease of world raw materials prices, especially oil, was an additional factor for reduction of imports value.

However, in addition to purely economic factors to imports relief of machinery and equipment there was also an administrative factors, namely the introduction of temporary 13 percent surtax to the current import tax for the automobiles and refrigerators for the period from March to September 2009.

Table 2. Ukraine's imports from the EU-27 by main product categories

	Structure,% of total**		Rate of growth / decline, % YoY **	
	2008*	2009*	2008*	2009*
Food and live animals	4,7	7,6	53,2	-16,5
Beverages and tobacco	0,7	0,8	2,3	-37,7
Non-food goods, except fuels	1,8	2,0	34,3	-41,1
Mineral fuel, oil and lubricants	5,3	3,6	122,6	-65,0
Oils of animal and vegetable origin, fats and waxes	0,2	0,4	122,4	24,2
Products of chemical and related industries	14,1	19,4	20,4	-28,9
Industrial goods, mainly classified by the materials (including metals)	15,4	17,3	16,6	-42,1
Machinery and transport equipment	44,9	31,6	23,4	-63,6
Mixed industrial items	10,7	14,8	23,3	-28,4

Source: Eurostat (http://epp.eurostat.ec.europa.eu/), data by IER

Comments: * based on the data for the period of 7 months (of the year)

** estimated according to values figures in Euro

Thus, the EU–27 as a single customs territory, in 2009 remained the main trading partner of Ukraine, despite the dramatic turnover reduction caused by economic crisis. Prompter imports relief, comparing to exports, has narrowed trade deficit, although Ukraine remained a net importer in trade with the EU. Among exporters to the EU, the producers of metals and mineral fuels were affected the most as a result of the crisis while the "machinery and transport equipment” category experienced the most significant imports reduction, which was due to a decrease in a domestic demand and a temporarily increased import tax for certain types of goods in this category.

1.2.**Trade in services.**

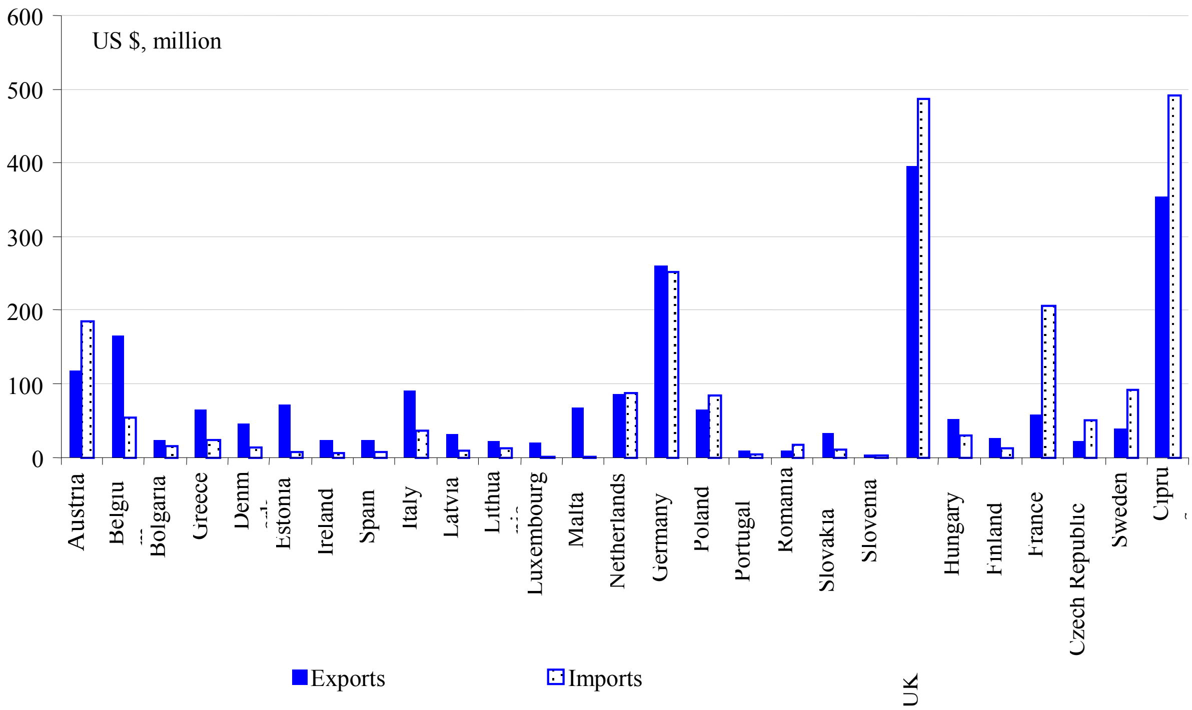
Trade in services was less affected by the crisis compared to the merchandise trade. While total commodity turnover of Ukraine in 2009 has actually fell by half, an overall services trade reduction amounted to only 22 percent (YoY).

The same way as in merchandise trade, the EU is the main Ukraine's partner in services trade. According to the statistics, in January–September 2009 the share of services trade with the EU–27 accounted for 41 percent of total trade in services, while the share of the Russian Federation estimated 27 percent. The first nine months in 2009 accounted for 32.0 percent of total services exports from Ukraine to EU–27 and 57.5 percent of imports. For comparison, Russia's share amounted to 34.9 percent and 12.7 percent, respectively.

In nominal terms in January-September 2009, exports of services to the EU–27 amounted to 2.19 billion U.S. dollars, having decreased by 27.6 percent compared with the last year's figure. There was less reduction in imports during this period (only 17.9 percent measured year to year) what amounted to 2.20 billion dollars. USA. Consequently, it resulted in a negative balance of trade in services with the EU equal to 0.01 billion U.S. dollars, whereas during the corresponding period last year there was a positive balance equalled to 0.3 billion U.S.dollars.

The United Kingdom, Cyprus and Germany remained Ukraine's key countries–partners in both exports and imports of services trade what accounted for 46.1 percent of exports and 55.9 percent of imports from total figure with the EU–27 (Figure 3). However, compared with last year the relative importance of Cyprus has increased, which surpassed the United Kingdom and became a major service provider in Ukraine. The Great Britain kept the leadership in imported services from Ukraine .

Figure 3. Ukrainian trade in services with EU Member States–27 in 2009 *



Source: State Statistics Service, data by IER

Comment: January – September 2008

In 2009, no fundamental changes took place in the sectoral structure of trade in services. As before, Ukraine provided mainly transport services, although their total decreased by almost a quarter due to the reduction of manufacturing output in the region and, accordingly, reduction of transportation. Lets also note that the import of transport services in Ukraine has essentially decreased by 44.4 percent for the first nine months in 2009 (YoY). There was a dramatic reduction in exports and imports of travel services.

At the same time the export of computer services was less affected by the crisis and even increased by 2.9 percent (YoY. The most likely such an increase was due to the wider practice of delegating part of the company's functions to the external executer (*outsourcing*), which was embodied by the Ukrainian companies, as well as job redistribution to the less costly labour. UAH devaluation has strengthened this competitive advantage of the Ukrainian IT sector. Additionally to that, despite the crisis, the imports of financial services, telecommunications services and construction services have continued to increase in the country.

Thus, trade in services with EU–27 as well as trade in services generally, have suffered much less as a result of the international financial and economic crisis. Although the scale of trade in transport services and tourist flows were decreased by the reduction of manufacturing output and household income, such services as the "business–to–business" have suffered considerably less, and in some cases even continued to grow.

a. **Trading treatment**

In 2009, the fundamental parameters of the trading treatment between Ukraine and the EU were defined by the Agreement on Partnership and Cooperation Agreement (PCA), which had came into force in 1998 and the provisions of the General System of Preferences (version dated January 1st, 2006)[1].

The negotiations, opened in 2008, regarding expanded free trade area between the EU and Ukraine have continued, however, despite the loud political statements, have never been completed. It is expected that the new agreement will become the first of a new type document of "deep and comprehensive" trade agreements. Thus free trade agreement (FTA) will cover a wide array of trade–related issues ("Comprehensive Agreement"), and it aims at eliminating "behind the border" obstacles to trade through processes of regulatory approximation, thus partially opening the EU internal market for Ukraine ("deep Agreement")[2].

Once Ukraine has become a full–fledged member of WTO in 2008, the quota for rent exports to the EU was canceled, and for today trade quantitative restrictions do not apply in the bilateral trade between Ukraine and the EU.[3] Reduced risk of imposition of new trade restrictions by the EU was another important consequence of Ukraine's membership in the WTO during the crisis, what one could have expected otherwise. It should be emphasised that the restrictions of protectionist attitude in the world during the crisis due to the active position of the WTO was important not only for Ukraine but also for the development of international trade in general.

