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## F A C T S H E E T

# Frequently asked questions about Ukraine, the EU's Eastern Partnership and the EU-Ukraine Association Agreement

### 1. Questions about the crisis in Ukraine

#### "Have the European Union and the West destabilised Ukraine?"

- The EU has been deeply engaged in seeking a solution to the crisis in Ukraine, which developed following months of peaceful protests on the central 'Maidan' in Kyiv. These began on 21 November 2013 with the sudden decision of then President Yanukovich to suspend preparations for the signature of the EU-Ukraine Association Agreement at the Eastern Partnership Summit in Vilnius.
- The EU, having taken note of the demonstrations of public support for closer association and integration with Europe, condemned unequivocally the violence that has cost so many innocent lives since the beginning of this crisis. The EU and Russia, like all other OSCE participant States, share responsibility for peace and security on the European continent. Both have a responsibility to support a democratic Ukraine in order for it to regain political stability.

FOR FURTHER DETAILS:

Maja Kocijancic +32 498 984 425 - +32 2 298 65 70 - [Maja.Kocijancic@ec.europa.eu](mailto:Maja.Kocijancic@ec.europa.eu) [@MajaEUspox](https://twitter.com/MajaEUspox)

Eamonn Prendergast +32 229 98851 - +32 460 75 32 93 - [Eamonn.Prendergast@ec.europa.eu](mailto:Eamonn.Prendergast@ec.europa.eu)

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- The illegal annexation of Crimea by Russia is unacceptable and has been condemned by the international community<sup>1</sup>. The EU's imposition of sanctions on those responsible for actions threatening Ukraine's territorial integrity, sovereignty and independence or its stability and security – like those imposed on those responsible for the misappropriation of Ukrainian state funds – are intended to dissuade from further actions against Ukraine's interests and to help bring about a sustainable political solution that respects its territorial integrity, sovereignty and independence, as well as international law.
- The EU remains ready to facilitate and engage in meaningful dialogue involving Ukraine and Russia. The EU has actively supported multilateral initiatives towards that aim and it continues to do so. (See [below](#) on support for the Minsk Agreements.)
- The EU strongly supported the holding of open, genuine and democratic Presidential and parliamentary elections in May and October 2014 and called on all parties to join in this support, to help overcome the crisis and allow the Ukrainian people to choose their own future.
- For more information see the regularly updated factsheet on EU-Ukraine relations: [http://www.eeas.europa.eu/statements/docs/2014/140514\\_02\\_en.pdf](http://www.eeas.europa.eu/statements/docs/2014/140514_02_en.pdf).

*"What has the EU offered Ukraine in real support, beyond words and promises?"*

- The EU is both currently and historically the biggest international donor to Ukraine. Since its independence the EU has given Ukraine € 3.3 billion in grants, with other substantial amounts given by individual EU Member States as bilateral assistance and Ukraine has received € 10bn in loans from the EU under beneficial terms. In recent years Ukraine has received annually on average € 150m in grants in the framework of the European Neighbourhood Policy.
- In March 2014, the European Commission proposed a support package for Ukraine worth at least € 11 billion over the next couple of years. Since then the Commission has agreed on a number of [concrete measures](#) for the short and medium term to help stabilise the economic and financial situation in Ukraine, assist with the

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<sup>1</sup> On 27 March 2014, United Nations General Assembly resolution 68/262 on the territorial integrity of Ukraine was passed with a vote of 100 in favour to 11 against, with 58 abstentions, affirming commitment to the sovereignty, political independence, unity and territorial integrity of Ukraine within its internationally recognised borders, calling upon all States to desist and refrain from actions aimed at partial or total disruption of the national unity and territorial integrity of Ukraine and underscoring that the referendum held in the Autonomous Republic of Crimea and the city of Sevastopol on 16 March 2014, having no validity, cannot form the basis for any alteration of the status of the Autonomous Republic of Crimea or of the city of Sevastopol.

transition, encourage political and economic reforms and support inclusive development for the benefit of all Ukrainians.

- A further [package of financial assistance was proposed in January 2015](#). The European Commission has already disbursed €1.36 billion in support of Ukraine under two previous Macro Financial Assistance programmes. MFA loans are financed through EU borrowings on capital markets. The funds are then on-lent with similar financial terms to the beneficiary countries. The disbursement of the final tranche of €250 million under these programmes was made on 21 April 2015 on the basis of successful implementation by Ukraine of agreed policy measures and a continued satisfactory track record with the IMF programme. The MFA programmes are designed to help Ukraine cover part of its urgent external financing needs in the context of the economic stabilisation and reform programme recently launched by the Ukrainian authorities.
- Since 23 April 2014, the EU has opened unilaterally its market to Ukrainian goods, without requiring any reciprocity, therefore granting to Ukrainian exporters duty free access to the largest market in the world.
- In mid-2014 the Commission also [established the Support Group for Ukraine](#). The Support Group concentrates and coordinates the resources and expertise of the Commission in order to monitor and assist Ukraine in the implementation of the Association Agreement and, crucially, in undertaking the deep and systemic reforms necessary for the country to draw maximum benefit from a closer relationship with the EU.

For more information: [http://europa.eu/rapid/press-release MEMO-15-3920\\_en.htm](http://europa.eu/rapid/press-release_MEMO-15-3920_en.htm)

*"Is there actually a ceasefire in eastern Ukraine? If not, why support the Minsk Agreements?"*

- The ceasefire agreed as part of the Minsk Protocol on 5 September 2014 resulted in a significant decrease in levels of violence, the release of hostages and adoption by the Rada of laws on amnesty and interim self-governance for certain districts of Donetsk and Luhansk, all of which were welcomed by the EU. Observance of the ceasefire protocol and implementing memorandum are a necessary step for the much needed restoration of law and order in Eastern Ukraine, to prevent further human rights violations and for the investigation of those that have occurred. We hope that this will lead to an effective halt to all incidents on the ground and to further results, including the withdrawal of heavy arms from the ceasefire zone, as foreseen in the Minsk Memorandum of 19 September.

