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UKRAINE'S EUROPEAN INTEGRATION: INTERNAL FACTORS AND EXTERNAL INFLUENCES

Today, making an ultimate choice over its integration path is a sensitive and highly pressing issue for Ukraine. In November 2013, the 3rd summit of the Eastern Partnership in Vilnius is to see the signing of the Association Agreement, which aims for political association and economic integration, including a deep and comprehensive free trade area.

This is a qualitatively new level of cooperation between Kyiv and Brussels based on strategic perspective. In fact, the Agreement will mark the start of implementing the far-reaching reforms in different sectors of domestic life in Ukraine designed to draw the country closer to meeting the standards of a state-candidate for accession to the EU. Apparently, the success of the Agreement remains conditional on joint efforts on behalf of the authorities, opposition, civil institutions, and Ukrainian society in general.

One should keep in mind that the signing of the Agreement will give a start to the long process of its ratification by national parliaments of the EU countries. However, there exists a real opportunity to ensure practical implementation of some items of the document in the near future, which will give an impetus to strengthening contacts between Kyiv and Brussels and promote internal transformations in Ukraine.

If the document is not signed or implemented too slowly and inconsistently, as was the case with prior arrangements with the EU, Ukraine will lose its historic opportunity.

Meanwhile, the Customs Union countries (first of all, Russia) step up efforts to have Ukraine join that alliance, and later – the Eurasian Economic Union. That said, the Customs Union leaders see the Memorandum of Deeper Integration between Ukraine and the Eurasian Economic Commission signed on 31 May 2013, as the first step on the road to Ukraine's Eurasian integration.

The two processes – preparations for signing of the Association Agreement with the EU on the one hand, and new attempts of Russia to involve Ukraine in the Eurasian integration on the other – happen to coincide in time. At that, representatives of both the EU and the Customs Union speak of a need for a clear choice – Ukraine has to either sign the Agreement of Association with the EU, or join the Customs Union.

Integration projects of Brussels and Moscow in the post-Soviet space differ in nature, substance and goals. Russia, while trying to create a regional structure counterbalancing the EU on the European continent, uses “energy incentives” to seduce Ukraine. At that, no attention has been paid to ensuring democratic nature of the country's development.

For Brussels, proper democracy, civil society, rule of law, independent judicial system and respect for human rights and freedoms have always played a decisive role in bringing Ukraine closer to European integration.

Choosing between two integration lines means choosing between different basic and fundamental values, between two different models of Ukraine's further development. Ukraine either joins the EU uniting European countries on the basis of European norms, rules and standards, or becomes a member of a union of post-Soviet states with transitional economies and numerous problems with democracy.

Ukraine's European choice is strongly influenced by a number of internal and external factors. The internal factors hindering Ukraine's movement towards the EU include the practice of selective justice, weak electoral legislation, lack of real anti-corruption efforts, and slow pace of reforms envisaged by the Association Agenda. Solving these problems has been prioritised by the EU. The same was indicated in the conclusions of the EU Council of Ministers (10 December 2012) and the so-called “Füle list”, released later.

The external factors include strong geopolitical influence exerted on Ukraine by both the EU and Russia. Today, this influence is growing with Moscow and Brussels showing strong willingness to see Ukraine join their integration projects.

The analysis of the situation cited in this report shows that the European way of development best of all goes in line with national interests of Ukraine. It is also evident that Ukraine's European choice should not be an alternative to the development of mutually advantageous, equal and transparent relations in different sectors with countries of the Customs Union, first of all – Russia.

The Analytical Report consists of six sections. They review the situation in the political, legal, economic, energy, security and foreign policy sectors in the light of preparations for signing of the Association Agreement with the EU. The sixth section provides brief conclusions and proposals for specific measures and actions that should be taken by Ukraine in order to step up its political association and economic integration with the EU.

List of abbreviations

GRECO – Group of States against Corruption; **OECD** – Organisation for Economic Cooperation and Development; **ODIHR** – OSCE Office for Democratic Institutions and Human Rights;

Administration of SBS of Ukraine – Administration of the State Border Service of Ukraine; **Venice Commission** – European Commission for Democracy through Law; **VR** – Verkhovna Rada; **NAUCS** – National Agency of Ukraine on Civil Service; **ECHR** – European Court on Human Rights; **Law** – Law of Ukraine; **CMU** – Cabinet of Ministers of Ukraine; **MFA** – Ministry of Foreign Affairs of Ukraine; **MFA** – Ministry of Foreign Affairs; **MEDT** – Ministry of Economical Development and Trade of Ukraine; **MIU** – Ministry of Infrastructure of Ukraine; **MSP** – Ministry of Social Policy of Ukraine; **MFU** – Ministry of Finance of Ukraine; **MJU** – Ministry of Justice of Ukraine; **NBU** – National Bank of Ukraine; **OSCE** – Organisation for Security and Cooperation in Europe; **PACE** – Parliamentary Assembly of the Council of Europe; **SBU** – Security Service of Ukraine; **CEC** – Central Election Commission.

1. EU AND UKRAINE BEFORE SIGNING OF THE ASSOCIATION AGREEMENT: SOME POLICY ASPECTS

Political relations between Kyiv and Brussels are now determined by both parties' preparation for signing of the Association Agreement between Ukraine and the EU in November 2013 – a decisive step on Ukraine's road to integration with the European community.¹

The Agreement may trigger deep and long-needed reforms in Ukraine, aiming to introduce European democratic norms and standards in all sectors of public life, improve the current political practices, the nature and ways of state governance and set the country on the way towards building a state governed by democracy and the rule of law, as envisaged by the Constitution of Ukraine.