However, despite the limitations imposed by the WTO membership, Ukraine succumbed to protectionist attitude. In March 6, 2009 a law came into force, which mandated the introduction of the temporary 13 percent surtax for six–month period to the existing import taxes for all goods except for "critical" imports[4]. Officially declared explanation of such a surtax was to

[1] http://www.delukr.ec.europa.eu/page36090.html

[2] Delegation of European Commission in Ukraine http://ec.europa.eu/delegations/ukraine/eu_ukraine/trade_relation/free_trade_agreement/index_uk.htm

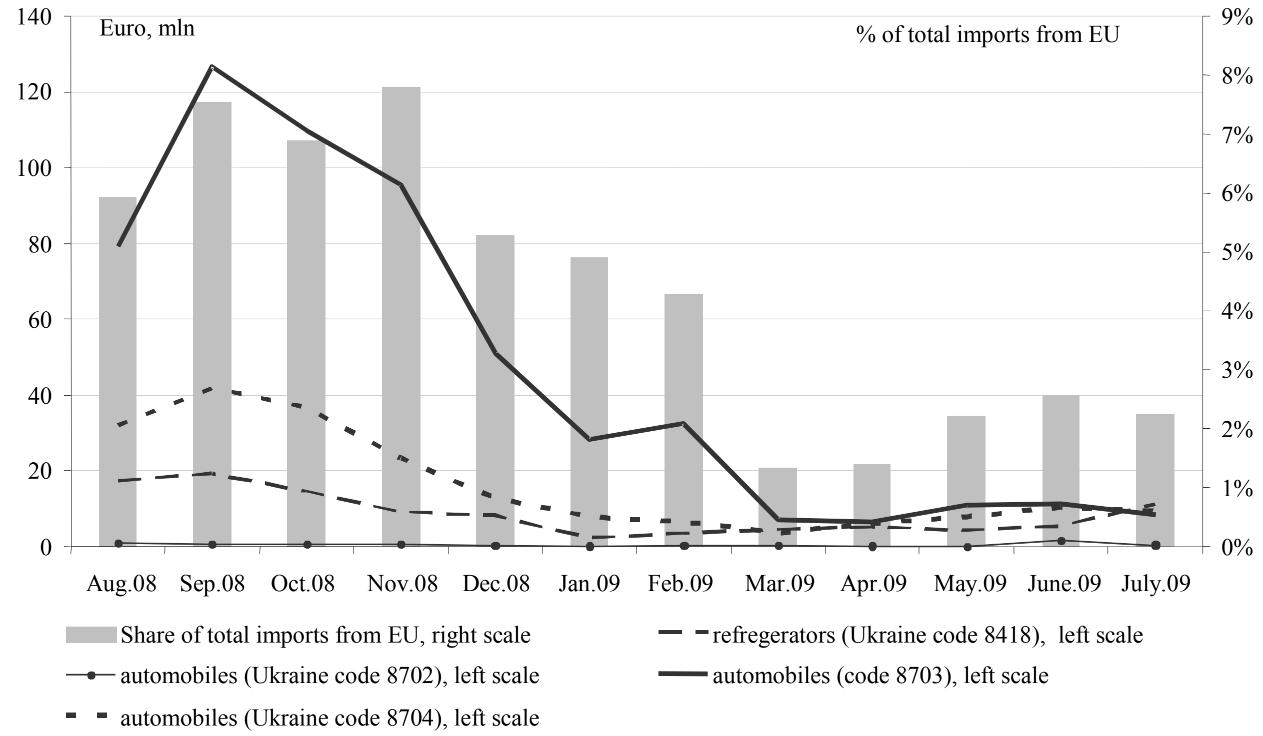
[3] With an exception for those trade restrictions that apply for all Ukrainian exports or imports regardless of country of origin / destination.

[4] http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi, Law № 923_VI dated February, 4th 2009

square pay balance, which was in critical condition, although at that time an operating account of pay balance was close to balance. "Uncritical imports", which was a subject to surtax application, included such products as meat and products made of it, sugar, alcohol, coal, textile goods, footwear and headgear, some metals and some types of machinery and equipment including certain types of household appliances and cars. Later, the list was narrowed to two product categories–the automobiles (Commodity codes 8702, 8703 and 8704) and refrigerators (Commodity code 8418) by the decision of the Cabinet.[5]

Surtax imposition was another negative factor which actually prevented the imports of goods, which were a subject to the surtax payment, from the EU (Figure 4). Let us note that rapid imports relief of the automobiles and refrigerators has been observed since October 2008, in other words immediately after the crisis due to a dramatic devaluation of the UAH and reduction of domestic profits. Accordingly, the imposition of temporary surtax has only preserved the status quo, without creating almost any additional factors for the imports relief. At the same time the surtax was not supported by the WTO. On August, 4th, the WTO General Council approved the report of the Committee on pay balance restrictions[6], whereby 13 percent surtax in addition to current import tax was to be canceled by September, 7th as such, that contradicted the WTO rules and did not resolve the problems in regards to pay balance. On September, 7th the surtax was terminated.

Figure 4. An impact of temporary surtax (to existing import tax) onto trade with the EU



Source: Eurostat, http://epp.eurostat.ec.europa.eu/portal/page/portal/external_trade/data/database

[5] The Cabinet of Ministers of Ukraine dated 18.03.09 № 230

[6] http://www.wto.org/english/thewto_e/gcounc_e/meet_jul09_e.htm

An important component of the trading mode between Ukraine and the EU is anti–dumping and special measures, applied by the countries to certain product categories of reciprocal imports.

In 2009, the EU has not initiated new trading investigation against Ukraine. Moreover, an anti-dumping investigation, started in November 2008, on imports of square or rectangular steel tubes imported from Ukraine was terminated without measures. Respectively, in November 2009 there were six antidumping measures functioning in the EU in regards to the Ukrainian imports (Table 3).

Table 3. EU antidumping measures against Ukraine

Item	*Tax (duty)*	*Year of launching of investigation*	*Date of final measures application*	*Date of measures prolongation*	*Approximate date of cancellation*
Welded pipes	10,7 – 44,1%	2001	09/2002	12/2008	12/2013
Ammonium nitrate	29,26 – 33,25 Euro/tonne	1999	01/2001	04/2007	Action prolonged till 07/2010
Cable, cables, ropes made of ferrous metals	51,80%	1998	08/1999	11/2005	11/2010
Weldless tubes	12,3 – 25,7%	2005	05/2006		06/2011
Mixture of ammonium nitrate and urea	27,17 euro/tonne	1999	09/2000	12/2006	12/2011
Ironing boards	9,9%	2006	04/2007		07/2012 Interim review started

Source: Ministry of Economics of Ukraine, www.me.gov.ua

In its turn, in 2009 Ukraine terminated the antidumping measures, introduced in 2004, which had restricted the imports in wood fibre from Poland, and also terminated two special measures—against the import of abrasive tools and roofing, regardless of country of origin. At the same time few new restrictive measures have started operating within a year. In particular, Ukraine imposed an antidumping levy for the syringes from Spain, Germany, United Kingdom, and China for 5 years. An antidumping investigation regarding them was initiated in 2008. Also special measures were introduced on imports of matches, regardless of country of origin. Thus, in November 2009 Ukraine introduced three antidumping measures on imports from the EU and other six special measures "regardless of country of origin", which are related to the EU—27 to some extent (Table 4).

Table 4. Ukraine's antidumping and special measures against the goods from the EU

	Goods (item)	**Country of origin**	**Dates**	**Current measures**
Antidumping measures	Wood laminated chip boards (chipboards)	Poland Slovakia	March, 1st 2005 – March, 1st 2010	The final anti-dumping levy for Poland 25.1%, Slovakia -15.4%, for "Kronospan Slovakia" - 11.7%.
Antidumping measures	Screw Compressor Units	Belarus, Italy, Belgium, Finland	October, 26th 2005 – October, 26th 2010	Final unti-dumping levy for Belarus 28,52%; for Italy, Finland, Belgium * – 29%.

