

DCFTA (Deep and Comprehensive Free Trade Agreement) in EU and Ukraine Relations

Khazar Shirmammadov*

Department of Political Science, The University of Birmingham, Edgbaston, Birmingham, B15 2TT, UK

Abstract

European Union, firstly, attempted to initialize relations with its close neighboring countries which had newly become independent from Soviet Union and yet could not get rid of the Soviet influence inherited by Russian Federation. Among these independence republics, however, Ukraine was the more attractive country. EU commenced its relations with Ukraine and the rest of new republics under the partnership and cooperation agreement, 1994. However, it was not enough for the closer ties between EU and Ukraine. Thereby, EU triggered its DCFTA (Deep and Comprehensive Free Trade Agreement) in relations with Ukraine. DCFTA was the core objective of negotiations between EU and Ukraine despite that both sides had conditionality in ratifying this trade agreement in terms of human rights, series of issue in modernizing and adjusting economy and trade in Ukraine in accordance with European standard etc. However, all hopes and desires were dashed after Victor Yanukovich's rejection and it caused thousands of people to protest in Maiden movement, then in its aftermath, leading to the eruption of Civil War and Russian annexation of Crimea. As a result September 2014 the EU postponed implementing the DCFTA until January 2016.

Keywords: EU (European Union); Ukraine; Economic relations; DCFTA; Russia Crimean crisis

Background

Breaking up the Soviet Union and splitting it off into fifteen different independence republics has led to a new political situation in Eurasia; causing the West to re-establish its foreign policy outline due to this new circumstance. European Union, firstly, attempted to initialize relations with its close neighboring countries which had newly become independent and yet could not get rid of the Soviet influence inherited by Russian Federation. Among these independence republics, however, Ukraine was the more attractive country and thus became the desire of Russia and EU due its "geopolitical pivot" and "with its 52 million people and major resources" on the frontier of Europe and Asia [1]. Whereas after collapsing the Soviets, EU and Russia targeted Ukraine in regards to their enlargement policy. For western scholars, the transformation of Soviet-based Ukraine can be achieved by utilizing soft power such as cooperation in terms of economy, tourism, transportation, trade and etc. While Russia intended to exercise hard power, unless Ukraine's preference was finalized to be EU as a result this desperate situation concluded with the vacillating Ukraine until 2014. EU commenced its relations with Ukraine and the rest of new republics under the partnership and cooperation agreement, 1994. However, it was not enough for the closer ties between EU and Ukraine. In 2004, Orange Revolution 'brought about the democratization that the European Union demanded for closer cooperation with Ukraine' and paved the way to Ukraine's liberal authority to step towards the West [2]. In its aftermath, Ukraine's desire to join WTO (World Trade Organization) was realized in 2008 and thus tightened its ties with EU. In May 2009, the European Union launched an Eastern Partnership with the six ENP countries became a milestone in the relation with Russia and caused new polarization between them. EU invited members of EEP (European Eastern Partnership) countries to negotiations to discuss terms of "the Association Agreement (AA), (b) Agreement on a Deep and Comprehensive Free Trade Area (DCFTA), and (c) Visa Facilitation and Readmission agreements" [3]. Although all countries except Belarus were involved negotiations, Ukraine was more eager and therefore ended up progressing more than others. Especially, DCFTA was the core objective of negotiations between EU and Ukraine despite that both sides had conditionality in ratifying this trade agreement in

terms of human rights, series of issue in modernizing and adjusting economy and trade in Ukraine in accordance with European standard etc. Final negotiations was held in 2012 and 2013 and both sides came consensus about accepting DCFTA draft in Vilnius Summit in 2013 November. However, all hopes and desires were dashed after Victor Yanukovich's rejection and it caused thousands of people to protest in Maiden movement, then in its aftermath, leading to the eruption of Civil War and Russian annexation of Crimea. This eventually turned into a critical juncture in EU and Russia relations and "September 2014 the EU postponed implementing the DCFTA until January 2016" (European Commission, 2015). In reality after considering the Russian's brutality in Crimean crisis, with military intervention to Ukraine, it is surely assumed that cooperation with EU and signing DCFTA is a sole path out for Ukraine future advancement and security.

