EU – Ukraine DCFTA impact on the Ukrainian economy and specific sectors
International Center for Policy Studies

- One of Ukraine's top independent think-tanks, operating since 1994
- 19 years of developing and applying algorithms for carrying out key reforms
- 2005: Named the most successful think-tank in Ukraine by Global Development Network
- 2008: Named one of 228 leading think-tanks in the world by the Foreign Policy Research Institute (out of 5,080)
- ICPS has successfully applied and instituted public consultation instruments in the public policy process in Ukraine.

Our credo: Making change possible
<table>
<thead>
<tr>
<th>Country</th>
<th>Signing</th>
<th>Coming into effect</th>
<th>Accession to the EU</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poland</td>
<td>1991</td>
<td>1994</td>
<td>2004</td>
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<tr>
<td>Romania</td>
<td>1993</td>
<td>1995</td>
<td>2007</td>
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<tr>
<td>Bulgaria</td>
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<tr>
<td>Czech Rep.</td>
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<td>Slovenia</td>
<td>1996</td>
<td>1999</td>
<td>2004</td>
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Economic complexity index, ECI

<table>
<thead>
<tr>
<th>Place (2008)</th>
<th>Country</th>
</tr>
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<tbody>
<tr>
<td>1</td>
<td>Japan</td>
</tr>
<tr>
<td>2</td>
<td>Germany</td>
</tr>
<tr>
<td>7</td>
<td>Singapore</td>
</tr>
<tr>
<td>8</td>
<td>Czech Rep.</td>
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<tr>
<td>10</td>
<td>Slovenia</td>
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<td>14</td>
<td>Hungary</td>
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<td>15</td>
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<tr>
<td>25</td>
<td>Poland</td>
</tr>
<tr>
<td>26</td>
<td>Croatia</td>
</tr>
<tr>
<td>27</td>
<td>Romania</td>
</tr>
<tr>
<td>32</td>
<td>Estonia</td>
</tr>
<tr>
<td>36</td>
<td>Lithuania</td>
</tr>
<tr>
<td>37</td>
<td>Serbia</td>
</tr>
<tr>
<td>39</td>
<td>Latvia</td>
</tr>
<tr>
<td>40</td>
<td>Bulgaria</td>
</tr>
<tr>
<td>42</td>
<td>Ukraine</td>
</tr>
</tbody>
</table>

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Signing Association Agreement & ECI

↑ ECI – long-term effect

↓ ECI – short-term effect (2-4 years)
Export structure, 2010

Ukraine

1. Semifinished products of iron or nonalloy steel: 11%
2. Sunflower seed or sunflower crude: 4.3%
3. Wheat and meslin: 2.0%
4. Iron ore and concentrates: 4.6%
5. Petroleum oils, refined: 4.2%
6. Railway freight cars, self-propelled: 3.5%
7. Hot rolled iron or non-alloy steel, cold: 5.8%

Low-tech products:
1. Metals
2. Agricultural products
3. Foodstuffs

Czech Republic

1. Autom data process machines: 6.5%
2. Monito and projecto: 2.4%
3. Insulat wire; optical: 1.6%
4. Appara dut: 1.4%
5. Telephones: 1.3%
6. Cars: 9.7%
7. Parts al accessories of the motor vehicles: 6.9%

High-tech products:
1. Machinery / electrics
2. Transportation
Czech Republic

Export + 3.6%
Czech Republic

Export + 4.7%
Czech Republic

Export + 25.8%


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Czech Republic

Export - 2.1 %

- 2004
- 2003
- 2002
- 2001
- 2000
- 1999
- 1998
- 1997
- 1996
- 1905

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Czech Republic

Export + 13.8%
Czech Republic

Export + 14.2%
Czech Republic

Export + 27.7%
Czech Republic

Export + 27.5%

2009
2008
2007
2006
2005
2004
2003
2002
2001
2000
1999
Czech Republic

8.6% Cars
5.3% Automatic data processing machines
1.9% Insulated wire; optical fibres
1.6% Monitors and projectors
1.5% Pumps and turbines
1.4% Apparatus for security protecting

7.2% Parts and accessories of the motor vehicles
74,731,623,190

2005

+ 18.1%
Czech Republic

Export + 20.8%

5.9% Automation data process machines
2.1% Monitors and projectors
2.0% Insulated wire; optical fiber
1.7% Parts and accessories
1.3% Apparatus for protecting the motor vehicles
9.3% Cars
6.9% Parts and accessories
Czech Republic