	Goods (item)	Country of origin	Dates	Current measures
Antidumping measures	Syringes	Spain, Germany, United Kingdom, China	November 2009 – November 2014	Final antidumping levy for Spain: for syringes with capacity 5 ml. - 10.54% for syringe volume 10 ml. - 196.38%. For Germany: for syringe of 10 ml. - 37%. For United Kingdom: for syringe of 10 ml. - 23%. for China: for 2 ml volume syringe. - 24.36% for syringes of 5 ml. - 54.15% for syringe of 10 ml. - 347.14%.
Special measures	Textile fabric	Regardless of country of origin	March, 1st 2007 – March, 1st 2010	Specific tax, which is defined as a percentage of customs value of goods and equals to the difference between the minimum price and the customs value of goods. Minimum price equal to $ 2.78. Dollars / kg.
Special measures	Cotton fabrics	Regardless of country of origin	June, 12th 2007 – June, 12th 2010	Specific tax, which is defined as a percentage of customs value of goods and equals to the difference between the minimum price and the customs value of goods. Minimum price equals to $ 0.57. Dollars per m2.
Special measures	Gas–discharge Incandescent lamps	Regardless of country of origin	June, 16th 2007 – June, 16th 2010	Specific tax which is defined as a percentage of customs value of goods and equals to the difference between the minimum price and the customs value of goods. Minimum price equals to $ 0,481. USD/item.
Special measures	Steel pipes (weldless, casing and pump-compressor tubes	Regardless of country of origin	October, 1st 2008 – Sep, 30th 2011	Annual special quota equals to 14,504 tons with gradual liberalization of the annual volume for 5% for the second year and for 10% in the third year
Special measures	Matches	Regardless of country of origin	Nov, 2009 – Nov, 2012	Special measures apply for three years through charging a special fee with the rate equals to 11.3%.
Special measures	Ball bearings	Regardless of country of origin	Nov, 11th 2006– Nov, 11th 2009	Specific tax equal to $ 5.73, but not less than 0.13 euro / kg for the goods with price less than 2.95 dollars per kg.

Source: Ministry of Economics of Ukraine, www.me.gov.ua

*Note: * According to the Joint Committee on International Trade dated September 10th , 2008, the antidumping measures do not apply to "Atlas Copco Airpower NV" for the period of voluntary commitments, undertaken by this company, to stop dumping of imports into Ukraine of screw compressor units, both stationary and mobile ones, produced by "Atlas Copco Airpower NV". made in the Kingdom of Belgium.*

Thus, the year of crisis has not caused any additional formal, at least, trading barriers for the Ukrainian exports to EU countries. At the same time, the protectionist attitude took over in Ukraine. Specifically, a temporary surtax to current import tax on cars and refrigerators was introduced for six months.

- **Flow of funds.**

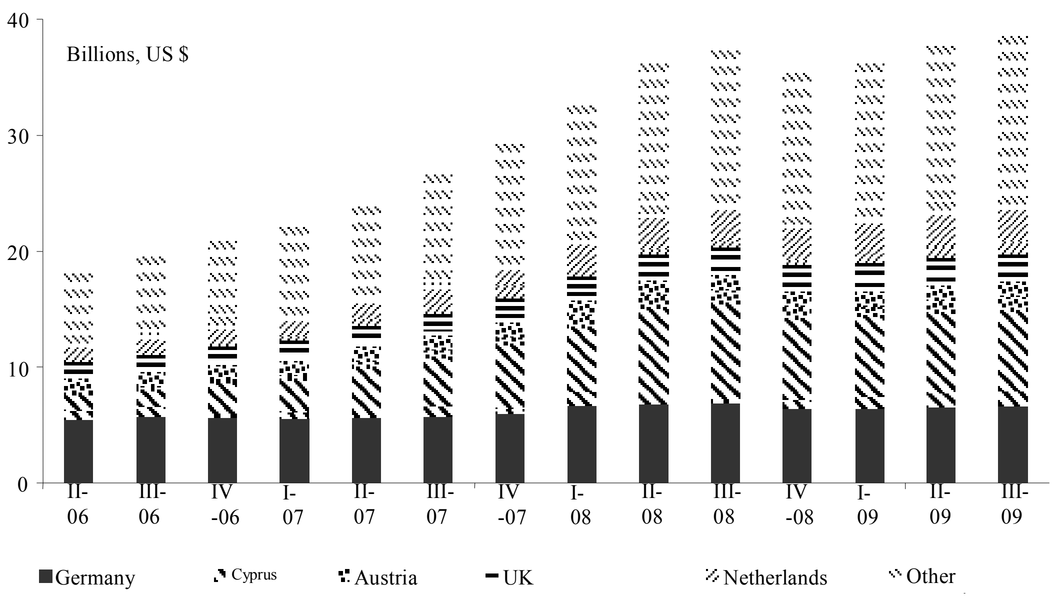
The financial crisis caused a dramatic decline of foreign capital inflows into the country, while foreign liabilities of the country remained high. Accordingly, the first nine months of the year estimated a financial account deficit of the pay balance equal to $ 11.2 billion compared to a surplus of $ 15.3 billion a year ago. However, different segments of capital market responded to the crisis differently.

According to State Statistics Committee data, despite the crisis in January—September 2009, total foreign direct investment (FDI) into the economy has even grown by 2.6 percent compared to the same period in 2008 and reached $ 38.6 billion, where 31.3 billion dollars came from the EU countries. However, in the first three quarters of 2009 the FDI inflows estimated less than twice the usual number, while in the first quarter there was even an outflow of FDI.

European Union kept its position as a key foreign investor in Ukraine—its share in total FDI in Ukraine stayed almost unchanged compared to 2008 and amounted to 80.0 percent in October 1, 2009. Cyprus, Germany, Austria, Britain and the Netherlands also preserved their leading position. Their share in total FDI in Ukraine equalled to 61.0 percent and in total FDI from the EU—75.2 percent.

However, the FDI from the EU has undergone a certain redistribution of the geographic structure. Thus, compared to FDI data prior to the crisis (October 1, 2008), FDI from Germany and Cyprus[7] have decreased, their shares in total FDI in Ukraine have reduced to 17.1 percent and 21.3 percent. Inflow of FDI from the Netherlands and their share in total FDI into the country has, on contrary, increased to 9.9 percent. As for Austria and the UK, FDI from these countries have hardly changed, and their relative role in total FDI have dropped to 6.6 percent and 6.1 percent respectively, due to increased share of FDI from the Netherlands and other countries (Figure 5).

Figure 5. Total FDI in Ukraine in terms of key partnering countries



Sources: State Statistics Committee

As of October 1, 2009 the largest FDI were directed into such sectors as finance, real estate, automobile trading and repair services, as well as production of foodstuffs, beverages and tobacco. However, in comparison with the previous year, the structure of FDI has shifted a

[7] Cyprus, as the offshore area was probably used in order to withdraw capital from the country during the financial crisis..

bit. In some areas an inflow of FDI has slowed down, while in the other — an inflow has turned into an outflow. Thus, within a year the FDI into the industry has dropped and their share in total FDI amounted to $ 8.8 billion and 23.0 percent respectively, compared with $ 8.9 billion and 23.9 percent accordingly. The reduction of FDI in manufacturing building materials, metallurgy and engineering, in other words in the sectors that have suffered from a significant reduction in internal and/or external demand, acted as the main factors. Chemical and petrochemical industries were the least affected by the crisis, and experienced an increase of FDI by $ 213.9 million.

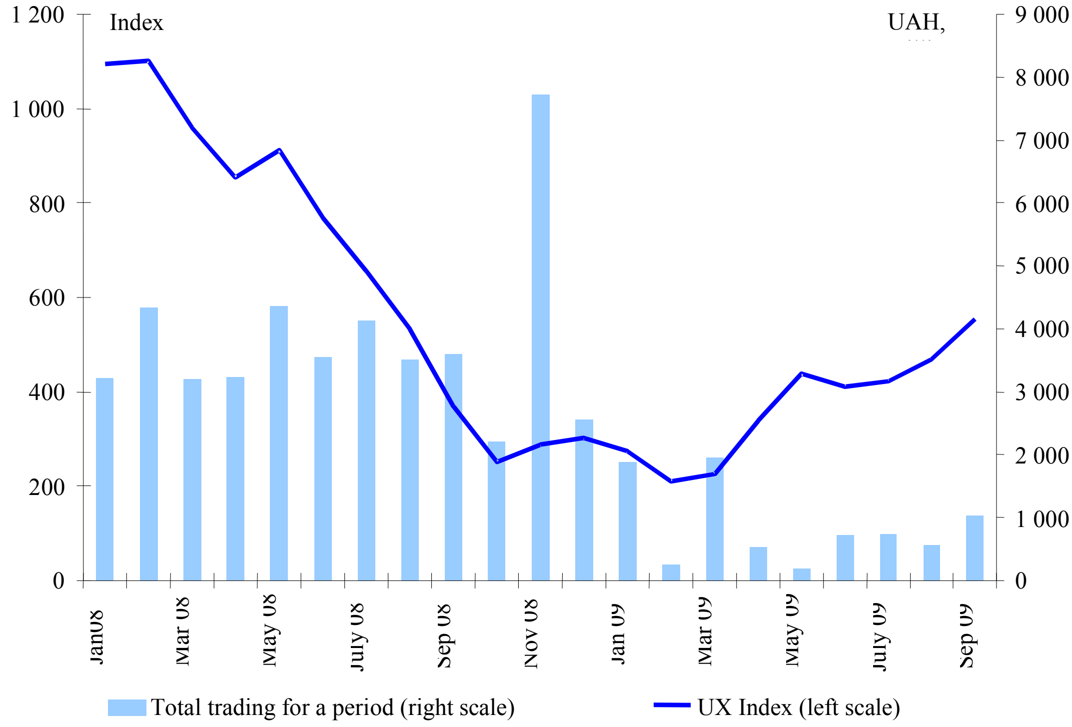
FDI into financial sector institutions continued to increase throughout the crisis. Within a year FDI into this sector has grown by $ 0.8 and reached for October 1st , 2009 to date $ 8.1 billion, and FDI share in this sector has increased to 21.0 percent in 2009 compared with 19.5 percent a year ago. First of all, it is connected with the NBU request to increase the authorized capital of banking institutions. Thus, some parent companies provided financial support to their subsidiaries (what relates, first of all, to the investors from Austria, the Netherlands, France), and German investors Deutschebank even opened a branch in Ukraine. At the same time the FDI from the UK into the financial sector of Ukraine, for example, has dropped what is primarily explained by the size and depth of the problems in the UK financial sector.