Meanwhile, the preparatory stage before signing the Association Agreement has been undermined by several internal and external processes that may hinder its successful accomplishment. Noteworthy, in this context influence of the EU, since the process of European integration in substance represents not just a mere interaction between Ukraine and the EU on the international arena but, first of all, a process of achieving goals set by the national legislation, which is Ukraine's integration to the European political, economic, legal space and its further accession to the EU. In this respect, Ukraine's commitments to the EU represent an internal rather than an external factor for the country.

This section reviews some political aspects of Ukraine's relations with the EU in the light of its preparations for signing of the Association Agreement, and briefly outlines some external influences on Ukraine's integration policy.

1.1. Prospects for signing the Association Agreement: EU requirements and their fulfilment by Ukraine

Ukraine has made some practical steps that draw it closer to the EU. In 2010, the goal of integrating with the EU was set by the Law "On Foundations of Domestic and Foreign Policy". In 2011, Ukraine acceded to the Treaty Establishing the Energy Community; **the Parliament also adopted a number of laws on information, justice, against corruption, including a new Criminal Procedure Code.** A number of new cooperation programmes were adopted jointly with the EU (budget support, border management, administrative reform, reform of the system of justice, etc.).

Implementation of previously agreed plans is underway – the EU-Ukraine Association Agenda, the State Programme on Adaptation of Ukrainian Legislation to the EU Legislation, and National Plan on Implementation of the EU-Ukraine Action Plan on visa liberalisation (Table "Results of public monitoring of Ukraine's fulfilment of the Visa Liberalisation Action Plan..." in the annex to this Section). Implementation of the latter document is of great importance for the Ukrainian society: the results of a public opinion poll conducted by the Razumkov Centre reveal a direct correlation between personal experience of visiting the EU countries and the support for European vector of Ukraine's integration.²

Meanwhile, when it comes to implementation of joint documents and agreements, there is a certain kind of sluggishness and irresponsibility exhibited by the Ukrainian side. That is why the EU Council conclusions of 10 December 2012 stated that the signing of the Association Agreement remains conditional on Ukraine's progress in the three areas: a) reforming the electoral system; b) addressing the issue of selective justice; c) implementing reforms defined in the jointly agreed Association Agenda. In February 2013, those requirements were elaborated by the European Commissioner for Enlargement and European Neighbourhood Policy Štefan Füle in the form of a "non-paper" – a document that was not imposed on Ukraine by the EU institutions but actually **presented a package of requirements agreed by both parties** (Insert "EU Benchmarks ...").

EU BENCHMARKS FOR SIGNING THE ASSOCIATION AGREEMENT WITH UKRAINE

- Electoral legislation and practice, balanced media access
- Selective justice, implementation of judgements of the European Court of Human Rights, detention conditions
- Criminal Procedure Code, prevention of tortures, self-governance of the Bar
- Judicial and prosecution reform
- Reform of the Police
- Constitutional reform
- Preparation for a free trade area with the EU
- Fight against corruption
- Public finance management reform
- Broadening the remit of the Accounting Chamber
- Improving business and investment climate

¹ The Agreement was initialled on March 30, 2012, in Brussels by the heads of the Ukrainian and EU delegations at negotiations.

² For more detail see the materials: "How citizens see Ukraine's integration in the EU or the Customs Union: focus group results" and "The Customs Union or Europe: the public opinion", published in this journal.

Assessing the prospects for fulfilling these requirements and, respectively, for signing the Association Agreement, one should keep the following in mind:

a) Generally, it is not about new requirements but about Ukraine meeting its previously made commitments;

b) It is unrealistic to expect the fulfilment of all the requirements within a few months and transform Ukraine into a country with a developed democracy, perfect judicial system and low level of corruption. The EU, therefore, expects a *substantial progress* from Ukraine i.e., by taking concrete steps aimed at resolving the issues mentioned in the Conclusions;

c) Fulfilling the EU requirements will require not only the adoption of some legislative acts, but also changing the way of governance;

d) Signing of the Association Agreement is of strategic importance for both parties – it is an important safeguard against the attempts to involve Ukraine in the Customs Union.

Fulfilling the EU's requirements. Ukrainian officials and public monitoring present different views of the progress Ukraine has made in meeting the benchmarks set by the EU.

For instance, Ukraine's Ambassador to the EU Kostyantyn Yeliseyev, in May 2013, said that Ukraine has reached different level of progress on "8 out of 11 benchmarks set jointly with the EU. On some issues, we managed to achieve substantial progress, on others – the progress is limited, but the main thing for me is that this process goes on".³ Attending a meeting of the EU-Ukraine Cooperation Council (Luxembourg, 24 June 2013), Prime Minister Mykola Azarov said that: "A lot remains to be done, but we are sure that we will accomplish what we have started".⁴

Meanwhile, according to the public monitoring results, none of 11 sectors has seen *substantial progress*, but instead:

- **some progress** is observed in four sectors: selective justice; Criminal Procedure Code; fight against corruption; broadening the remit of the Accounting Chamber;
- **minimal progress on five areas:** judicial and prosecution reforms; constitutional reform; preparation for a free trade area with the EU; reform of public finance management; improving business and investment climate;
- **no progress:** electoral legislation; reform of the police.⁵

With the Vilnius summit approaching, Ukraine has stepped up its European integration efforts. In particular, in February 2013, it has approved the Plan on Priority Measures for European integration of Ukraine for 2013.⁶ In March, the President issued a Decree that put into effect the Decision of the National Security and Defence Council as of 12 March 2013 "On Urgent Measures for the European Integration of Ukraine".⁷ In June, at the CEE Summit, he has once again reiterated his commitment to integration with the EU, saying that: "Ukraine's fully-fledged membership in the EU will provide an untapped potential for economic growth in Europe, strengthening of its stability and security... The united Europe is Ukraine's civilisational and historic choice".⁸

Meanwhile, the EU has been increasingly concerned about Ukraine's readiness and ability to resolve all the most pressing problems (alongside issues regarding the electoral legislation, the prosecution reform and other issues, covered in the following sections).