- The EU fully supports all the initiatives aimed at bringing political solution to the ongoing conflict in Eastern Ukraine, using all the means available to push for a political solution, by applying diplomatic and economic pressure as well as through continuing dialogue. This includes the efforts of German Chancellor Angela Merkel and French President François Hollande and the package of measures for the implementation of the Minsk Agreements signed on 12 February 2015 and supporting Declaration by the "Normandy" Heads of State and Government.
- A lasting ceasefire and implementation of all provisions of the Minsk agreements are vital steps towards a sustainable political solution of the crisis, which needs to be based on the respect for Ukraine's sovereignty and territorial integrity.
- The EU is already using the practical tools and means at its disposal to make the implementation of these measures feasible, notably through increased support for the work of the Organisation for Security and Cooperation in Europe (OSCE) in Ukraine. The EU and its Member States are the biggest contributor to the OSCE Special Monitoring Mission to Ukraine (SMM), contributing about two thirds of both the mission's budget and monitors. The EU Satellite Centre is providing the SMM with satellite imagery and analysis to monitor the cease-fire and weapons withdrawal. The EU has also donated armoured vehicles for OSCE monitors as well as medical equipment. With the SMM playing a key role in the implementation of the Minsk Agreements, the EU is preparing to further step up its support, including through additional in-kind contributions (such as technical monitoring equipment and armoured vehicles) and increased financial support: the EU has topped-up Member State contributions to the SMM with € 7m from the Union budget and is looking to increase this amount by € 10m, with further support possible.

*"What is the EU doing about the humanitarian situation in eastern Ukraine? And what about those Russian convoys?"*

- The EU acts on the basis of the international humanitarian principles of humanity, neutrality, impartiality and independence. This means that it provides humanitarian assistance to the most vulnerable communities, irrespective of ethnic or religious background. EU humanitarian assistance is based solely on needs. In Ukraine this includes in non-government controlled areas, through the provision of shelter for displaced persons, health care, food, water, sanitation and other emergency aid.
- The EU and its Member States have already provided over € 75 million of humanitarian and early recovery assistance. To help the most vulnerable of those affected by the conflict, in 2015 the European Commission is pledging an additional € 15 million in humanitarian assistance. The EU and its Member States have also

organised the delivery of 85 tonnes of emergency supplies by air and road, including tents, blankets and sleeping bags for winter conditions, in cooperation with humanitarian partners including UNICEF and UNHCR. Austria, Denmark, Estonia, Finland, France, Germany, Latvia, Poland and Slovenia and the European Commission have provided the relief items.

- The EU provides humanitarian aid funding and in-kind assistance to the most vulnerable persons affected by the conflict, including in the Donetsk and Lugansk regions through international humanitarian organisations, including UN agencies. The EU is ready to scale up its humanitarian assistance.
- Other countries' bilateral efforts in providing humanitarian aid to the people affected by the conflict in Ukraine are welcome. Humanitarian aid should always be delivered solely with the needs of the affected population in mind, should be channelled in full respect of international humanitarian law and principles and should not be exploited for military or political ends.
- The EU is also aware of the hardship experienced by the population in parts of eastern Ukraine occupied by illegal armed groups. This reconfirms the need to urgently restore law and order in those areas to allow the Ukrainian state to ensure again key services to the population. We recall therefore the need for swift implementation of the Minsk Agreements.

#### *"Who is responsible for the downing of Malaysian Airlines flight MH17?"*

- Those directly and indirectly responsible for the downing of MH17 must be held accountable and brought to justice. As stressed in statements [by the EU High Representative](#) and [Presidents](#), the EU called on all States and actors involved to ensure full, safe and unrestricted access to the crash site, to enable the completion of the repatriation, recovery and investigation work, and to provide full co-operation with the ongoing independent international investigations into the cause of the crash and the identity of those responsible. It is essential to safeguard the integrity of these international investigations.

#### *"Who is responsible for unmarked graves in Donetsk?"*

- As underlined by the OSCE Special Monitoring Mission in its reports about anonymous burials in Donbas – and as far as the EU is aware – there has been no forensic analysis of these bodies. The EU thus reiterates its call for the restoration of law and order in the region, which would allow for the prevention of further human rights violations and investigation of those that have occurred. Progress on implementation of the law on interim self-government, as foreseen in the Minsk Protocol of 5 September, will be an essential step in this direction.

### "Was the so-called 'referendum' in Crimea legitimate?"

- The Ukrainian Constitution reads *"The issues of change of territory of Ukraine can only be decided by an all-Ukrainian referendum"* (Article 73); *"The Autonomous Republic of Crimea is an indivisible part of Ukraine and decides on its policies within the limits determined by the Constitution of Ukraine."* (Article 134). Available in [Ukrainian](#), [Russian](#) and [English](#).
- Furthermore, any decision relating to Ukraine's sovereignty or sovereign choices can only be taken without undue external pressure. This so-called referendum was organised in a matter of weeks by a self-proclaimed Crimean leadership installed by armed Russian military personnel following the seizure of public buildings.
- All regional "referenda" on the territorial configuration of Ukraine are in breach of the Ukrainian constitution. The so-called referenda in parts of Luhansk and Donetsk regions were illegal and their outcomes will not be recognised.
- Any such so-called referenda organised by self-proclaimed authorities, who lack democratic legitimacy, are obviously illegal and illegitimate. The EU will obviously not recognise them nor their alleged outcomes.