With regard to direct investments from Ukraine to the EU, their volume for October 1st , 2009 to date has not almost changed and amounted to $ 5.9 billion, while the total FDI of Ukraine to other countries has increased during nine months by $ 32.2 million and reached $ 6.2 billion.

Rapid slowdown in FDI inflows was accompanied by a net outflow of other capital. According to preliminary estimates given by National Bank of Ukraine, for nine months in 2009 Ukraine has payed back the medium— and long— term liabilities (debts and loan stocks) to foreign lenders, including EU lenders, amounted to $ 15.1 billion, while raised long-term funds estimated 11.1 billion U.S. dollars. Accordingly, the net outflow of medium— and long—term capital amounted to 4.0 billion U.S. dollars during the first nine months of 2009 compared with the net revenues equal to $ 11.8 billion a year ago. Anecdotally, that many Ukrainian debtors, including "Naftogaz", have managed to restructure their external debt, what has reduced the current capital flight, but increased the debt load in the future.

Talking about portfolio investment, after last year's market collapse caused by the first wave of financial crisis in 2009, the situation has somehow stabilized. The lowest index of the First Stock Trading System (FSTS) was achieved in the first quarter of the year, after that the index began to rise (Figure 6). Turnover in this exchange market was negligible throughout the year. According to preliminary estimates of the National Bank of Ukraine, for the nine months in 2009 net outflow of portfolio investment in Ukraine amounted to $ 79 million compared with inflows of $ 394 million a year ago.

Figure 6. Total scale of trading and index FSTS in 2008-2009



Source: FSTS

During the crisis, an international financial assistance from international organizations such as IMF, World Bank and European Bank for Reconstruction and Development has become an important source of inflows of foreign capital into the country. At the end of 2009 the European Commission recommended to EU Council to provide macro–financial assistance to Ukraine in the form of a loan of up to 500 million Euros to overcome the effects of the global economic crisis. This assistance should be provided to support the implementation of the programme agreed upon by both the Ukrainian government and IMF, provided it is implemented. Macro–financial assistance is an exceptional EU anti–-crisis response tool, which can be used by neighboring countries within the European Neighborhood and Partnership.[8] However, the suspension of cooperation with the IMF in the autumn in 2009 casts doubt on the possibility of obtaining EU financial assistance by Ukraine soon.

So, review of the situation in the capital market has shown that, as expected, global economic and financial crisis has caused a rapid reduction of foreign capital in the country, which made it very difficult to re–pay earlier assumed obligations. In this situation, the banks with foreign capital, representing mostly European bank capital could attract additional funding, while many non-financial companies could restructure its debts and postpone their payment until later. Nevertheless, the net outflow of medium– and long–term debt capital amounted to $ 4.0 billion during the first nine months of 2009.

[8] http://ec.europa.eu/delegations/ukraine/press_corner/all_news/news/2009_10_30_2_uk.htm

3. Labor market and access of labor–power

The end of 2008 and beginning of 2009 are remembered by approaching global financial crisis that has impacted the economics of Ukraine and its foreign partners. It was expected that the decline of economic situation in the recipient countries of the Ukrainian migrants would decrease the demand for labor power and would bring a wave of labor migrants back to Ukraine, pressing on the domestic labor market and social protection system.

According to the State Statistics Committee as of August 1st, 2009 10.8 thousand people have gone from Ukraine,which is 10.2 percent less than last year's figure and fully proved the concept of decreased demand for Ukrainian labor migrants in the host countries. However, the number of arrivals to Ukraine has also reduced by 7.5 percent, to 19.1 million people. Also somewhat an intensity of arrival has decreased to 0.7 persons per 1000 population from 0.8 a year ago. Obviously, there was no wave of return. Those workers who were abroad, did not return to Ukraine, and thus had no need to go back; at the same time those, who had planned to go abroad for the first time, abandoned their plans as the situation on the labor markets of other countries had deteriorated. Inflow of foreign workers also has dropped against the backdrop of poor economic situation in Ukraine and in the countries where migrants aspired to go after the stay in Ukraine. As a result, the positive balance of migration in January–July 2009 has slightly decreased in comparison with last year's figure and equalled to 8.2 million people.

Keep in mind that it's been second year in a row that the balance of interstate migration in the CIS countries remains positive, while for other countries it is negative. Reduction of the positive balance of foreign migration in the CIS during the first seven months of 2009 occurred against the backdrop of increased negative balance of migration with other countries, mainly EU countries, where the majority of Ukrainian migrant workers go. Thus, the number of official visits to EU countries from Ukraine has even increased, despite the measures taken by the EU to protect their national labor markets during the crisis, such as the reducing quotas for labor migration, increasing penalties for illegal stay in the country and introducing additional requirements in order to be granted a visa. For example, when filing out for a long–term visa to Czeck Republic, Ukrainian citizens have to provide information about health and test results for HIV / AIDS.

Joint Ukraine / EU measures, initiated in 2008, in order to control illegal immigration, began to bear fruit. Thus, according to the agreement on minor near–border migration between Ukraine, Poland and Slovenia, ratified in early 2009, free movement of 30—km border zone's residents was allowed. Earlier such a migratory movement had also existed, including the purpose to start entrepreneurship or work, but was considered illegal borders violation. Another way of combating illegal migration, readmission of illegal migrants, also continues to develop. Today thanks to EU funding, there are readmission centers functioning in Kyiv, Chernihiv, Lutsk [9], and there are plans to open new ones.

[9] http://borvisti.com.ua/index.php?read=36

By the end of the year, it is planned to open 5 mobile centers for irregular migrants (for 5-15 people) in a form of mobile buildings, within the framework of the project "Capacity Building and technical assistance to the authorities of Ukraine in order to deal effectively with unregulated transit migration".[10] As well as, the project on refugee integration into society was launched. Geographically the project covers Ukraine, Belarus and Moldova. The implementation is entrusted to the UN High Commissioner for Refugees. These regions are of a priority for the EU, so funding amounted to 11 million Euros, the EU has granted 2 million Euros of the total amount.[11]

The technical equipment of borders has also improved. Additionally to 20 devices for passport verification, received earlier, Ukraine was granted 24 mobile systems for heat control of the borders within the EU funded project BOMUK–4 worth of 12 million euros. This activity is aimed at greater integration of Ukraine into Europe through building open but secure borders,as well as reforming “On the Border Guard service of Ukraine” within the development of “On the Border Guard service of Ukraine” by 2015.[12] Moreover, EU project Huremas-2 with a budget of 5.5 million Euros is used in order to reform “On the Border Service”. The project is aimed at strengthening human resources management of “On the Border Service of Ukraine”, and its second phase started in March 2008.[13]

The first assessment of the consequences of visa relaxation was given in 2009. According to an official data, in 2008 the Ukrainians were granted 134 percent more of Schengen visas (1 million 22 thousand) than in 2007, 6 percent were issued on long-term basis, while in 2007 the number of long–term visa was insignificant. As well as a number of visa denials has dropped twice (5 percent). However, for most people it is still difficult to obtain visa: the list of documents required for submission with the application is long and sometimes it enlarges; for most EU countries visa can be applied for only in Kiev, application management in some consulates and embassies are quite inefficient. All this raises the alternative costs of a migrant in order to obtain a visa as an official permission to cross the border.

At the beginning of negotiations on an association agreement between Ukraine and the EU there were suggestions to cancel the visa regime for Ukraine. But in fact, this question is to be solved in the future.