1. Selective justice used for persecution of the opposition leaders. Over the years the relationship between Kyiv and Brussels has never witnessed a conflict as sharp as the one linked with the Yulia Tymoshenko case in 2011. In a series of statements the EU leaders, leaders of the EU countries and the European Parliament officials exhibited an extremely negative stance on the actions of the Ukrainian authorities. The release of the former Interior Minister Yuriy Lutsenko and a former member of Tymoshenko's government Heorhiy Filipchuk (by a Presidential Decree of April 7, 2013) was met with caution – only as a palliative step that does not solve the problem of selective justice.

2. Growth of authoritarian trends in the country, curtailment of democratic processes. According to international rankings, since 2010-2011, democracy, liberty and press freedom indexes have gone down, while the Corruption Perception Index has gone up (Insert "Ukraine in international ratings").⁹

Ukraine in international ratings

3. Lack of practical steps aimed at combating corruption. Here, a particular focus was on the National Anti-Corruption Committee (NAC), whose membership changed several times, and activity has not become public. GRECO in its Third Addendum to the Compliance Report on Ukraine (March 18-22, 2013) expressed "doubts [...] about the adequate level of independence of the Committee. Its institutional position under the President of Ukraine, who chairs its meetings and approves the nomination of all its members". Results of NAC activity, in absence of relevant official documents,

³ Ukraine achieved progress in 8 out of 11 criteria necessary for signing the Agreement of Association with the EU – Yeliseyev. – *UNIAN*, May 13, 2013, <http://www.unian.net> (in Ukrainian).

⁴ Ukraine will meet all assumed obligations for signing the Agreement of Association with the EU in November – Azarov. – *UNIAN*, June 24, 2013 (in Ukrainian).

⁵ The monitoring was performed by a consortium of independent experts within the framework of the International Renaissance Foundation project. See: Fulfilling conditions for signing the Ukraine-EU Association Agreement: executive summary. – Renaissance Foundation web site – http://www.irf.ua/index.php?option=com_content&view=article&id=40220:fulfillingconditions&catid=82:news-euro-en&Itemid=57.

⁶ CMU Directive No.73p of February 13, 2013.

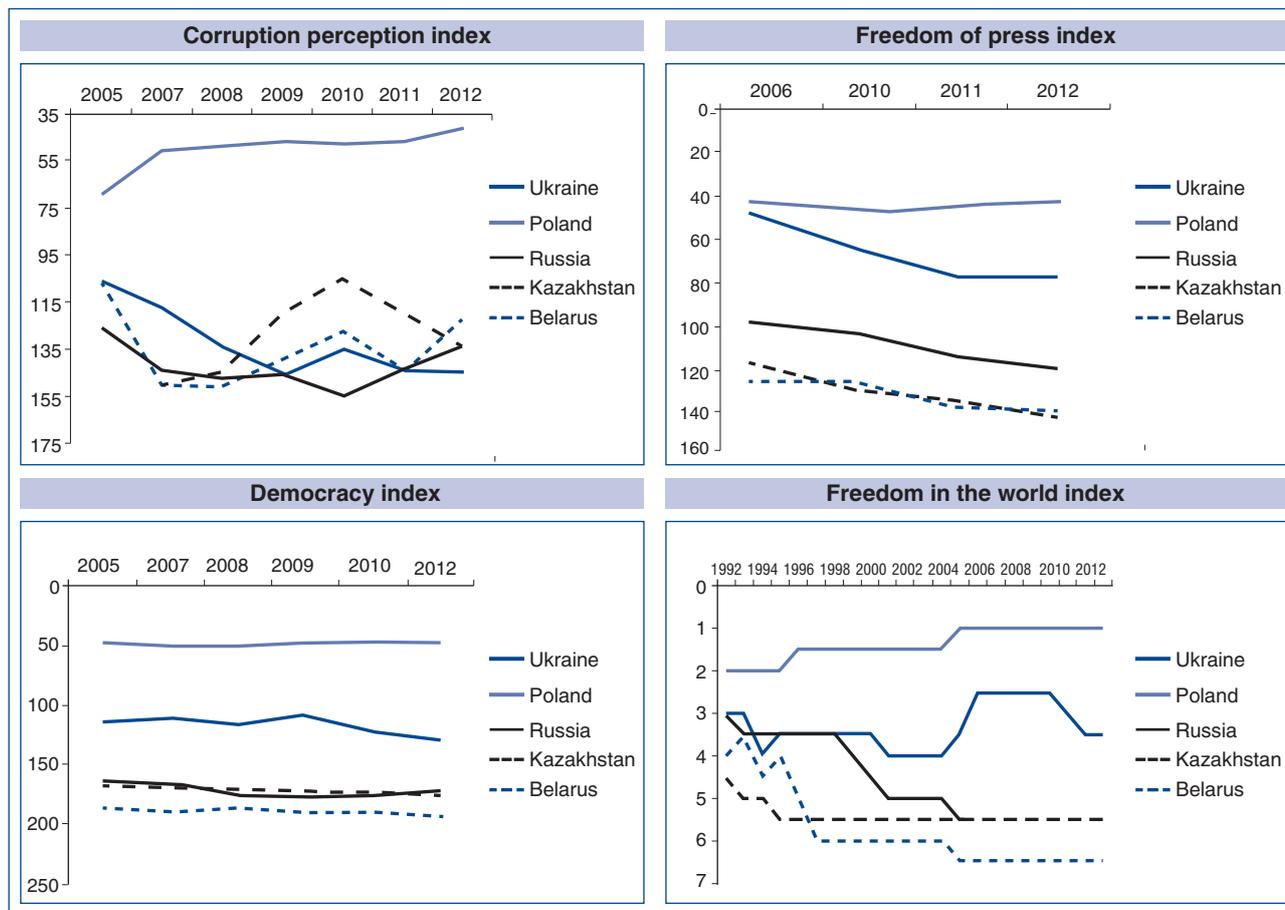
⁷ Decree No.127 of March 12, 2013. See: President of Ukraine web site, <http://www.president.gov.ua>.