### "Are Ukraine's authorities legitimate and representative?"

- The Presidential elections held in Ukraine on 25 May were characterised by a high turnout and the clear resolve of the Ukrainian authorities to hold a genuine democratic exercise in line with international commitments and respecting fundamental freedoms, despite a hostile security environment in two eastern regions, according to the preliminary assessment of the OSCE/ODIHR.
- The EU [welcomed](#) the holding of parliamentary elections in Ukraine on 26 October, taking note of the OSCE/ODIHR's assessment that they marked an important step in Ukraine's aspirations to consolidate democratic elections in line with its international commitments. This and the subsequent formation of a coalition government were a victory of the people of Ukraine and of democracy.

### "Were the 'elections' held in Donetsk and Luhansk legitimate?"

- The EU considers the "presidential and parliamentary elections" held in Donetsk and Luhansk 'People's Republics' on 2 November an obstacle on the path towards peace in Ukraine. The vote was illegal and illegitimate, and the European Union will not recognise it.

- These "elections" were held contrary to the letter and the spirit of the Minsk Protocol, signed within the framework of the Trilateral Contact Group, and obstruct efforts to find a sustainable political solution to the crisis.
- Early local elections in accordance with Ukrainian law, as foreseen in the Minsk Protocol, are the legal and legitimate means of renewing the democratic mandate of the local authorities in these parts of Ukraine. The EU calls on all sides to work towards such elections.

*"Was power in Kyiv seized undemocratically in a Western-backed coup? Was the 21 February agreement respected?"*

- There was no "coup" in Kyiv but a democratic vote in parliament in a crisis situation: the government was approved by constitutional majority in the Ukrainian Parliament (the Verkhovna Rada) demonstrating its inclusive character, whereas a simple majority would have been sufficient. Following his flight from Kyiv and Ukraine, then President Yanukovich was dismissed by a constitutional majority and the void left by his departure filled to restore normal functioning of the state.
- Steps taken to implement the agreement signed on 21 February in Kyiv led to violence in the capital ceasing and protesters withdrawing from public buildings; a Law reinstating the 2004 constitution being adopted; a comprehensive constitutional reform envisaged along with new electoral laws and a balanced Central Electoral Commission. Democratic and inclusive elections have now taken place, along with investigations into acts of violence ordered by the new Prosecutor General with expert advice of the Council of Europe's International Advisory Panel

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*"Are extremists the biggest danger for Ukraine?"*

- Extremists and provocateurs, to whom Russian media devote much attention, are indeed one of the threats faced across the country but we know they constitute a very small minority. The vast majority of Ukrainians want peace, stability and democracy, as witnessed by the democratic and inclusive Presidential elections held on 25 May.
- This was reconfirmed by the parliamentary elections of 26 October, where parties devoted to democratic values received the broad majority of votes.

## "Are Ethnic Russians in Ukraine under threat?"

- There were no confirmed reports prior to Russian intervention of any ethnic Russians being threatened in Ukraine; only allegations perpetuated by certain media. The new Ukrainian government has placed a priority on peace and reconciliation from the outset.
- The OSCE High Commissioner for National Minorities in her statement<sup>2</sup> of 4 April *"was pleased to hear that the interim Government does not intend to make any hasty decisions regarding language policy"*. At the same time, she reminded *"the authorities in effective control of Crimea that they remain responsible for the human rights, including minority rights, of all persons residing on the peninsula. The people in Crimea, in particular the Crimean Tatars and the Ukrainian community, are in a precarious position."*
- Prior to the May Presidential elections, acting President Turchynov refused to sign legislation repealing the language law of 2012, which allows for the use of the Russian language for official purposes at regional level. The EU and international partners including the US have welcomed the Ukrainian government's inclusive approach.

## **2. Questions about the Eastern Partnership**

### "Are Eastern Partnership and the EU-Ukraine Association Agreement meant to force Ukraine to choose between east and west?"

- Leaving aside for a moment Russia's recent actions, which have clearly violated Ukraine's sovereignty and territorial integrity, the EU has underlined time and time again that Eastern Partnership is not about spheres of influence or a choice between the EU and Russia; that Russia's strong economic and social links with its neighbours are not under any threat, or at least not from the EU.
- At the EU-Russia summit in January 2014 President Putin stressed Russia's commitment to promoting stability and prosperity in our common neighbourhood and recognised that the EU's Eastern Partnership shared these very aims. The joint pursuit of these aims is only possible, however, if based on respect for the independence of our neighbours and their freedom to pursue their own paths.

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<sup>2</sup> <http://www.osce.org/hcnm/117175>



- Russia enjoys free trade agreements with most of the Eastern Partners, including Ukraine. Like Russia, the EU is an important trading partner in the region – the first for most of these countries. So it is only natural for the EU to offer free trade agreements. But no one is being forced to choose; these countries can perfectly well have free trade agreements with Russia and the EU at the same time.

*"If the EU had consulted Russia on the Eastern Partnership or the EU-Ukraine Association Agreement could we have avoided this crisis?"*

- Eastern Partnership is a transparent process. Since its joint inception by the EU, its Member States and Eastern Partners at the Prague Summit in 2009, all initiatives undertaken in this framework by the EU and the respective partner countries have been widely publicised. Action Plans, annual country and regional progress reports are all public documents. Moreover, Russia participates, at Senior Officials level, in the “Eastern Partnership Information and Communication Group”.
- Eastern Partnership is also the Eastern dimension of European Neighbourhood Policy, which Russia was invited to join in 2003. Russia has long been aware of the initiative and, until 2013, did not manifest any concern. There have been two EU-Russia summits per year since before Eastern Partnership was launched, during which Russia requested no further information on its development.
- The EU believes it is important to underline that Ukraine is a sovereign state and is free today as it has been in the past to engage in trade relations with other partners, as it considers best for its economy and people.