To address the issues related to migration in Ukraine, special executive body was created —the State Migration Service, which is the successor of the Ministry of Internal Affairs and State Committee on Nationalities and Religions to deal with part of the duties related to migration, citizenship, immigration and registration (other than combat illegal migration and monitoring compliance to the rules of the law by citizens and officials).[14] The main objectives of the Committee is to assist in developing and implementing state policy on migration, citizenship,

[10]Eurobulletin. March 2009. page 13

[11] Eurobulletin. May 2009. page 13

[12] Eurobulletin. August — September 2009. page 9

[13] Eurobulletin. June 2009 page 7

[14] Cabinet Regulations on the State Migration Service of Ukraine dated 27.08.09

immigration and registration, implementation of international agreements on readmission, etc.

Generally speaking, no significant progress in relations between Ukraine and the EU in immigration policy this year was observed. Most efforts were directed to support current programmes, most of which aimed at combating illegal migration.

4. Joint programmes in Energy and Transport

Cooperation in spheres of transport, energy, information society and environment is one of priorities of cooperation between the EU and Ukraine in accordance with the objectives set out by the Agreement on Partnership and Cooperation and the Action Plan Ukraine–EU. EU has prescribed in the Strategy of Ukraine for 2007–2013 specific implementation of its Policy on Neighborhood and partnership. Thus, in 2009, the EU continues to assist Ukraine in development of transport and energy mostly through the projects within the framework of Twinning, TAIEX (technical assistance tool for the exchange of information), Cooperation instrument on nuclear security, cooperation with the EIB, EBRD and other international financial institutions in regards to infrastructure development and modernization of main foundations.

In October 2009 the negotiations on Ukraine's accession to the European Energy Community were concluded.[15] During the summit, scheduled for December 2009, the European Energy Community has to confirm the new status of Ukraine what will mean its adoption of the EU rules energy markets. An accelerated reform of the energy sector in Ukraine is expected after that and, consequently, increased investment into this sector from the EU.

Joint international investment conference on modernization of the transportation system of Ukraine, held in March in Brussel, was an important event in 2009 within cooperation in the energy sector.[16] The conference discussed specific measures to be taken both by the Government of Ukraine and by the European institutions in order to ensure stable operation and development of transit capacities of Ukraine, a transparent mechanism of Gas Transportation System (GTS) operator, an equal access to the GTS by the third parties, the reforms in the gas sector of Ukraine. In particular, it was decided to establish a coordination unit within the structure of "Naftogaz Ukraine", which should prepare a business plan for the modernization of Ukraine's GTS with a list of specific projects and explore opportunities for investment in these projects. The European Commission has committed to support Ukraine in its efforts to implement gas reform and assist in finding investors.

On October 7th, 2009 an official opening of Twinning project, which aims at developing more transparent, effective and competitive gas market in Ukraine, took place in the NERC (National Electricity Regulatory Commission of Ukraine). The project will last for 27 months in partnership with Italy, Greece, Hungary and Romania. The project funding amounts to 1.2 million Euros.

It should be noted that in 2009 the development of gas market in Ukraine and gas transit acquired special significance for Ukraine and the EU. In early January there was a loud gas

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15 http://www.energy-community.org/pls/portal/docs/426177.PDF

16 http://ec.europa.eu/external_relations/energy/events/eu_ukraine_2009/joint_declaration_en.pdf

conflict between Ukraine and Russia, which deprive the European consumers of natural gas for few weeks and even forced some European countries to introduce an emergency situation.[17] As there was no agreement between Naftogaz of Ukraine and Gazprom, prescribing terms and conditions for supplies of natural gas to Ukraine and transit through its territory in 2009, what served as a formal reason for such a cessation of delivery.[18] Only after three weeks of negotiations, on January 19th Naftogaz and Gazprom have concluded two long–term agreements on supply of natural gas to Ukraine and transit of natural gas to European consumers, what has fully restored gas supplies.

However, the signed agreements include provisions, which are extremely difficult to adhere to during the economic crisis, especially given the extremely poor financial condition of Naftogaz. This applies, first of all, to an obligation of Naftogaz to buy annually 52 billion cubic meters of natural gas following the principle of "use it or pay for it" in 2010–2019 with the penalties for shortfall volumes and re–export prohibition. The volume of gas supplies to Ukraine could be lowered to a maximum of 20 percent, provided there is a six months notice and mutual consent of the parties involved. In 2009, the consumption of imported gas in Ukraine has dropped by one third, and it is not clear whether a demand is fully restored in the coming years. Such a reduction goes beyond the correction provided for in the agreement. As a result, there is a need to review the agreement, which entails a threat of a conflict. It is obvious, that the EU plays an essential role through its active participation in prevention of the gas conflict between Ukraine and Russia by promoting the reform of gas market and gas transmission system of Ukraine.

In the sphere of nuclear safety, which is of a much interest to the EU, there are several ongoing projects at the Rivne, South and Khmelnitsky nuclear power plants, aimed at strengthening the security management of facilities and radioactive discharge.[19]

The European Commission has also allocated 14 million Euros to assist Ukraine in developing a National training center for nuclear operator at the Zaporizhia nuclear power plant over the next three years.[20] In October 2009 EuropeAid, the Bureau Co–operation of the European Commission, together with the Ministry of Fuel and Energy of Ukraine and Energoatom launched the first phase of the project. Upon completion of all the tasks in 2012, the National Training Center will be able to provide world-class training for managerial and technical personnel at "Energoatom”. The project will be implemented within “Instrument for Nuclear safety Cooperation” (INSC) of European Commission by a consortium of AREVA NP (Germany), Intelligent Technologies–Slavutych (Ukraine) and CA&R Engineering GmbH (Germany).

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17 IER (2009). Monthly Economic Monitoring in Ukraine №2-2009. – www.ier.com.ua

18 IER (2009) "2008: The economic summary of the year for Ukraine. Farewell, good times? ". - Www.ier.com.ua; IED (2009). Monthly Economic Monitoring in Ukraine № 1-2009. - Www.ier.com.ua

19 http://www.jso.kiev.ua/

20 http://www.jso.kiev.ua/

Five projects, funded by International Fund “Shelter”, the Nuclear Security Account and the EBRD, are being implemented at Chernobyl nuclear power plant. They go as follows: construction of a storage for irradiated nuclear fuel from Chernobyl; a storage for radioactive discharge at the site of "Vector"; plant for processing liquid radioactive discharge and nuclear–powered complex for solid radioactive release; the construction of the sarcophagus– the so–called "Shelter–2.

In April 2009 Twinning, EU technical assistance project “Strengthening regulatory and legal capacity of NERC to regulate the energy sector” came to an end.[21] The project aimed at providing properly trained civil servants and introducing primary and secondary legislation in accordance with the requirements of EU regulations and best practices applied in the EU internal electricity market.

In July 2009, within the framework of the “Support Program of the coal sector in Ukraine”, the EU has allocated 8.9 million Euros.[22] The aim of this project is to enhance safety and ecological compatibility of the coal mines, to solve social problems, including creation of the Fund for Social Development, in order to support the retired miners, to create the strategy for the development of the Ukrainian coal sector. Currently, it is the largest technical assistance project, financed by the EU. The project is scheduled to end in 2010.

With regard to the projects of European financial institutions, the EBRD's portfolio included several projects relating to Ukrainian energy sector.[23] One of the projects has finally been agreed upon: also in summer 2009 the EBRD has invested $ 50 million as share capital of “Galnaftogaz”, in order to mitigate an affect of financial crisis and UAH devaluation ,experienced by the company, as well as to implement strategy of expansion and energy efficiency development.

There are another three EBRD projects, related to the energy sector, waiting to be agreed upon. Thus, the EBRD is preparing a new project on development of renewable energy sources. This project aims at financing and providing a technical support for usage of renewable energy sources, as well as encouraging political dialogue, which would create a favourable atmosphere for alike initiatives. It is about supporting the companies working with all types of renewable energy— power of a wind, the sun, water and biomass. Funding given by the EBRD —50 million Euros. The World Bank is expected to fund about 20 percent of the project equal to 100 million Euros through its Clean Technology Fund. Global Environment Fund (GEF) is expected to provide 5.8 million Euros to assist the Ukrainian Government in creating a favourable legal environment for implementation of the projects in this area, through providing necessary resources for the dissemination of information and coordination of activities between the government and companies.

21 http://twinning.com.ua/

22 http://ec.europa.eu/delegations/ukraine/press_corner/all_news/news/20090710_01_en.htm

23 http://www.ebrd.com/projects/psd/country/ukraine.htm

The second project "Construction of 750 kV transmission line Kiev-Kakhovka" aims to improve overall reliability, efficiency and security of energy supply, in particular, in the southern regions of the country. Funding given by the EBRD, as a loan under the state guarantees estimates 175 million Euros, while the total project cost equals to 449 million Euros. "Ukrenergo is not a Beneficiary in this case. .