⁸ Ukraine stands for continuation of the EU enlargement process, its civilisational choice is United Europe – Yanukovich. – *Interfax Ukraine*, June 13, 2013 (in Russian).

⁹ Sources: democracy index: Economist Intelligence Unit data, https://www.eiu.com/public/topical_report.aspx?campaignid=DemocracyIndex12; freedom index: Freedom House data, <http://www.freedomhouse.org/reporttypes/freedomworld>; freedom of press index: Freedom House data, <http://www.freedomhouse.org/reporttypes/freedompress>; corruption perception index: Transparency International data, <http://www.transparency.org/research/cpi/overview>.



Ukraine in international ratings



“remain uncertain”.¹⁰ The Report also stressed that only 14 out of 25 GRECO recommendations had been dealt with in a satisfactory manner.

The EU is also concerned that an option of Ukraine’s European integration (its accession to the Customs Union and later – to the Eurasian Economic Union) has not left the political and public discourse. Recently, the idea of giving up the European integration course – actively pushed by some representatives of the executive branch, political forces (including the Communist party) and public movements (in particular, the Ukrainian Choice led by Viktor Medvedchuk) – has been actively debated in mass media. These processes incorporate both purely internal factors (i.e. differences in geopolitical preferences of Ukrainian politicians and the society in general) and external influences.

External influences on Ukraine’s European integration

Ukraine, just as any other state of a modern globalised world, is influenced by relations with leading states, international and regional organisations. However, the entire range of external influences, from the viewpoint of their importance for Ukraine’s European integration, may generally be reduced to *Western* (the EU, US, international organisations) and

Eastern influences (Russia). These influences are different in nature, specifics, and goals.

European Union. The EU mainly exerts its influence via official politico-diplomatic channels and formal institutions of bilateral cooperation; this influence is public, transparent and legitimate. In its relations with Ukraine, Brussels applies international standards based on relevant regulatory and legal agreements. As noted above, today the EU demands the fulfilment of commitments that Ukraine has *voluntarily* assumed under joint agreements with the EU. So, in fact, this “controlling influence” of the EU appears to be an important driver of internal transformations in Ukraine.

The EU’s interests (that condition its actions and influence with respect to Ukraine) ensue from the ideology of the European Neighbourhood Policy and priorities of the Eastern Partnership. They involve creating around the EU a belt of democratic, prosperous and stable states sharing common values (such as the rule of law, good governance, market economy, sustainable development), forming a security area around it and expanding its sphere of influence to the South and East. The EU is interested in “Europeanising” Ukraine, introducing the European norms and standards to its domestic and foreign policy.

¹⁰ Third Addendum to the Compliance Report on Ukraine, adopted by GRECO at its 59th Plenary Meeting (Strasbourg, 1822 March 2013). – [http://www.coe.int/t/dghl/monitoring/greco/evaluations/round2/GrecoRC1&2\(2009\)1_ThirdAdd_Ukraine_EN.pdf](http://www.coe.int/t/dghl/monitoring/greco/evaluations/round2/GrecoRC1&2(2009)1_ThirdAdd_Ukraine_EN.pdf).

It is apparent that limiting Russia's leverage over Ukraine and preventing the westward enlargement of the Eurasian Customs Union represent the EU's geopolitical priorities.

US. The US authorities make similar assessments of internal developments in Ukraine. This was witnessed, in particular, by the Joint Statement of the EU-US Summit (November 2011), making emphasis on cooperation for promotion of democracy and modernisation in Eastern European countries (including Ukraine).¹¹ During a Nuclear Security Summit in Seoul in March 2012, the US President Barack Obama at a meeting with Ukraine's President Viktor Yanukovich expressed his concern "about selective prosecution of political opposition".¹²

Later, on 22 September 2012, the US Senate approved a Resolution denouncing "selective and politically motivated prosecution and imprisonment of former Prime Minister Yuliya Tymoshenko" and calling upon the US State Department to institute a visa ban "against those responsible for the imprisonment ...".¹³

On 25 July 2013, the US Senate Committee on Foreign Relations approved a draft Resolution on the release of Yuliya Tymoshenko.¹⁴

Similar statements were made by representatives of the US State Department Mark Toner and Victoria Nuland, the US Ambassador to Ukraine John Tefft, President of the US Association of Former Members of Congress Jim Slattery, former US Secretary of State Condoleezza Rice, former US Ambassador to Ukraine Steven Pifer, etc.