Export + 28.7 %

- 2012
- 2011
- 2010
- 2009
- 2008
- 2007
- 2006
- 2005
- 2004
- 2003
- 2002

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Czech Republic

Export + 17.9%

- 5.4% Automatic data processing machines
- 2.7% Monitor and projector reception
- 1.8% Insulated wire; optical
- 1.3% Apparatus for use with hoists
- 7.8% Cars
- 6.9% Parts and accessories of the motor vehicles

137,026,001,45


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Czech Republic

6.5% Automotive data processing machines
2.4% Monitors and projectors
1.6% Insulated wire; optical wire; electrical cable
1.4% Apparatus for measuring, controlling, regulating or protecting
1.3% Telephones
9.7% Cars

6.9% Parts and accessories of the motor vehicles

Export + 6.6%
Czech Republic

ECI: 1.43
Export (bln. $): 21.58

ECI (2008): 1.65 (↑ 15%)
Export (bln. $): 125.6
Poland

ECI: 0.8
Export (bln. $): 24,07

ECI (2008): 1.03 (↑ 28.7)
Export (bln. $): 150,1

1995

2010
Romania

ECI: 0.67
Export (bln. $): 8.73

1995

ECI (2008): 0.93 (↑ 38.8)
Export (bln. $): 49.14

2010

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Forecast: structural changes in exports

Technical regulation

Tariffs

Growth of ECI index

Growth of investment in high-tech industries
The effects of the EU – Ukraine Association Agreement in terms of the DCFTA

Trade barriers
(tariff and non-tariff)

Export  Import
## Trade barriers

### Export

| Goods          | • Ferrous metals  
|                | • Grain crops    
|                | • Electrical machines |

| The main impacts | • EU import customs and quotas  
|                  | • Export customs    
|                  | • Tariff barriers to trade    
|                  | • Sanitary and phytosanitary measures |

| Challenges      | • Difficulties in export due to non – compliance with European standards  
|                  | • Increase in commodity prices |

| Solutions       | • Providing the conditions for investors aimed at modernization of production  
|                  | • Application of an additional fee (stipulated in the Agreement) |
# Trade barriers

## Import

| Goods                        | • Household appliances and agricultural machinery  
|                             | • Cars  
|                             | • Pharmaceutical products |
| The main impacts            | • Import duties in Ukraine  
|                             | • Elimination of EU's export subsidies |
| Challenges                  | Increasing competition on the internal market |
| Solutions                   | The transition period during which the rate is reduced in accordance with increasing competitiveness of Ukrainian enterprises |
The effects of the EU – Ukraine Association Agreement in terms of the DCFTA

Adjustment of Ukrainian legislation to legislation of EU on the internal market

- Tax legislation
- Environmental legislation
## Adjustment of Ukrainian legislation to legislation of EU on the internal market

### Approximation of tax legislation

| Goods               | Tobacco and tobacco products  
<table>
<thead>
<tr>
<th></th>
<th>Alcohol and alcoholic beverages</th>
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</thead>
</table>
| The main impacts    | VAT                              
|                     | Increasing excise                |
| Challenges          | Contraband and counterfeit       |
| Solutions           | The simultaneous increase in excise duties in all neighboring countries  
|                     | The transition period during which an increase in excise duty is fulfilled in accordance with an increase in income |

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Adjustment of Ukrainian legislation to legislation of EU on the internal market

Approximation of **environmental** legislation

| Goods                        | • Chemical products  
|                             | • Oil products  
|                             | • Electricity, gas and water output |
| The main impacts            | • Limitation of harmful emission  
|                             | • Obligatory ecological payment |
| Challenges                  | • Necessity of huge capital expenditures for equipment renewal |
| Solutions                   | • Ignore  
|                             | • Technical and financial support of EU funds |
Conclusions

- Experience of other countries in signing the Association Agreements with the EU is positive.
- Improving the structure of production and exports, as well as increasing the share of technology products, may lead to the growth of Ukrainian ECI on 0.25 points.
- Increased investment, exports, GDP.
- Unequal impact of the Association Agreement on industries – some sectors may be significantly affected, especially during the first few years.
- In order to reduce the negative impact on certain sectors should be taken practical measures:
  - increase of transition period
  - gradual increase / decrease in quantitative and qualitative restrictions
Thank you

International Center for Policy Studies, Ukraine