The third project "Purchase of natural gas Naftogaz Ukraine", infrastructure development and reform" aims to support the reform of the activity and the economic basis of the Ukrainian GTS, controlled by “Naftogaz Ukraine”, in order to ensure company's transparency, to improve efficiency and self—sustainability. EBRD will provide loans worth 300 million dollars (209 million Euroes) to refill the turnover fund in order to purchase natural gas, which must be repaid at the end of the winter heating season. Upon completion, and depending on the implementation of reforms, the EBRD will consider expanding the amount of the loan and attracting funding from other International Financial Organisations.

In addition, in 2009 the EBRD acted as a donor for Chernobyl funds, providing 135 million Euros for the implementation of the above–mentioned projects.

In regards to the transport sector, the EU focuses primarily on improving the efficiency, security and development of inter–modality of the transport systems. EU efforts are aimed mainly at enhancing safety, integration of the Ukrainian infrastructure into Europe through the development of international transport corridors and the expansion of Ukraine's membership in European transport organisations. EU assistance is chiefly implemented through the training courses for Ukrainian transportation officials, financial share in infrastructure projects, support in adapting Ukraine's legislation to the European acquis communautaire.

The most intense cooperation between Ukraine and the EU takes place in the aviation transportation sector. The negotiations were initiated regarding a common aviation space between Ukraine and EU. It would take at least to ensure the flights security, in order to conclude these negotiations. Therefore, the majority of joint projects in this sphere relate to this question. Thus, in June 2009 Twinning project “Harmonisation of legal norms and standards of Ukraine and the EU in civil aviation” was completed after 21 months of its implementation.[24] Within the framework of the project, the State Aviation Administration representatives were trained and educated in Ukraine, France and Poland. Besides that, the experts of State Aviation Administration have developed a detailed action plan for implementation of European security rules in aviation. This plan includes an implementation timetable and a description of the transitional period and transitional provisions, prepared after the consultation with the aviation industry representatives.

Another seminar took place in October 2009 in the framework of “TRACECA Project on security of civil aviation and the environment”, launched by th EU.[25] The project aims to harmonize procedures in these areas with European practice. Four key experts will be

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[24] http://twinning.com.ua

[25] http://ec.europa.eu/delegations/ukraine/press_corner/all_news/news/20091026_1_en.htm

participating in the project and while staying in Kiev for three years they will organise a learning process for aviation officials from the countries involved the TRACECA. The objective of the seminar was to highlight the next three stages of the project and to disseminate information on cooperation in other areas of transport industry within the framework of TRACECA.

Another two Twinning projects were launched in the sphere of transport. One of them– "Support to improve safety of freight and cargo transportation in Ukraine". Ministry of Transport and Communications of Ukraine and the State Automobile Inspectorate of the Ministry of Internal Affairs of Ukraine are Ukrainian beneficiary institutions in this project. Partners - France, Austria, Poland. Project implementation period–21 months with funding allocated–1 million Euros. Another project–"Support for policy-making in sphere of transport". The Ministry of Transport and Communications of Ukraine is Ukrainian beneficiary institution in this project. Partners–Germany, Austria. Duration of the project–27 months and funding–1 million Euro.

EU initiates another project aimed at training of Ukrainian transport specialists—a joint European project "Master: Interoperability / Safety / Certification in the field of international rail transportation in Ukraine and Central Asia »(MISCTIF) by TEMPUS program.[26] Participants of this project—leading universities and national railways of six state–participants: France, Ukraine, Latvia, Kazakhstan, Kyrgyzstan and Poland. During the first stage of the project—estimated completion in the end of 2010–ten lecturers of Dnipropetrovsk National University of Railway Transport named after Academician V. Lazaryana and ten Ukrainian railway practitioners will be trained. During the second stage of the project, the end of 2010, Ukrainian Railwaymen students. Project cost—1.3 million euros. Funding totally by the EU.

Another EU project, launched in 2009, of technical assistance to Ukraine in transport sector is "Supporting the integration of the transport system of Ukraine to the Trans–European transport network TYEM–T", is aimed at improving the transport sector by providing assistance to the Ministry of Transport and Communications of Ukraine in developing and implementation of the Strategy and Action Plan of transport integration into Trans–European transport network.[27] Project implementation period—29 months and estimated budget—6 million euros.

EU assistance in the development Ukraine's transport infrastructure is chiefly done through funding of relevant projects from the EBRD. In January 2009 the EBRD has granted a loan worth 62.5 million dollar to "UZ" for the purchase of freight wagons within the stock upgrade program.[28] However, the Bank has refused to extend a credit line, as agreed upon in late 2008, due to a void of reforms in the railway sector in Ukraine.

However, Ukraine / the EBRD cooperation was more active in other areas of transport sector. In May 2009, the credit agreement, equalled to 26 million Euro, between the EBRD and Illichivsk trading sea port entered into force, for reconstruction of port berths and purchase of handling equipment. Additionally, in 2009 two more EBRD projects in the port industry were

[26] http://www.mintrans.gov.ua
[27] http://www.mintrans.gov.ua
[28] http://www.ebrd.com/projects/psd/country/ukraine.htm

approved. Within one of the project the EBRD will grant loans worth 37 million dollars to “Odessa Terminal Holdco Ltd.” (“OTHL”) and buy 5 percent share of its equity capital. Funds will be used to increase the port capacity through developing new container terminal (its total cost—130 million dollars). Subsidiary company “OTHL”—“Brooklyn-Port Kyiv” will serve as an operator. Another EBRD project is to provide funding for the construction of a new dry port terminal in the industrial zone of Odessa. Estimated budget—$ 38 million. The project is implemented by LLC “Yevroterminal” which acts as the debtor of $ 27 million credit.

Also in the summer 2009 the EBRD has decided to give funding for roads reconstruction and traffic management in Lviv. It is the largest package of municipal funding provided by the Bank in Western Ukraine, and it provides loan worth 12 million euros to the public transport utility company of "Lvivelektrotrans" ("LET") and 26 million euro loan to utility company “Lvivavtodor” set up for construction and maintenance of roads and traffic control in the city.

Thus, while cooperating with the EU in 2009 Ukraine has continued to modernise its infrastructure through the number of EBRD projects, to improve the qualifications of civil servants in energy and transport sectors, and also has completed the negotiations on accession to the European energy community.

5. Conclusions

The international and financial crisis have dramatically reduced the trading and changed the direction of capital flows between Ukraine and EU—27. In particular, the commodity exchange between the countries and foreign direct investment have decreased by more than twice, merchandise trade has dropped by almost a quarter, while net mid— and long—term borrowings were in the red.

At the same time, there was no fundamental changes in economic cooperation with the EU. In particular, in 2009 the negotiations regarding a free trade zone, which could have significantly changed the format of economic relations between countries, were not completed. The completion of the negotiations on accession to the European energy community and arrangements regarding the EU assistance in the modernisation of the Ukrainian gas transport system have been the great achievements. However, these achievements create new opportunities, however almost do not change the current situation. In regards to the labor migration, the implementation of the agreements of previous years have been put into practice. An important EU initiative, macro–financial assistance to Ukraine, can not be implemented for now as an implementation of reform program, agreed with the IMF, is a condition in order to receive this assistance. And in autumn the cooperation with this international organization has stalled. 2010 is likely to become a year of structural changes in relations with the EU. This will be the challenge for the new generation of politicians who come to power after the presidential elections in Ukraine in 2010.

Over 400 million people and GDP equals more than $ 8500 billion can not develop without an effective security and defence system.[29] In this regard, CESDP seems to be a promising mechanism that, unlike traditional supranational or national security–defence institutions (UN, NATO, OSCE, intelligence services and armed forces of individual states), can cover all security levels simultaneously from the basic to top ones, as well as to work on the "crossroads" of the duties of such institutions. Thus, European security architecture has obtained its complete institutional foundation, covering all areas of modern challenges and threats.

29 G. Perepelytsya. Conflicts in post-communist Europe .- Kyiv, 2003 .- p. 13

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UKRAINE AND THE EU: BETWEEN COMPLETE AND INCOMPLETE

2009 was a year of a long lasting crises, world financial “reload”, presidential election campaign in Ukraine and a rather complicated negotiation process in the EU. However, despite all objective and subjective difficulties, the EU/Ukraine relations continued to strengthen in political and sectoral dimensions. After the all–European elections to the EU in June one could notice an new emerging “Lisbon” face of the EU from December, 1st . The elections in Ukraine are knocking on the door and both the EU and Ukraine are waiting for the results. Doubtless, the further dynamic of dialogue between Brussels and Kyiv depends on the election results.