International organisations. International organisations may exert leverage on Ukraine by passing relevant resolutions. For instance, the PACE Resolution (26 January 2012) and OSCE Parliamentary Assembly Resolution (8 July 2012) expressed a deep concern of the European community about developments in Ukraine, in particular, the curtailment of democratic processes.¹⁵ Both documents condemned the selective justice and criminal persecution of the opposition. OSCE PA called upon Ukraine "to release all political prisoners".¹⁶

Russia. Russia, trying to influence Ukraine, resorts not only to politico-diplomatic measures but also to economic and energy pressures, wages large-scale humanitarian expansion to the Ukrainian media space and exploits its military presence on the Ukrainian territory. Russia's far more active and coordinated use of pro-Russian sentiments among the Ukrainian political elite and citizens is of particular concern. This is a regional issue,

and its politicisation might pose a threat of artificial division of Ukrainian society.

By and large, Russia views Ukraine mainly as an object of influence. The present Russian leadership aims to strengthen the pro-Russian trend in Ukraine's domestic and foreign policy, to make it an allied state subordinated to the Russian geopolitical goals.

Ukraine's full membership in the Customs Union and, with time, in the Eurasian Economic Union was officially named one of the priorities of the Russian foreign policy. For instance, the Russian Foreign Policy Concept stresses the need "to build relations with Ukraine as a priority partner in the CIS, [and] encourage its active engagement in deep integration processes".¹⁷

Noteworthy, the Russian side sees the signing of the Memorandum of deeper interaction with the Eurasian Economic Commission by Ukraine as a step toward its integration to the Customs Union. The First Prime Minister Igor Shuvalov, an advisor to Russian President Sergey Glazyev, and the Head of Russian Government Dmitri Medvedev have all expressed this idea.¹⁸

All the above leads to a following conclusion: Russia exhibits strong interest in turning Ukraine in the Eurasian direction, and therefore, changing its European integration course. The Russian leadership is aware that Ukraine's successful integration to the EU will, first of all, serve as an attractive example to other post-Soviet countries providing an alternative to the model of "sovereign democracy" built by the Russian leaders and to Moscow's reintegration efforts in the post-Soviet space.

Despite a number of important steps made by Ukraine toward European integration, the relations between Kyiv and Brussels remain strangled. Ukraine's internal problems hinder its movement to the EU and create a situation of uncertainty with regard to signing of the Association Agreement. The set of the EU's requirements have been implemented rather slowly.

Meanwhile, Ukraine's government-linked businesses are not interested in losing full control of the country in case of joining the Customs Union and view the Association Agreement as a tool for countering growing pressure from Moscow. In other words, the Ukrainian authorities should make a number of important and concrete steps to secure success in Vilnius, which will fundamentally change the terms of their relations with Brussels and Moscow.

¹¹ In the document, the parties called upon Ukraine's Government "to make good on commitments to uphold democratic values and the rule of law, notably to ensure a fair, transparent and impartial process in trials related to members of the former Government including any appeal in the case of Ms Tymoshenko". See: http://europa.eu/rapid/press-release_MEMO-11-842_en.htm.

¹² Obama expressed US concern to Yanukovich about prosecution of the Ukrainian opposition. – *UNIAN*, March 28, 2012 (*in Ukrainian*).

¹³ For the Resolution text see: US Senate web site, <http://www.foreign.senate.gov>.

¹⁴ Radchuk A. Freedom fighters found in the USA. – *Kommersant Ukraine*, June 27, 2013 (*in Russian*).

¹⁵ See, respectively: PACE Resolution: *Tyzhden* web site (*in Ukrainian*), January 28, 2012, <http://tyzhden.ua>; OSCE PA Resolution: OSCE web site, <http://www.oscepa.org>.

¹⁶ *Ibid.*

¹⁷ Russian MFA web site. – <http://www.mid.ru>

¹⁸ According to Dmitri Medvedev, "This [Memorandum signing] is the first step, important step... We sincerely hail it. But we realise that if our partners really want to take part in our newly-created integration union – the Eurasian Economic Union, they must also pass a number of very hard, sometimes unpopular decisions. Noteworthy, all decisions, not a part thereof, and, of course, not assume obligations ruling out membership in the Eurasian economic space and union". See: Medvedev called upon Kyiv for further decisions of integration in SES – *UNIAN*, May 31, 2013 (*in Ukrainian*).

RESULTS OF THE PUBLIC MONITORING OF UKRAINE'S FULFILMENT OF THE VISA LIBERALISATION ACTION PLAN (VLAP)

This independent monitoring is being conducted by the Civic Initiative Europe without Barriers and contains the analysis of the Ukrainian fulfilment of the 1st legislative planning phase of VLAP received by Ukraine from the EU on 22 November 2010. This document is a significant step towards the further liberalisation people to people contacts between Ukraine and the EU.

Monitoring takes into account not only the fact of approval or non-approval of the legislative acts but it also foresees the analysis of the level of the meeting of the VLAP criteria.

The assessments are presented in the table with the visual effects, where “deep tint” means that the criterion of the 1st phase of the VLAP is completed, “striped tint” – under implementation.