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### **3. Questions about the EU-Ukraine Association Agreement including a Deep and Comprehensive Free Trade Area**

*"Could the trade part of the Agreement lead to economic difficulties?"*

- Since 23 April 2014, date of entry into force of the EU's [Autonomous Trade Measures \(ATM\)](#), Ukrainian exporters already enjoy access to the EU market as import tariffs have been reduced unilaterally by the EU. This has brought tangible results already and while Ukraine's export generally decreased in 2014, exports to the EU remained stable.
- On 1 January 2016, the AA/DCFTA will be provisionally applied and the AA/DCFTA will take over the process of tariff liberalisation started with the ATM and make it

reciprocal. Thanks both to tariff liberalisation and above all to regulatory approximation, Ukraine should quickly take advantage of new trading opportunities and easier access to the largest market in the world. It can be expected to reap the benefits of a choice that flags its firm commitment to a path of much-needed institutional and economic reforms. Looking at the series of trade restrictive measures adopted by the Russian Federation recently, ranging from suspiciously-timed introduction of bans on exports of dairy and confectionary products, to the intensification of border controls, the only negative short-term consequences for Ukraine's external trade and the overall economy can be traced to adverse policy choices that cannot be attributed to the Agreement.

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*"Does the Agreement with the EU prevent Ukraine from establishing or maintaining closer links with the Customs Union between the Russian Federation, Belarus and Kazakhstan?"*

- No. The Agreement with the European Union leaves Ukraine free to determine its own trade policy. For example, if Ukraine wanted to maintain independent preferential trade relations with both the EU and the Customs Union, this would still be entirely possible, through the establishment of a Free Trade Area between Ukraine and the Customs Union.

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*"Will Ukrainian companies be able to cope with the introduction of EU standards and regulations or will they lose out to EU companies?"*

- Although the Agreement requires producers based in Ukraine aiming to export to the EU to adopt certain EU standards, such changes will be phased in over time and should be manageable. While this will be a major shift in practices for many companies, the long term results will be positive: Ukrainian companies will be rewarded with easier access to the EU market and become more competitive globally, as EU standards are widely recognised worldwide. Modernisation of Ukrainian industry is urgently needed in any case: the requirement to introduce international production standards is an essential part of that modernisation process. A combination of targeted assistance, investment and advice will help the process of adjustment.

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*"Will Ukraine's traditional exports to Russia, as well as cooperation with Russia companies, be disrupted because of the adoption of European standards?"*

- EU standards are not a burden for EU companies when exporting to Russia or cooperating with Russian companies. Indeed, the EU is Russia's main trade partner. So why should they cause a problem for Ukrainian companies? Ukrainian companies that are already exporting to the Russian / Customs Union market and cooperate with companies there can continue to do so, even after the Association Agreement is implemented (unless blocked artificially by politically motivated bans and restrictions).

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*"What are the benefits for Ukrainian citizens resulting from the Agreement?"*

- Independent studies suggest that the simple implementation of the agreement would bring benefits of +6% of additional GDP over the medium run and +12% in terms of increased welfare for the Ukrainian people. And much more can be expected if Ukraine genuinely implement the reforms foreseen by the Agreement, as they would improve the business climate and help to attract foreign investments and technology transfers.

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*"Will entry into force of the trade-related part of the Agreement lead to a flood of EU goods entering Ukraine, threatening Ukrainian producers?"*

- No. The Ukrainian negotiators of the Agreement made sure that this would not happen by building in protection (progressive adaptation) for the more sensitive sectors. The Agreement is "asymmetrical" in favour of Ukraine: while Ukrainian exporters will have almost immediate access to the European markets, Ukraine will open its border much more progressively.

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*"Will Ukrainian companies be able to comply with EU standards so they can export to the EU?"*

- About 25% of Ukrainian exports were already sent to the European Union and this figure has risen to 33% in the first six months of 2014. This demonstrates that Ukrainian companies are already able to adapt to EU standards and export there.

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*"Have countries from the former soviet bloc that have developed closer economic links with the EU over the past decades benefited from this?"*

- All countries that developed closer economic links with the EU in the early 90s (through association agreements) have greatly benefited from this, through strong economic development, with the result materialising many years before their accession to the European Union..

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*"Does the signature of the Agreement represent a first step towards EU membership for Ukraine?"*

- The Agreement is not about EU membership for Ukraine. Whether or not to apply to join the EU is a decision for each individual country to make. Association is one step in the process, and allows each country to weigh up whether or not to take things further. We take note of recent opinion polls which show that a majority of Ukrainians supports future EU membership.

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*"Will the Association Agreement force Ukraine to allow same sex marriages"*

- There is nothing at all in the Association Agreement that would force Ukraine to adopt regulations related to same sex marriage.

*"Was power in Kyiv seized undemocratically by a Western-backed coup? Was the 21 February agreement respected" [continued]*

- President Yanukovich's departure has meant that elections are needed earlier than foreseen in the agreement. Instead of signing and promulgating the legislation passed by the Rada to return Ukraine to the 2004 Constitution as per the agreement he left Kyiv and Ukraine, thereby failing to abide by its terms.
- The EU fully supports the inclusive political process currently underway in Kyiv involving main political parties represented in the parliament as well as civil society stakeholders.
- The EU reiterates its call for all human rights violations and acts of violence to be properly investigated. We recall that this is the task for the judiciary and the competent courts, and that investigations and court procedures need to be independent and fully in line with international standards.