Complete

From year to year the whole complex of the issues regarding Brussels/Kyiv relations has become the topic for discussion at the EU/Ukraine summits. This year such a summit took place on December, 4th in Kyiv and became the first great event of a common dialog under the new for the European Union conditions. Only a few days before the summit the Lisbon Treaty has come into force: a long-lasting period of institutional instability within the EU has come to an end, which has included failed attempts of referendums in Netherlands and France in 2005, as well as a failed referendum regarding a new version of the Basic EU–Lisbon Treaty in Ireland in 2008 and also the “flame of passion” regarding the ratification of the Treaty in Germany, Poland and especially in Czech Republic.

However, a long–a waited reform of the European Union has been achieved due to a clear strategy and political vision presented by the majority of European capitals. Though the upcoming chairmanships of Span, Belgium and Hungary at the EU will have much to do to ensure an effective work of the reformed EU institutions and their new mechanisms working according to the new system. No doubt that this issue is given the highest level of priority. That's the reason why these states will have taken key places among the next chairmanships Trios at the EU for the next one and half year up to June, 1st , 2011.

The reformed EU has turned into a more ambitious project. This is a complete statement, a warning for the state–members that Brussels is getting more demanding regarding meeting the Copenhagen criterias necessary to start (or to continue) the path to EU membership . In particular, this was proved on November, 26th during the regular meeting of the European Parliament in Strasbourg, where there the resolution on EU strategic enlargement was adopted, and current and potential states–candidates were strongly recommended to continue their efforts for reforms in order to come closer to the membership. Great attention should be paid to such key issues as a rule of law, freedom of speech, good neighborhood relations, protection of rights of ethnic minorities and fight against corruption and organized crime.

In above mentioned resolution the European Parliament has confirmed its commitment to the enlargement strategy which was called “the most successful of all the policies”, but it didn’t mention Ukraine. Western Balkans, Island, and Turkey with its already decades–lasting negotiations have been mentioned there. The enlargement may include Ukraine only when our state is recognized as a potential candidate. Never mentioned it in public, the EU leadership, however, not once for the last two years has directed Kyiv (the author of this article has witnessed it) to work actively on the Association Agreement. Implementation of this agreement, as they made it clear, will become an entrance ticket for Ukraine to join the enlargement process. That's what the atmosphere was like in 2007 during the negotiation process on Association Agreement. That's what it still was in Spring 2008 when the negotiations on Free Trade Zone were launched within the framework of Association agreement.

At the end of 2009 Brussels gained a complete understanding that Ukraine has not reached the level of a partner ready for the negotiations about the EU membership due to its current imbalance of powers and lack of inefficiency of state authorities to implement reforms and agreements agreed upon within the dialogue with the EU. In order to get closer to this, Ukraine should walk a thorny path to complete negotiations on the Association Agreement with the EU, which at the end of 2009, is still negotiated. While the sections on policy and security, visa and sectoral part have been already agreed upon, the agreement on the free trade zone is still to be reached with the EU. And the Agreement is not completed without it if to take into account the content of the mandate given by the European Commission for the negotiations with Kyiv. It is necessary to come to the conclusions with Brussels regarding such issues as visa free dialogue between Ukraine and the EU, integration with the electricity networks of the EU, its common aviation space, lets leave alone a common energy space.

Each of the above–mentioned topics is in direct responsibility of the corresponding services of Ukraine and the EU, and only their joint will and coordinated work supported by concrete agreements plus their effective implementation can create the conditions in order to argumentatively raise the question of future membership of Ukraine at the EU. And the most important is not to fear to go deeper into “fatigue from the Ukrainian issue”.

Pity, but the creation of such conditions is incomplete in practical sense unlike the political one, where in Paris in September 2008 Ukraine was recognised as an European state by the EU and Ukraine's leadership. Let us start to prove political signals by practical achievements of Kyiv and Ukraine, and it will combat “fatigue” and “suspicions” regarding serious intentions as for European integration.

The achievements in the political and trade-economic relations between Ukraine and the EU, as well as high level of cooperation in foreign and security policy, justice and home affairs, energy and sectoral cooperation have served as a basis. For a long time the EU-27 has been the main trade partner for Ukraine covering about 30 per cent of trade turnover. Ukraine has become a leading “flagship of cooperation” for the EU in the Eastern Europe and also an important partner, where new mechanisms of relations with third countries are tested. Although this role of our state is complete but transitional one: let us first achieve an efficiency in this role and later we will be able to move to the next stage.

For now we are are satisfied with gradual but important for the future achievements. The annual result for Ukraine has been summed up in the statement of Ukraine's and EU leaders as the results of the 13th summit Ukraine/EU that took place in Kyiv on December, 4th, 2009. The leaders greeted the third report on the progress of negotiations regarding the Association Agreement and pointed out great improvements of the negotiation process and its innovative and comprehensive character. They proved the determination to accomplish the negotiations as soon as possible taking into account ambitious, difficult and technically demanding character of many aspects of the agreement, in particular the chapter on deeper and comprehensive free trade zone. The Joint Statement has also positively mentioned the dialog on free visa regime between the EU and Ukraine, which has been titled “structured” dialog and in this regard does not differ much from so called road maps introduced for the Balkan states several years ago, which are at the moment visa free state-members. However, the requirements are still there, especially in regards to the security of documents.

Incomplete.

At the end of 2009 Ukraine and the EU managed to present achievements which could be fairly estimated only by the professionals who are well aware of all the specificities and difficulties of interstate negotiations and talks. Thus, the achievements of EU/Ukraine dialogue is considered to be incomplete since they are hard to perceive by an ordinary Ukrainian who does not know much about all the details and developments in the complex EU/Ukraine relations. For such a Ukrainian citizen the EU/Ukraine dialogue in 2009 has passed by either in the light of expectations for adoption of the Association Agreement or in the light of comments on current EU/Ukraine relations given by the candidates for presidency or in the light of traditional Ukrainian awaiting for the EU membership in the long term perspective (everybody in Ukraine accepts that) or just passed by like an empty sound.

Is it wide well know in Ukraine that the negotiations on enhanced free trade zone between Ukraine and the EU is a huge bulk of agreements which can be compared rather to the revolutionary changes for Ukrainian economy? That only the text of this agreement comes up to 1000 pages? Everything should be changed as it talks not only about liberalization of trade in goods and gradual abolishment of custom tariffs but also abolishment of none-tariff trade restrictions in the form of different trade standards. Not always honest by nature approaches towards trade and economic relations applied during the transition period under the conditions of a young independence must become a history. The WTO membership requirements to Ukraine have also to be implemented, and that is permanently reminded to Ukraine by Brussels.

Do we want to approach the EU economically and integrate with its economic-legal system? It is necessary to pay serious attention to the issue of harmonization of our own legislation with the EU legislation in a number of sectors of economics. An approach to the governmental procurements should be also changed. Brussels has permanently pointed out the need for adoption of the law which would be in accordance with the European standards as the economic progress depends greatly on this dimension in Ukraine/the EU relations.

`The important issues on energy cooperation with the EU are also still incomplete. Among them: implementation of the agreements reached during Joint international investment conference Ukraine/EU on modernisation of gas transportation system of Ukraine (March, 23rd 2009, Brussels), and, first of all, the obligation to reform in energy sector. There was also an achievement like signing the Declaration of Intentions as the results of the above–mentioned conference and the agreements on wider reforms, approved on June, 31st , 2009 in the context of the reform of gas sector of Ukraine, supported by the international financial institutions. Now it is up to Ukraine to implement the undertaken obligations, in particular to adopt the law on opening of the natural gas market. And perhaps Ukraine will access the Energy Community Treaty soon, what will ensure energy supply for Ukraine and the EU and will become an important step towards the energy integration of Ukraine with the EU. But in case Parliament of Ukraine refuses to adopt this law and Ukraine does not join the Treaty, Ukraine would be the one to lose in this case and not the EU.

According to the decision of the Paris summit in 2008 Ukraine and the EU have started the dialog regarding perspectives of visa free regime. This dialogue is based on the implementation by Ukraine of EU criteria and requirements in regards to the Schengen legislation according to all four main areas: security of documents including introduction of biometric data collection, fight against illegal migration, including readmission, public order and security, protection of fundamental rights of the citizens.

As it has been already mentioned the EU/Ukraine dialogue regarding visa free mode is similar to the one successfully conducted with ex–state–candidates(Romania and Bulgaria) and now introduced for the countries of Western Balkans. However there is one difference: visa free mode for the Ukrainian citizens is impossible without an adoption of the law on protection of personal data by Ukraine.