As of June 2013, the Ukrainian part realised a number of legislative activities in the framework of four sections of VLAP (document security, migration policy, border management and public order). Still the progress is not enough to note the Ukrainian passage to the 2nd implementation phase.

The preconditions of the passage are the Ukrainian acceleration of the adoption of laws and bylaws, which remain unadopted in the framework of the First phase, and submission to the EU the final third national report on VLAP fulfilment which has to testify that our state has met **all the criteria** of the First phase.

Indicators:

-  – Full implementation
-  – Implementation is underway

Table contains some acronyms used in the following meanings:

IKAO – International Civil Aviation Organization, **GRECO** – The Group of States against Corruption; **OECP** – Organization for Economic Cooperation and Development, **EMCDDA** – European Monitoring Centre for Drugs and Drug Addiction; **ODIHR** – the OSCE Office for Democratic Institutions and Human Rights, **ECRI** – European Commission against Racism and Intolerance, **Administration of SBS of Ukraine** – Administration of the State Border Service of Ukraine; **NAUCS** – National Agency of Ukraine on Civil Service, **Law** – Law of Ukraine, **CMU** – Cabinet of Ministers of Ukraine, **MIA** – Ministry of Internal Affairs of Ukraine, **MFA** – Ministry of Foreign Affairs of Ukraine, **MEDT** – Ministry of Economical Development and Trade of Ukraine, **MIU** – Ministry of Infrastructure of Ukraine, **MSP** – Ministry of Social Policy of Ukraine, **MFU** – Ministry of Finance of Ukraine, **MJU** – Ministry of Justice of Ukraine, **NBU** – National Bank of Ukraine, **SSU** – Security Service of Ukraine.

Europe without Barriers is a non-profit organisation among the priorities of which activity is the promotion of the Ukraine's obtaining the visa free regime with the EU: monitoring of the fulfilment of the Agreement on the facilitation of the issuance of the visas by the consulates of the states of the Schengen area, conduction of the independent expertise of the negotiation process regarding visa free regime (“visa dialogue” Ukraine - EU), it is the first organisation in Ukraine which professionally and consistently conducts the monitoring of the Ukrainian fulfilment of the Visa Liberalisation Action Plan. Detailed information about the organisation can be found here: www.novisa.org.ua.

Elements of the Visa Liberalisation Action Plan (VLAP)	Measures envisaged by the Government (according to the National Plan on implementation of the Action Plan on Liberalisation by the EU of a Visa regime for Ukraine)	Comments
SECTION 1: DOCUMENT SECURITY, INCLUDING BIOMETRICS		
1. Adoption of a legal framework for issuing of machine readable biometric international passports in full compliance with highest ICAO standards on the basis of secure identity management (civil registry and breeder documents) and taking into account adequate protection of personal data.	<p>Submission of the draft Law "On Documents Identifying a Person and Confirming Citizenship of Ukraine" to the CMU for further submission to Verkhovna Rada of Ukraine for consideration within the established procedure. The draft Law will regulate an introduction of the documents of Ukraine for travelling abroad with an electronic chip containing biometric data, as well as which will regulate the procedure of procurement of blank-sheets of such documents (May, 2011).</p>	<p>On 15 February 2012, at the CMU session the draft law "On the documents indentifying person, confirming the citizenship of Ukraine and providing the rights of entrance to Ukraine and exit from Ukraine" developed by the Ministry of Justice of Ukraine was approved. On 20 February, the law was registered in Rada (№10036-1).</p> <p>However on 20 March, Rada failed to vote to include the drafts mentioned above to the Parliament's agenda (206 votes instead of 226 minimal needed). Also further attempts to approve governmental draft law failed to be supported.</p> <p>On 2 October 2012, the parliamentary bill №10492 "On the Unified State Register of Demographics and Documents Confirming the Citizenship of Ukraine, Proving Identity or Special Status" was approved. Mainly, the Law regulates the introduction of electronic passports for travelling abroad.</p> <p>The Government didnt oppose the abovementioned Law №10492. However, according to human rights defenders it violates the main provisions of the European Convention on personal data protection, its additional Protocol and other relevant international instruments in the sphere of human rights protection.</p>
	<p>Providing supervision of the draft Law "On Documents Identifying a Person and Confirming Citizenship of Ukraine" in Verkhovna Rada of Ukraine (till the adoption of the Law).</p>	<p>On 2 October 2012, the draft law №10492 "On the Unified State Register of Demographics and Documents Confirming the Citizenship of Ukraine, Proving Identity or Special Status" was approved. The Law regulates the introduction of electronic passports for travelling abroad.</p> <p>Experts indicate non-conformity of some of the Law provisions to the EU and International legislation on Personal Data Protection.</p>
	<p>Adoption of legislative acts necessary for introduction of documents of Ukraine for travelling abroad with an electronic chip containing biometric data, in particular, as regards an approval of technical descriptions of the relevant specimens of passport of a citizen of Ukraine for travelling abroad, travel document of a refugee for travelling abroad. (during one month after the adoption of the Law).</p>	<p>On 13 March 2013, the CMU adopted the Decree №185 "Certain Issues of the Implementation of the Law On the Unified State Demographic Register and Documents Confirming the Ukrainian Citizenship, Identifying the Person or their Social Status" which approves technical descriptions and procedures for execution and issuance of the documents envisaged by the Law.</p> <p>On 12 June 2013, the CMU by the Decree №415 suspended the validity of the Decree №185. The new technical descriptions shall be approved in 3 months from the indicated date.</p>
2. Adoption of an Action Plan containing timeframes for the complete roll-out of ICAO-compliant biometric international passports, including at Ukrainian consulates abroad, as well as the complete phasing out of non-ICAO compliant passports.	<p>Adoption of the Action Plan on introduction of documents of Ukraine for travelling abroad with an electronic chip of biometric data and establishment of a national system of biometric verification and identification of citizens of Ukraine, foreigners and persons without citizenship, which, in particular, will define measures for the development of a national system of biometric verification and identification of citizens of Ukraine, foreigners and persons without citizenship residing in Ukraine, personalisation of documents identifying a person, as well as control over circulation of the documents identifying a person with an electronic chip containing biometric data (during one month after adoption of the Law on Documents Identifying a Person and Confirming Citizenship of Ukraine).</p>	<p>In the first quarter of the year 2013 the draft the of regulations of the CMU "On Adoption of the Action Plan on establishment of the Single State Demographic Register and national system of biometric verification and identification of citizens of Ukraine, foreigners and persons without citizenship, introduction of documents of Ukraine for travelling abroad with an electronic chip of biometric data for the 2013-2015" was elaborated and introduced to the Government.</p> <p>As of June 2013, the document is expected to be adopted.</p>
	<p>Elaboration of a programme for phasing out of documents for travelling abroad, the specimens of which do not comply with the International Civil aviation Organisation (ICAO) standards (September 2011).</p>	<p>Programme of phasing out of non-ICAO compliant documents for travel abroad was adopted by the Decree of the Ministry of Interior Affairs №693 dated 20 September 2011.</p>