EU Offer: Integration With DCFTA

"The European project has not been completed as yet. It has not been completed because there is no full-fledged participation of Ukraine. We envy Poland, but we believe that Ukraine will be in the European Union"[4] Known as "Orange princess", "gas princess", "goddess of the Revolution" Yulia Tymoshenko during her period as Prime Minister of Ukraine in 2005 and from 2007-2010 launched the west-oriented tendency in Ukraine [5]. This policy gave the place for the West approaching to Ukraine closely and ignited ambitions for integration of Ukraine. Therefore, from Tymoshenko, EU ardently attempted to look for the instruments of reconciliation with Ukraine and began to introduce volumes of documents on the matter. As noted earlier, the most efficacious step on this way was the European

*Corresponding author: Khazar Shirmammadov, Department of Political Science, The University of Birmingham, Edgbaston, Birmingham, B15 2TT, UK, Tel: +44 (0)121 414 7745; E-mail: khazarshirmammadov@gmail.com

Received July 02, 2015; Accepted July 25, 2015; Published August 05, 2015

Citation: Shirmammadov K (2015) DCFTA (Deep and Comprehensive Free Trade Agreement) in EU and Ukraine Relations. J Pol Sci Pub Aff 3: 170. doi:10.4172/2332-0761.1000170

Copyright: © 2015 Shirmammadov K. This is an open-access article distributed under the terms of the Creative Commons Attribution License, which permits unrestricted use, distribution, and reproduction in any medium, provided the original author and source are credited.

Eastern Partnership programs suggested by EU for its neighborhood countries, especially for Ukraine with prior agreements in 2004 that EU established with the European Neighborhood Policy. After her first government Y, Tymoshenko welcomed EU wide association programs which intended signing Association Agreement in near future. DCFTA is the core of Association agreement with Ukraine, which then involved Armenia, Georgia and Moldova. DCFTA literally implies deep and comprehensive free trade between Ukraine and EU and as a part of association agreement it “consists of 15 chapters, 14 annexes and 3 protocols – altogether more than 900 pages” [6]. As noted above, although Moldova, Georgia and Armenia were involved in negotiations over AA/DCFTA, as the European Commissioner for Enlargement and neighborhood policy Stefan Fule noted, “the EU–Ukraine Association Agreement and DCFTA are the most ambitious and complex agreements the European Union has ever negotiated with a third country” [7]. Initial trade negotiations began in 2008 with Ukraine and eventually became a member in WTO. In December 2011, negotiations were concluded around ratifying DCFTA however, for two years EU stalled ratifying agreement because of series of concern, “firstly...about the state of democracy in Ukraine with a number of key opposition leaders”, particularly, former Prime Minister Tymoshenko’s imprisonment [8]. Simultaneously, there was a potential rival, including Russia, Kazakhstan, Belarus, Custom Union and their tempting suggestion for Ukraine’s membership. Apart from these standard regulation economic and judicial setbacks was the most crucial issue about Ukraine. “According to the State Committee for technical regulation and consumers protection, as of the end of 2010, there have been only about 25% of national standards harmonized with the EU and international standard” [9]. Due to these mismatch standard, most of commodity refrained from being exported to EU countries. Also, the Ukraine government was worried about a few issues about trade regulation. Firstly, Ukraine concerns involved its infant industry, particularly, automobile industry and agriculture. Given that reason, government expressed its unwillingness to eliminate duty tariffs on such highly-sensitive products. Despite these complexities that impeded signing and ratification of agreement, generally, multiple perspectives can be derived to conclude this agreement was the most favourable occasion for futures development of Ukraine. This was widely reported and analysed issue by Ukraine and EU economists even before 2008 who then prognosticated further development with series of valid reasons. More importantly, DCFTA program “has one distinctive feature as namely strong regulatory and institutional character” which has targeted regulations “in competition policy, state aid, public procurement, sanitary and phyto-sanitary measures, technical regulation, protection of intellectual property rights, sustainable development (ecological issues, labour and social issues) etc.” [9]. These implementation was intended to adjust trade institutions and comply with EU countries for future competition. Due to estimation of most economists such as Movchan and Giucci, DCFTA in a long term is more profitable than Custom Union, accounting that “the DCFTA would add 11.8 percent to Ukraine’s GDP, while the custom Union would reduce it by 3.7 per cent” [10]. Moreover, considering a wide trade zone of EU and few countries in CU “Shepotylo has estimated that the expected long run gain in Ukrainian exports to all countries under the CU scenario are equal 17.9 percent,... and under the EU scenario 46.1 percent” [2]. For Ukraine government one of the more sensitive issues was the import tariff for its products. Thus, it is also interesting to note the difference between 3 scenarios estimated by Economist which reflects the trade barrier-import duties and how it will be shift in accordance with Ukraine future options-integration with EU or CU.