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*"If the EU had consulted Russia on the Eastern Partnership or the EU-Ukraine Association Agreement could we have avoided this crisis?" [continued]*

- Russia did not express any concern when Association Agreement/Deep and Comprehensive Free Trade Area (AA/DCFTA) negotiations with Ukraine were launched in 2007. Moreover, informal discussions had already taken place between the EU and Russia at the time about a future bilateral Free Trade Agreement following the completion of Russia WTO accession. The objective of such an FTA is included in the Partnership and Cooperation Agreement of 1994, which is still in force. A joint report by the then European Commissioner for Trade and the Russian Minister of Economy was made in 2008 concerning informal negotiations concerning an FTA. EU-Ukraine AA/DCFTA negotiations were completed by the end of 2011. They were led and supported on the Ukraine side since 2010 by the office of former President Yanukovich.
- Russia decided in 2009, two years after the launching of the EU-Ukraine AA/DCFTA negotiations, to establish its own Customs Union with Kazakhstan and Belarus. The EU of course did not (and does not) question the right of Russia or other countries in the region to go ahead with their own integration processes and even welcomes in general such economic integration efforts as long as they are based on WTO principles and international law. At the same time it was clear that the Customs Union because of its fundamental nature would not be compatible with the stated intent of some Eastern Partners, including Ukraine, to conclude AA/DCFTA negotiations with the EU.
- Russia did not inform or consult the EU in advance about the establishment of the Customs Union in spite of its mentioned impacts on the perspective of bilateral relations, nor did it consult the EU about going into FTA negotiations with EFTA countries which are longstanding integration partners with the EU.
- Nonetheless, since Russia expressed concerns, we have been engaged in dialogue with them. We had a first political dialogue on regional integration on 16 October 2013, followed by more economic discussions on 14 November. At the EU-Russia Summit on 28 January 2014, it was agreed to pursue bilateral discussions on the impact of the Eastern Partnership on the Russian economy. A first round of discussions at experts' level was held on 12 and 13 March. The Russian side could not demonstrate any significant negative impact of Eastern Partnership on their economy. The EU side dispelled a number of myths propagated in partner countries. We also clarified that the Eastern Partnership does not impede industrial cooperation with Russia. Since then, dialogue with Russia has continued. We had another political dialogue with Russia on 24 March, and the format was later extended to include Ukraine. On the occasion of an EU-Russian Federation-Ukraine ministerial meeting on the effects of implementation of the EU-Ukraine AA/DCFTA joint conclusions were agreed on 11 July 2014. On 12 September at another trilateral Ministerial meeting a Joint statement was adopted by which it was agreed to delay the provisional application of the DCFTA until 1 January 2016, whereas the EU would extend the application of the autonomous trade measures until that date and Russia would continue to apply the CIS-FTA preferential regime for Ukraine. It was also agreed that the trilateral consultation process would continue.

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"Could the trade part of the Agreement lead to immediate economic difficulties?"

[continued]

At the end of next year (2015), the AA/DCFTA will be provisionally applied and the AA/DCFTA will take over the process of tariff liberalisation started with the ATM and make it reciprocal. In practice, some Ukrainian import tariffs will be lowered, but for the more sensitive good Ukrainian negotiators ensured that there would be time to allow domestic producers to adjust, so many tariffs will fall only 2, 3 or 5 years later.

Virtually all the provisions of the DCFTA will enter into force and will mark the start of the process of economic convergence between Ukraine and European standards for a deeper integration to the European economy.

That is why the signature of the Agreement is expected to have a positive impact on the attitude of investors and international markets towards Ukraine, as it would establish a clear path for future economic reform.

On the other hand, there is nothing in the Agreement which will affect trade with any other trade partner of Ukraine, including Russia. Therefore no negative economic effects regarding trade with other trade partners of Ukraine can be expected as a result of the Agreement itself. Threats by Russia to raise its tariffs if Ukraine signs the Agreement are indeed rather arbitrary.

The tariff cuts foreseen in the Agreement amount to approximately € 500 million every year. The estimates from the European Commission, based on an economy-wide modelling framework, suggest that implementation of the tariff dismantlement foreseen in the DCFTA should boost Ukraine's income by approximately €1.2 billion per year. Even Russia is expected to benefit indirectly from this deal with a slight increase of its GDP to the tune of €76 million per year.

Similarly, the Ukrainian exports to the EU are expected to increase by €1 billion per year. Sectors that would benefit the most are wearing apparel and textiles, food products, vegetable oil and non-ferrous metals.

More in general, the available evidence shows that all trade partners with a preferential agreement with the EU (South Africa, Mexico, Chile, Morocco, etc) have benefitted from access to the large EU market and have seen their trade expand at a two-digit percentage point level in the medium/long run, above the rate of growth of total EU trade.

## Asymmetry in implementation of tariffs liberalisation

### General considerations

The asymmetry in the liberalisation and the more favourable treatment offered to Ukraine is evident in the fact that:

- a) The transitional period until full liberalisation spans over 7 years only for the EU while up to 10 years for Ukraine (*de facto* 15 years for cars);
- b) The tariff dismantling granted by the EU to Ukraine is front-loaded (most of the liberalisation will occur in the first years after entry into force), while Ukraine will only have to liberalise most of its tariffs later in the transitional period.

Note that both the EU and Ukraine restrict the liberalisation in some sensitive sectors via the introduction of Tariff Rate Quotas and commitment to partial tariff liberalisation within 5, 7 or 10 years. In this case too, the Ukrainian offer is generally more conservative than the EU's.

### Sector-specific considerations

- Ukraine will grant immediate preferential treatment to only 52,6% of the EU exports of agricultural products while the EU will grant immediate preferences to 82.2% of UA exports of agricultural products. The products covered by Tariff Rate Quotas (TRQs) represented 17.8% of the value of Ukraine's exports to the EU during the reference period, and only 4% of the EU exports to Ukraine. Additionally, Ukraine has offered only partial liberalisation on 10.6% of the value of EU exports to Ukraine.
- Ukraine will grant immediate preferential treatment to only 49,2% of EU exports of processed food products while the EU will grant immediate preferences to 83.4 % of UA export of these products. Moreover, the EU has offered TRQs to Ukraine representing 15,9% of the value of Ukraine's exports to the EU during the reference period. Additionally, Ukraine has offered only partial liberalisation on 6.1% of the value of EU exports to Ukraine.
- At the time of entry into force, Ukraine will grant immediate preferential treatment to only 49,2% of EU exports of industrial products. After 7 years of transitional period, the share of EU exports benefitting from preferential access in Ukraine will increase to 96%. The automotive sector (cars), representing 4% of EU exports to Ukraine, will enjoy a particularly long transitional period of 10 years, and will benefit from additional specific safeguards over a period of 5 extra years. Compared to the calendar of tariff dismantling granted by the EU, where 94.7% of the products will be immediately liberalised, Ukraine benefits from a considerable advantage.