<p>3. Establishment of training programmes and adoption of ethical codes on anti-corruption targeting the officials of any public authority that deals with issuance of international passports as well as domestic passports and other breeder documents identifying a person.</p>	<p>Providing supervision of a draft Law "On Conflict of Interest in activities of Public Officials" (registration №4420), a draft Law "On Rules of Professional Ethics at Public Service and Prevention of Conflicts of Interests" (registration №4420-1) at the Verkhovna Rada of Ukraine (till the adoption of the laws).</p> <p>Issuance of a joint legislative act on a code of conduct of the officials who deal with the issuance of documents identifying a person (May 2011).</p> <p>Elaboration of a programme of education and raising awareness for officials who deal with issuance of documents identifying persons (June 2011).</p>	<p>On 17 May 2012, Verkhovna Rada adopted the draft law "On the ethical rules" . (http://zakon1.rada.gov.ua/laws/show/4722-17)</p> <p>The draft Law "On Conflict of Interest in activities of Public Officials" awaits its first reading in the Parliament.</p> <p>Adopted by the joint Decree of the MFA, NAUCS, MIU №319/149/145/145 on 14 June 2011. (http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=z0784-11)</p> <p>On 21 June 2011, the Programme of education and raising awareness for officials who deal with issuance of documents identifying persons was approved by the Minister of Internal Affairs.</p>
<p>SECTION 2: ILLEGAL IMMIGRATION, INCLUDING READMISSION</p> <p>Border management</p>		
<p>4. Adoption of all necessary measures for the implementation of the law-enforcement programme on State Border Development and Reconstruction for the period till 2015 and State Border Guards Service of Ukraine development concept for the period up to the year 2015, including a legal framework for inter-agency cooperation between the Border Guard Service, law enforcement agencies and other agencies involved in border management and allowing the Border Guard Service to participate in detection and investigation of cross-border crime in coordination with all competent law enforcement authorities.</p>	<p>Continuation of implementation of the Concept of the Development of the State Border Guard Service of Ukraine for the period till 2015, approved by the Decree of the President of Ukraine dated 19 June 2006 №546 (during 2011).</p> <p>Continuation of implementation of the state targeted law enforcement Programme "Development and Reconstruction of the State Border of Ukraine" for the period till 2015, approved by the Decree of the Cabinet of Ministers of Ukraine dated 13 June 2007 №831 (during 2011).</p>	<p>The new law "On the border control" was adopted on 5 November 2009, amended on 2 December 2010. During the first half of 2011 the CMU adopted 8 by-laws aimed to implement the law properly. During 2012 the Law was amended due to the adoption of the other by-laws, also some Regulations of the CMU on the issue of state cross-border were adopted.</p> <p>The four-layer system of border management and reaction on the change of the conditions has been created: The Main Center of Service administration, regional centers, administration centers on service of the state border protection, administration centers on service of the state border departments.</p>
<p>5. Adoption of a National Integrated Border Management Strategy and an Action Plan for its effective implementation, containing a timeframe and specific objectives for the further development of legislation, organisation, infrastructure, equipment, as well as sufficient financial and human resources in the area of border management.</p>	<p>Providing implementation within the Budgetary Allotment of the Action Plan on implementation of the Concept of Integrated Border Management approved by the Resolution of the Cabinet of Ministers of Ukraine of 5 January 2011 №2-r (during 2011).</p>	<p>The Concept of Integrated Border Management was adopted on 27 October 2010.</p> <p>Action Plan on its implementation containing a timeframe and specific objectives for the further development of legislation, organisation, infrastructure, equipment etc was adopted on 5 January 2011.</p> <p>Both documents were elaborated with the involvement of the EU (EUBAM) experts. Implementation is underway.</p>
<p>6. Establishment of training programmes and adoption of ethical codes on anti-corruption specifically targeting border guards, customs and any other officials involved in border management.</p>	<p>Issuance of a legislative act on code of conduct of the officials who deal with the border management. Intensification of training activities in the sphere of anti-corruption for officials which deal with the border management (June 2011).</p>	<p>The Code of conduct of the officials dealing with the border management was adopted on 5 July 2011 by the joint Decree of the relevant agencies: №330/151/809/434/146. (http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=z0922-11)</p>