Due to the estimation that reflected in the table, it can be firmly proved that CU import duties tariff with major double digits are immeasurable with WTO’s and EU’s. However, EU import duties contains smoother one. When Ukraine imposed WTO regulation in 2008 it is accounted 2 or 3 times lesser than Custom Union would suggest. Another noticeable fact is that CU import regulation are implemented in the products that these constitute the most profitable and top export product of Ukraine which can be stimulated its economy. To exemplify that import duties for Metallurgy and metal processing, Machinery and equipment, Food-processing which are backbone of economy constitute 10.1%, 10.0% and 21.6% respectively. However, EU import duties is in its lowest percentages for the same products such as 0, 3%; 0, 7% and 1, 3% accordingly. Despite these advanced achievement in relations in terms of trade with EU after 2010 election, the new government leader Victor Yanukovich put this progress under question. Although he made effort to incline to EU but his uncertainty was disclosed by rejecting to sign the AA/DCFTA in Vilnius. Multiple factors at play led to the intangibility in Vilnius negotiations in November 2013. First and foremost, Russia was involved with blackmails by Prime Minister Dmitry Medvedev as well as President V. Putin and their alleged commitment to Ukraine was the main reason of this failure. Internally, it should be noted that EU integration is not accepted positively by major population in Ukraine and it is ‘allegedly supported by just 40% of Ukrainians’ [6]. Such internal diversity in Ukraine entailed splitting of populations among pro-Russians and pro-westerns which Yanukovich’s Vilnius chose set off civil war between them. Some high ranking officials see EU as an aggressor because of its tight regulation on Ukraine. Supporting that “the current president of Estonia, Tomas Ilves, formerly chief negotiator with the EU and later Member of the European Parliament, has repeatedly said that his country would never have accepted all the incredible heavy burdens of the EU legislation if this had not been part of the membership package [11]. In another instance, official polish foreign minister claimed that EU is one of the aggressors due to the current condition in Ukraine and added “when the negotiations over an association agreement between Ukraine and EU were completed in December 2010, the lawyers and translators in Brussels took an entire year to work out the text. If both sides had signed faster at the time, Ukraine would be more closely connected with Europe for a long time now” [12].

Russia’s Struggle Against DCFTA

It is undeniably so that Ukraine has had been an iconic country in terms of cultural, historical, economy and even has politically close ties with Russia in its frontier. Their long-term unity lasted for a century under Soviet Union or before, thus the Russians always felt Ukraine was an integral part of their country. Although in 1991 after Soviet Ukraine declared its independence, Russia was not able to acknowledge its independence, continuing to feel soviet nostalgia till now and remains to see it as an ally’s fortress in Europe. Nevertheless, Ukraine’s every step toward Europe, including a member in WTO in 2008 and negotiating to ratify DCFTA/AA was enraging and alarming Russia. Retaliating this cooperation three post-soviet countries Kazakhstan, Belarus by heading Russia launched Custom Union in January 2010. Intending common duty scheme between RBK (Russia, Belarus, and Kazakhstan), CU covered ‘trade in goods, leaving aside trade in services and the free movement of capital and persons’ [8]. CU bases on trading on mostly raw materials and compared to EU does not require high standard such as liberalisation of trade regulations and institutions. Ukraine integration to CU would be smoother than to the EU DCFTA because ‘standards have been a lesser problem in trade with the