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*"Does the Agreement with the EU prevent Ukraine from establishing or maintaining closer links with the Customs Union between the Russian Federation, Belarus and Kazakhstan?" [continued]*

From both economic and legal point of views, there is nothing in the Association Agreement that will affect other trade partners of Ukraine, including Russia.

All countries which have signed Free Trade Agreements with the EU are free to sign further Free Trade Agreements with whatever trading partners they choose to. Free trade agreements can easily exist side by side as each participant remains free to continue implementing their independent trade policy. The EU itself, as most other countries in the world, has a wide network of free trade agreements with its partners.

In addition, it is currently negotiating trade agreements with the US, Japan, India, etc. In fact the EU encourages Ukraine to maintain and develop its trade partnership with Russia and the Customs Union, as these economic links are important for Ukraine and do not hurt EU-Ukraine trade relations.

However, if Ukraine were to join the Customs Union it would have no choice but to terminate all its existing Free Trade Agreements with other countries, as Customs Union rules prevent member countries from establishing independent trade agreements with third parties.

All members of a customs union agree to apply the same external import tariff when importing goods from outside the customs union. For instance, this is the case of the member states of the EU, who are not free to change their external tariff as this is managed at EU level.

If Ukraine were to join the Customs Union with Russia, Belarus and Kazakhstan, it would be forced to revise the entire structure of its external tariff, currently significant more open than that of the Customs Union. The existing free trade areas would need to be nullified, and so would the terms under which Ukraine joined the WTO. Moreover Ukraine would need to grant compensation to other WTO members negatively affected by the changes, as they would face higher tariffs when exporting to Ukraine.

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*"Will Ukrainian companies be able to cope with the introduction of EU standards and regulations or will they lose out to EU companies?" [continued]*

With the implementation of the Association Agreement, Ukraine will adopt EU standards for key industrial sectors, and firms will be required to undertake the necessary changes and investments that will result in the production of better and higher quality goods. The Agreement identifies several industrial sectors where the approximation to the EU regulations and standards is already foreseen, to be phased in over a number of years. For other sectors, including the agricultural sector, the Agreement foresees that the EU and Ukraine will agree a timetable for movement to EU standards.

To make sure that the adoption of new standards results from a managed and controlled process, the Agreement gives Ukraine a certain amount of power to decide which sectors to prioritise, and the period of time required to make the changes.

This process will certainly not be achievable without cost. Modernisation Ukrainian industry cannot be done without investments that have unfortunately been lacking over the past 20 years. A considerable amount of investment will be needed by the companies themselves, by foreign investors and by assistance from government and the international financial institutions. But such investments will ultimately benefit the domestic and international competitiveness of Ukraine-based industries, and will benefit consumers by providing better quality goods. The EU is committed to provide its assistance, advice and experience in this important area.

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*"Will Ukraine's traditional exports to Russia, as well as cooperation with Russian companies, be disrupted because of the adoption of European standards?" [continued]*

EU standards are not a burden for EU companies when exporting to Russia, so why should they cause a problem for Ukrainian companies? EU standards make it easier to comply with CU standards. The investments required to upgrade the production process of currently obsolete Ukrainian industries will not be lost.

- In 2012, the EU as a whole exported close to 9 times more to Russia than Ukraine did (\$ 152.4 bn in exports from EU to Russia vs \$ 17.6 bn from Ukraine to Russia).
- Given that the population of Ukraine is roughly 11 times smaller than the population of the EU, this implies that exports per capita from the EU or Ukraine to Russia were about the same scale, in spite of the facts that (i) Ukraine and Russia have privileged trade relations (duty free trade) and (ii) Ukraine and Russia share close standards, which should normally make it easier for Ukraine to export to Russia.
- This shows that adopting EU standards (which all EU industries have to comply with) does not represent a significant burden when exporting to Russia.
- In any case, Ukrainian companies that are producing products for the Russian / CU market will be able to continue to do so, even after the Association Agreement is implemented. The main change will be domestic production, where Ukrainian companies will need to invest in modernising their production where necessary to bring products up to EU standards. This investment will pay off through easier access to the much larger EU market. But this does not affect products that are produced solely for export to Russia / CU.
- Adoption of EU standards would not only improve the quality of domestic goods available for Ukrainian consumers, and give access to the EU market, but also boost the competitiveness of such Ukrainian goods in other international markets (e.g. US, China, Middle East, Far East).

In addition, industrial cooperation between the EU and Russia is very significant, even on very technical products which require a great level of compatibility (for instance the Sukhoi Superjet 100's engines are designed and produced by the French-Russian PowerJet joint venture). There is therefore no reason why adopting European standards would prevent Ukrainian companies from cooperating with Russian ones.

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*"What are the benefits for Ukrainian citizens resulting from the Agreement?"*

In addition to the straightforward economic benefits stemming from lower tariffs and a free trade zone between the EU and Ukraine (i.e. lower prices for goods), the Agreement can also be the basis for a dramatic improvement in the business climate, in the rule of law, in the protection of property rights, etc.

By improving the business climate, Ukraine will attract substantial private investment from the EU and the rest of the world, which would help to modernise the economy and boost GDP growth.

This will create the conditions for the convergence to European standards of living, as the Eastern European countries which have joined the EU in 2004 have experienced over the past two decades.

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*"Will entry into force of the trade-related part of the Agreement lead to a flood of EU goods entering Ukraine, threatening Ukrainian producers?"*

The transitional period until full liberalisation of import tariffs is 7 years only for the EU but up to 10 years for Ukraine (even 15 years for cars); the EU will dismantle its tariffs before Ukraine is required to do so and it has actually started to do so since 23 April 2014.