There is also a number of less noticeable but at the same time systematic tasks incomplete by Ukraine, in particular, regarding common aviation space (aviation security), creation of Regional ecology center in Ukraine or Framework Protocol to the Partnership and

Cooperation Agreement between Ukraine and the EU on participation of Ukraine in the EU programs.

Impossible to achieve progress without reforms in institutional area: Cabinet of Minister of Ukraine have to cease functioning as a sectoral body and to serve as a political body. Also there is a need for administrative reform but not by changing administrative borders but by delegation of authorities. Absence of the results in these and other areas within “homework” for Ukraine can stop further European integration of Ukraine which neither wanted in the EU nor, hopefully, in Ukraine.

Complete and incomplete.

Instead of signing the Association Agreement with the EU, the EU / Ukraine Association Agenda has been agreed upon and acted according to. This document is presented as a practical tool for the association between the EU and Ukraine. It captures all the ambitious measures taken in all areas of mutual cooperation between Ukraine and the EU, bringing it closer to the EU through practical actions. It makes it clear that associative convergence between the parties does not stop for a moment. Today it should be thought through how to implement this Association Agenda and to prove to Brussels and other sceptical capitals that Ukraine's European integration is not a political slogan, but a practical activity, that it is not a choice for the sake of a choice but a worldoutlook.

The ambitious Association agreement will follow the practical actions. The EU has just started to live according to Lisbon requirements: it will take months before new European External Action Service will have started to work, before two positions of EU Commissioner on External Relations and Enlargement and EU high representative for Common Foreign and security policy/ Vice President of the European Commission will start its full-scale activity united under one mandate, before the European institutions start to live according to international legal status of the European Union.

All this means that for today the EU faces a number of internal challenges and Brussels would prefer to avoid additional ones from Kyiv: neither for itself, nor for Kyiv. It is necessary to mention that the EU still lacks a common vision regarding future relations with Ukraine. Internal processes in Ukraine only give Brussels additional excuses in regards to this matter. This neither makes the work easy for the Ukrainian diplomats either in Kyiv, or in Brussels and in the other EU capitals, trying to prove European identity of our county.

On the eve of our presidential election Brussels remembers hard but important period for Ukraine from the end of 2004/beginning of 2005. Doubtless, there were achievements in the area of freedom of speech but there are fears concerning political and economic crisis in the country. Brussels remembers political maturity of Ukrainian authority during WTO accession but there are concerns about ability of Ukrainian leadership to come to the conclusions in the perspective. Brussels can hear Ukraine's loud statements as for the membership prospects and in the same way expresses its concerns regarding internal instability of Ukraine and sustainability of its European internal policy.

The EU has been waiting for the Ukrainian reforms. Reforms not through developing plans or governmental decrees but in the sense of development common vision of action plan for middle term prospects by all state institutions of. This vision should be not presented in the form of vague document developed together with the European Commission. Yes, Ukraine has progressed towards European integration. At times it is indirect, sometimes it is not so obvious but there is a progress despite economic and political problems. At the same time Ukraine, as a classical newcomer, has presented great requirements to the partners in Brussels. But the expectations are so high! Doubtless that this mood will have been preserved by us after the elections in winter next year. We would like to believe that we will be able to accompany this mood with practical actions and coordinated work at home.

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PARAMETERS OF THE FREE TRADE ZONE BETWEEN UKRAINE AND THE EU IN TERMS OF THE WORLD FINANCIAL ECONOMIC CRISIS

It's necessary to mention that the provisions regarding free trade zone between Ukraine and the EU will serve as a basis for the future Association Agreement in order to replace Ukraine/EU Partnership and Cooperation Agreement.

Today, the parties have indicated that future Fee Trade Zone (FTZ) will aim at the deepest economic integration, provided that the both sides are ready for that, and will be of a unique practice for the EU.

FTZ will be introduced in the format of comprehensive and deepened free trade zone "FTZ+" with an emphasis on a regulatory cooperation. "FTZ+" format will cover more than the reduction and elimination of the restrictions in trade of goods. The parties also will try to liberalise trade in areas such as trade in services, direct foreign investment and governmental procurements.

Given that the adjustment of Ukrainian legislation and practice to the EU standards is an inevitable part of the deepened FTZ, a special role is given to the application of the international and European standards and tools in corresponding cooperation areas.

Ukrainian representation sticks to the following basic principles in the process of negotiation:

- ***Development of the FTZ Agreement based on the WTO principles***. Protection of national industry through tariffs, tariff binding and ensuring the most favorable treatment and national treatment are the main WTO principles.
- ***Access to the benefits of the EU economic environment (or at least substantial step forward towards them).***
- ***Timeframes.*** The Agreement should clearly determine the timeframes of transition periods of gradual liberalisation of trading relations, as well as fixed timeframes for elimination of all restrictions. This will facilitate the implementation of activity during the fixed transition period.
- ***Asymmetry or relative reciprocity.*** The principle of asymmetry or relative reciprocity in the Agreement is needed in order to soften and avoid possible negative consequences of liberalisation of bilateral trade. According to the asymmetry principle the states with transition economies may benefit from the right for stronger trade barriers in bilateral trade with the more economically developed states and the right for gradual liberalization of national markets within sufficient transition periods. This approach corresponds to existing practices within WTO.

- ***Moratorium for new trading restrictions.*** This principle ensures prohibition for trading restrictions, which can be introduced within the trading treatment by one of the parties.

Ukraine's prospects for economic integration within enhanced free trade zone.

For now, it should be mentioned that the negotiation process stands out as a rather complex one and requires focused efforts on the designated 18 cooperation areas within the introduction of free trade mode.

According to the prior agreement of the parties official negotiations will be conducted in 3 blocks:

Trading in goods;

Trading in Services, set-up of the companies, investments and capital flow;

Trading regulations.

At the moment there are ongoing negotiations regarding the following 18 cooperation areas within corresponding Working groups:

1. Tariffs proposals;
2. Trade in goods;
3. Technical barriers in trading;
4. Tools of trade protection;
5. Sanitary and phytosanitary measures;
6. Fostering trade and cooperation in customs sector;
7. Fraud prevention;
8. Rules of origins;
9. Trading relations in energy sector.
10. Services, set-up of the companies, investments, capital flows and current payments.
11. Intellectual property rights;
12. Geographical provisions;
13. Competition policy: antimonopoly measures;
14. Competition policy: state aid;
15. State procurements;
16. Trade and sustainable development;
17. Transparency;

18. Disputes resolution.

Reaching the balance of interests and compromise position based on the asymmetry principle, while taking into account the obligations of the parties within WTO, forms the foundation of the negotiation strategy. The main criteria members of the Ukrainian delegation take into account is a need for Ukraine to have a reasonable position during discussion of corresponding provisions coming out of real export capacities and economic potential of Ukraine.

Thus, the progress of the negotiations, launched only in 2008, depends primarily on the actual prospects to access markets and specific proposals as for appropriate concessions within trade liberalisation along with the political ambitions of the parties.

At the same time, in order to establish the appropriate strategic framework for cooperation regarding free trade zone, following pre-conditions should be taken into account:

Firstly, uncertainty as for the status of Association Agreement while agreeing on the provision regarding the prospect of future membership. This uncertainty, in its turn, has impacted the level of ambitions of the obligations, in particular within the framework of the introduction of free trade mode and possibility for Ukraine to be involved to internal programs and corresponding structural funds of the EU as a potential state-candidate.

Secondly, Ukraine's lack of experience in singing alike agreements within "FTZ +" format what has caused a significant regulatory approximation in regards to the EU standards, in particular adjustment of legislation and corresponding institutional changes.

Thirdly, an absence of clear EU concept regarding the scope of the approximation.

Fourthly, the limitations to compromise as for conceptual issues due to limited character of the authorities of the European Commission within its mandate for negotiations with Ukraine and strict positions of the EU –members in regards to certain issues.

Fifthly, obligatory character of the agreements reached as a result of negotiation process and disability to review the obligations enshrined within the agreements.

Sixth, an introduction of the effective mechanism of disputes resolution within the Agreement, which de facto was not foreseen in current Partnership and Cooperation Agreement. This mechanism provides the application of appropriate sanctions in case of violation of obligations under the Agreement.

* * *

Taken commitments are of a strategic importance for the further development of internal market and correspondingly national economy taking into account pre-determined period of the Agreement implementation, 10 years, suggested by Ukrainian party. At the same time this FTZ already ensures perpetuity of the corresponding provisions under the Agreement within free trade regime between the parties involved. It is also necessary to understand and correlate the ambitions and real capacity of Ukraine, taking into account modern realias and in particular world economic crisis.