RBKCU countries than with the EU due to initially common standards datasets inherited from the Soviet Union' [9]. In 2015, Union countries terminated the name to Eurasian Economic Union. In January 2015 by joining Armenia and Kyrgyzstan ECU enlarged more. Establishing CU (Custom Union), indeed, Russia had aimed to include Ukraine to Union and hampering its inclination to the West. For achieving that, along the negotiations Russia introduced the "stick and carrot". Therefore, they would either attempt to seduce Ukrainian authority by bidding a few allowances or threatened it in different ways. Russia's initial trump card for attracting Ukraine has always been cheaper gas prices. In 2006-2009 years, Russia-Ukraine gas crisis proves its superior power on Ukraine as well as the Eastern Europe. Thus, after this shock, Eastern European countries including Ukraine aimed to reduce this dependence over the next decade. 'Putin's adviser, Sergey Glazyev, has started that Ukraine would gain 9\$ billion a year" which is due calculation unfeasible, 'and allowed to buy Russian oil and gas at the same prizes as Belarus does' [2]. Pledging these preferences, Russia was trying to conceive Ukraine authority that CU will be a solely fruitful option for country's future economy. In contrast, authority in Ukraine grasp that this Union would barely to keep Ukraine from bankruptcy and also being member in CU implies the losing sovereignty and falling into Russian control again. Bolstering that argument it can be noticed from non-equality among Customs Union members 'whose voting power is dividing 57%, 21.5% and 21.5% among Russia, Belarus and Kazakhstan, respectively'[8]. Meanwhile, this cooperation with CU could be deprived of acceding EU market which contains huge proportion in its export and import trade. While Russian officials noticed to exert in vain it began to cautious forcibly a few times Ukraine authority. On 22 August 2013, Putin warned that if Ukraine concluded the Association Agreement with the European Union, "the Customs Union countries must think about safeguards" [2]. By warning that in advance, Russian president indicated his intention to trigger trade sanctions against Ukraine come August. The next threat came from Prime Minister Medvedev who 'required prompt debt repayment' that Ukraine borrowed and ironically 'required a pre-payment for additional gas deliveries while suggesting that, if necessary, Ukraine should ask the EU for financial assistance instead'[6]. This economic leverage gradually escalated and turned into military intervention ever since.

Conclusion

Despite its postponing temporarily and impeding by Russian military intervention, DCFTA as an integral part of AA is potentially most suitable model for the ratified development of Ukraine. By annexing Crimea making the turmoil Russia deemed it could menace oligarchs and deviate them to EU orientation but that was failed. Conversely, new authority, coming to power rather quickened the process of integration. As discussed earlier in the essay, the wide scope of DCFTA mission guaranties its success in a long-term. In 10-15 years it targeted well-functioned legislation for trade system, compiling EU standards. However, on the contrast CU contained weak economic will and unproductive benefits such as "cheap energy "which is uncertain for its sustainability.

The obvious means to make CU case for the failure and success DCFTA is the described table that shows CU's irrelevant duty tariff policy for import commodities of which have vital for improvement of economy; in general RBKCU had the highest import tariffs in comparison with WTO and DCFTA tariffs. Providing transparency for free competition among the members is another exotic circumstance for CU. Now with its new name Eurasian Economic Union and five members, including Armenia and Kyrgyzstan is avoid from equilibrium

	Ukraine import duties after WTO accession	CU-RBK import duties	EU import duties for
Agriculture, hunting	5.5	9.7	6.1
Forestry	0.6	12.8	0.2
Fishing	1.6	9.2	6
Mining of coal and peat	0	5	0
Production of hydrocarbons	0	0	0
Production of non-energy materials	2.7	3.5	0
Food-processing	10.7	21.6	0.3
Textile and leather	8.8	22.1	14.3
Wood, furniture, paper, publishing	0.4	11.4	6.6
Production of coke	1	4.9	0.3
Petroleum refineries	0	4.9	0.1
Chemicals, rubber and plastic	5.5	9.1	0.7
Non-metallic mineral products	7	11.2	1
Metallurgy and metal processing	0.7	10.1	0.7
Machinery and equipment	2.5	10	1.2
Other products	4.8	20.4	22.1
Electricity	2	0	0