The EU's obligations to cut tariffs are front-loaded (most of the liberalisation will occur in the first years after entry into force), while Ukraine does not need to liberalise most of its tariffs until later in the transitional period. This gives time for Ukrainian producers to adjust.

In those sensitive sectors where only partial liberalisation will be achieved, the Ukrainian tariff reductions are more conservative than the EU's.

Note that both the EU and Ukraine restrict the liberalisation in some sensitive sectors via the introduction of Tariff Rate Quotas and commitment to partial tariff liberalisation within 5, 7 or 10 years. In this case too, the Ukrainian obligations are less than the EU's.

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"Will Ukrainian companies be able to comply with EU standards, so they can export to the EU?" [continued]

Approximately a quarter of Ukrainian exports are already sent to the EU market and based on 2014 figures (i.e. for the first six months of 2014) close to a third of Ukrainian exports go to the EU. So many companies *already* comply with EU standards, and these companies will therefore benefit immediately from the implementation of the Agreement.

The EU represents a market which is almost 100 times larger than the Ukrainian market: in other words Ukraine has much more to gain from this agreement than the EU.

Finally, while the Agreement will grant immediate access to the EU market, delays are foreseen for exports from the EU to Ukraine, precisely to allow Ukrainian companies to adapt progressively.

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"Have countries from the former soviet bloc that have developed closer economic links with the EU over the past decades benefited from this?" [continued]

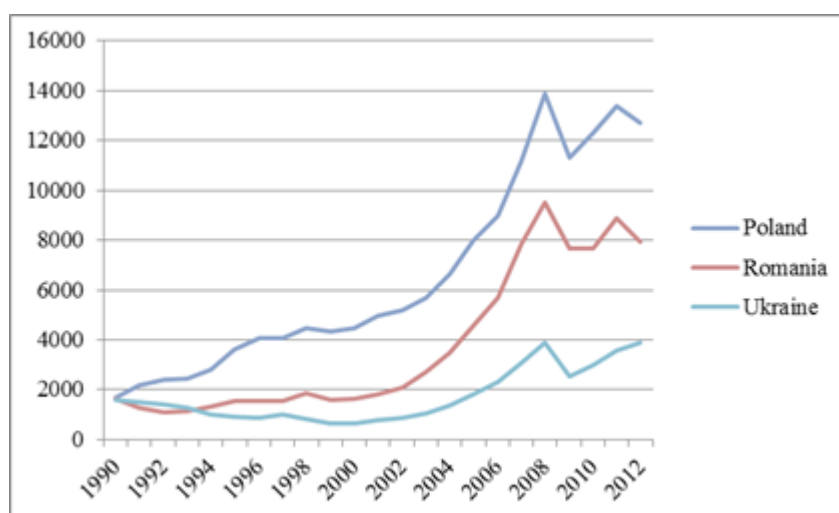
Countries of Central and Eastern Europe (including former countries of the USSR) which have joined the EU represent a relatively good benchmark for Ukraine, notably during the period when they had already signed FTAs with the EU, but were not yet candidates for EU membership. Poland for instance signed an FTA with the EU in 1992, applied in 1994 and joined ten years later, in 2004. The economic benefits which can be observed before they became candidates for EU membership are therefore not linked to the latter but to the closer trade and economic links which had been established. The dismantling of trade barriers and economic reforms undertaken by these countries were very similar to what is proposed in the AA/DCFTA for Ukraine today. In that sense, it makes sense to compare the respective evolution of these 10 countries and Ukraine (in fact the AA/DCFTA is more ambitious in its level of liberalisation and reform than the FTAs signed by the countries of Central and Eastern Europe in the 1990s, so the impact on Ukraine should be even greater).

They benefited very much from this process:

- **Higher GDP per capita:** in 1990, just before the COMECON collapsed, Polish GDP per capita was 8% higher than in Ukraine. 5 years later it was almost 4 times higher;
- **Higher exports:** in 1990, Ukrainian exports per capita were almost exactly identical to those of Poland and 50% above those of Romania. In 1995, they were two times smaller than those of Poland and identical to those of Romania;
- **Higher investment:** over 5 years (1990-1995), total investment in Ukraine fell by 42%, while it rose by 64% in Poland;

The most striking figure is probably the evolution of GDP. In 1990, among Eastern Europe / CIS members, two had GDP per capita very similar to Ukraine: Romania and Poland (only Moldova had a lower GDP per capita, and all others had higher or even much higher GDP per capita). Since then, the situation has evolved along very different scenarios, as Poland is now 3 times richer and Romania 2 times richer than Ukraine:

Graph.: nominal GDP, US dollars, 1990-2012 (Source World Bank)

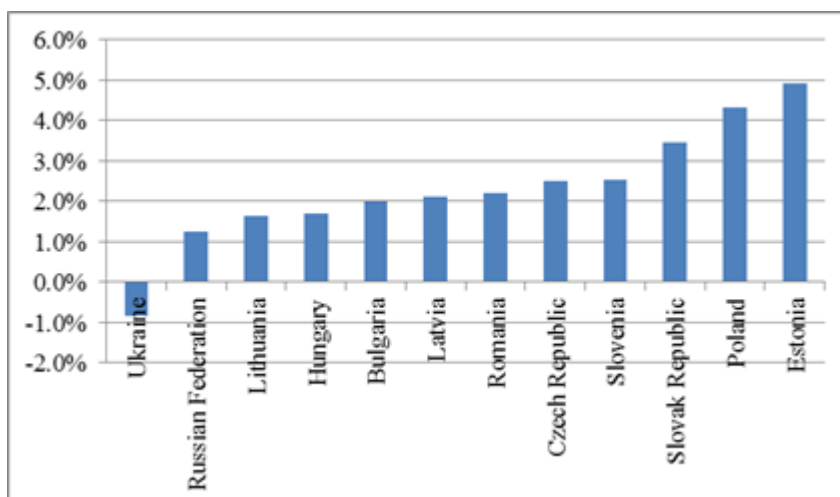


If we focus on the early 90s, the picture is not different (here rebased on Ukraine's GDP), also because Ukraine GDP sharply declined in these early years:

	1990	1991	1992	1993	1994	1995
Poland	108	147	170	194	278	385
Romania	105	84	78	92	131	167
Ukraine	100	100	100	100	100	100

This is also reflected in real GDP growth statistics, as among Ukraine and the EU10 countries, only Ukraine had a negative average real growth over the last two decades. EU10 countries benefited from dynamic or very dynamic GDP growth, from 1.6% (Lithuania) to 4.9% (Estonia) on average. It should also be noted that in spite of booming energy prices, the Russian Federation only registered a limited average growth of 1.2% over the period.

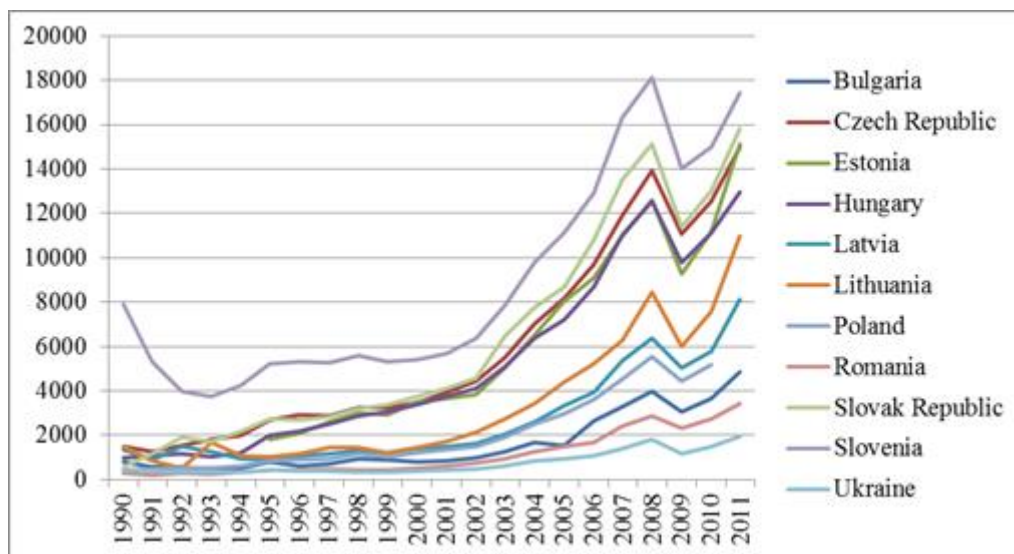
Graph.: real GDP growth, US dollars, 1990-2012 (Source World Bank)



Obviously, correlation does not mean causality: there is no undisputable evidence that this strong growth came directly from the trade agreements signed with the EU. However, the sharp rise in export in EU10 countries suggests that external trade was a key factor in this evolution, while on the contrary in Ukraine exports stalled in real terms:

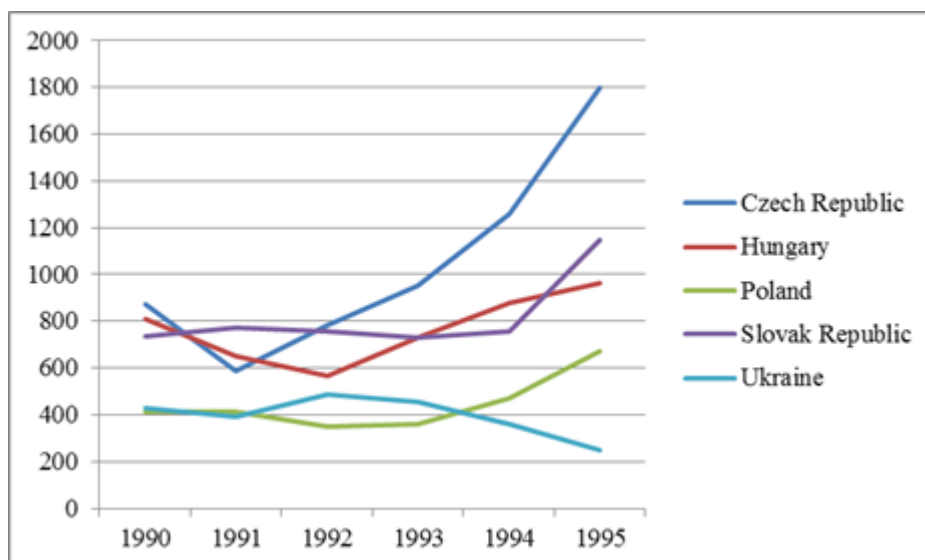


Graph: Exports per capita, US dollars, 1990-2011 (Source World Bank)



Finally, these sound growth rates undoubtedly stemmed from high investments, both from foreign and domestic origin. In this area, EU10 Member States benefited from much higher investments than Ukraine, probably boosted both by return rates prospects and also by a much better business climate:

Graph: Investment per capita, US dollars, 1990-1995 (Source World Bank):



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*"Does the signature of the Association Agreement represent a first step towards EU membership for Ukraine?" [continued]*

According to Article 49 of the Treaty on European Union, any European state which respects the principles on which the EU is based may apply for membership. Membership requires that the candidate country has institutions which guarantee democracy, the rule of law, human rights and respect for and protection of minorities, and has a functioning market economy as well as the capacity to cope with competitive pressure and market forces within the Union.

Whether or not to apply to join the EU is a decision for each individual country to make. Association is one step in the process, and allows each country to weigh up whether or not to take things further. We take note of recent opinion polls which show that a majority of Ukrainians supports future EU membership.

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