Table 1: Ukraine Customs Tariff, RAKURS (2011), Market Access Map, authors' estimate

and Russia's hegemony can be clearly seen. If Ukraine would join the Eurasian Economic Union, the same result will be expected for it as well. Even, before when the Moscow schemed about merging Ukraine it was intended "5 percent and 95 percent ownership respectively-is an indicator of what Ukraine's industry can expect to suffer in any wider package"[5]. One striking contrast between two missions (DCFTA and EEU) is that although DCFTA is entirely devoted to multiple improvements in all trade-related fields and intends to enhance service sectors, while CU has not covered the development these alternative scopes. In political term, most scholars claim that DCFTA has more political weight rather than pure economic development like Eurasian Economic Union and target Russian enlargement. Response to that during the negotiations over AA/DCFTA it was mentioned that after Ukraine satisfaction for its sovereignty, these can be implemented by cooperating with Russia rather than targeting them. As Stefan Füle, European Commissioner, in October in Kyiv pointed out that AA/DCFTA should not be seen as a threat but as opportunity, a contribution to creating an area of free trade between Lisbon and Vladivostok [6]. Current scenario illustrates that Russia's intervention can freeze the DCFTA but cannot hinder the EU Ukraine reconciliation. Since 2014 March after Crimea annexation 'the EU unilaterally granted Ukraine preferential access to the EU market until 31 December 2015 and this new agreement delays implementation until December 31, 2015' [13]. In conclusion, politically speaking, taking Russia's mass distraction in Ukraine and invasion of Crimea into consideration, and economically considering CU's dependent on sharply falling oil prices in world market from 2014 it is safe to conclude that DCFTA and series of EU mission can escape Ukraine from the crisis [14,15] (Table 1).

References

1. Brzezinski Z (1997) The grand chessboard: American primacy and its geostrategic imperatives. New York, NY: Basic Books.
2. Anders A (2013) Ukraine's Choice: European Association Agreement or Eurasian Union? Policy Briefs, No.PB13-22.
3. Movchan V, Shportyuk V (2012) EU-Ukraine DCFTA: the Model for Eastern Partnership Regional Trade Cooperation, CASE Network Studies and Analyses 1: 3-23.

-
4. Tymoshenko Y (2009) European project not finished because Ukraine is not there UNIAN information agency.
 5. Westcott K (2007) The queen of Ukraine's image machine BBC News.
 6. Havlik P (2014) Vilnius eastern partnership summit: milestone in EU-Russia relations – not just for Ukraine, Danube 5: 21-51.
 7. Sherr J (2013) Ukraine and Europe: Final Decision? Chatham House.
 8. Shumylo-Tapiola O (2012) Ukraine at the Crossroads: Between the EU DCFTA & Customs Union Russia/NIS Center Reports No.11.
 9. Movchan V, Giucci R (2011) Quantitative Assessment of Ukraine's Regional Integration Options: DCFTA with European Union vs. Customs Union with Russia, Belarus and Kazakhstan, German Advisory Group Institute for Economic Research and Policy Consulting.
 10. Dabrowski M, Taran S (2012) Is Free Trade with the EU Good for Ukraine? CASE Network E – Briefs: 1-4.
 11. Emerson M (2014) After the Vilnius fiasco: Who is to blame? What is to be done? EU Foreign Policy, CEPS Essays No. 8.
 12. Spiegel Online International (2014) Polish Foreign Minister Sikorski: Moscow Needs Our Money.
 13. European Commission (2015) Ukraine.
 14. European Commission (2013) EU-Ukraine Deep and Comprehensive Free Trade Area.
 15. Kudelia S (2013) When external leverage fails: The case of Yulia Tymoshenko's trial, Problems of Post-Communism 60: 29-42.