Elements of the Visa Liberalisation Action Plan (VLAP)	Measures envisaged by the Government (according to the National Plan on implementation of the Action Plan on Liberalisation by the EU of a Visa regime for Ukraine)	Comments
Migration management		
<p>7. Adoption of a legal framework for migration policy providing for an effective institutional structure for migration management, rules for entry and stay of foreigners, measures for the reintegration of Ukrainian citizens (returning voluntarily or under the EU-Ukraine readmission agreement), monitoring of migration flows, the fight against illegal migration (including return procedures, rights of persons being subject thereto, detention conditions, efforts to conclude readmission agreements with main countries of origin, inland detection of irregular migrants).</p>	<p>Submission of the draft law "On the Legal Status of Foreigners and Stateless Persons" (new edition) to the Cabinet of Ministers of Ukraine to be further submitted to the Verkhovna Rada of Ukraine for consideration within the established procedure (May 2011).</p> <p>Providing supervision of the draft Law "On the Legal Status of Foreigners and Stateless Persons" (new edition) in the Verkhovna Rada of Ukraine (till the adoption of the Law).</p> <p>Holding negotiations on conclusion of international agreements on readmission of persons with countries of origin (transit) of illegal migrants (during 2011).</p>	<p>The draft was submitted to Rada on 26 May 2011.</p> <p>Adopted on 22 September 2011, entered into force, covers the most of benchmarks, including procedures of return and expulsion of illegally staying foreigners.</p> <p>Readmission agreement with Russia (amended) entered into force.</p> <p>MFA is negotiating readmission agreements (at different stages) with Armenia, Azerbaijan, Kazakhstan, Kyrgyzstan, Tajikistan, Belarus, India, Iraq, Iran, Sri-Lanka, China, Afghanistan.</p> <p>Negotiations on implementation protocols on readmission with the EU Member States are underway. Currently the negotiations with 12 EU member-states (BeNeLux nations, Czech Republic, Estonia, Hungary, Malta, Cyprus, Poland, Portugal, Romania, Slovakia) on the implementation of the Readmission Agreement are underway. The readmission agreements are being negotiated with 5 more European states (Albania, Bosnia, Iceland, Macedonia and Croatia).</p> <p>The negotiations on the Agreement on Readmission of Persons Illegally Staying on the Territories of the States between Ukraine and Switzerland have been finalized.</p> <p>By the Decree of the CMU №47532/64/1-06 dated 10 August 2012 (in force) Action Plan on the Implementation of the Agreement between Ukraine and the EU on the Readmission of Persons was approved.</p> <p>CMU adopted the Action Plan on 15 June 2011, №653-r.</p> <p>In August 2012, the Action Plan on Foreign Migrants' Integration in Ukraine and Reintegration of Ukrainian Migrants in Ukraine for 2020 was approved by the Decree of CMU №605-r.</p> <p>The relevant Law entered into force in October 2011.</p> <p>In March 2012, the Decree of the CMU №179 "On Approval of the Procedure of the Proceeding According to the Applications of the Foreigners and Stateless Persons on Voluntary Return" was adopted. (http://zakon1.rada.gov.ua/laws/show/179-2012-%D0%BF)</p> <p>In April 2012, the Instruction on refoulement and compulsory expulsion from Ukraine of the Foreigners and Stateless Persons approved by the joint Decree of the Ministry of the Internal Affairs of Ukraine, Administration of the State Border Service of Ukraine and the Security Service of Ukraine №353/271/150. (http://zakon1.rada.gov.ua/laws/show/z0806-12)</p> <p>Adopted by the Decree of the President №622/2011 dated 30 May 2011.</p>
<p>8. Adoption of a National Migration Management Strategy for effective implementation of the legal framework for migration policy and Action Plan, containing a timeframe, specific objectives, activities, results, performance indicators and sufficient human and financial resources.</p>	<p>Adoption of the Action Plan on Foreign Migrants' Integration in Ukraine and Reintegration of Ukrainian Migrants in Ukraine for 2011-2015 (during the first half of 2011).</p> <p>Adoption of the Decree by the CMU on the procedure for a voluntary return of foreigners and stateless persons to countries of their origin and expulsion from Ukraine of foreigners and stateless persons (within a month after the adoption of the Law "On the Legal Status of Foreigners and Stateless Persons" (new edition)).</p> <p>Submission of a draft of the Decree of the President of Ukraine "On Adoption of the Concept of Migration Policy of Ukraine" (during 2011).</p> <p>Adoption of the Action Plan on implementation of the Concept of Migration Policy of Ukraine and submission of proposals on institutional reform in the field of migration management within the established procedure (June 2011).</p>	<p>CMU adopted the Action Plan on 15 June 2011, №653-r.</p> <p>In August 2012, the Action Plan on Foreign Migrants' Integration in Ukraine and Reintegration of Ukrainian Migrants in Ukraine for 2020 was approved by the Decree of CMU №605-r.</p> <p>The relevant Law entered into force in October 2011.</p> <p>In March 2012, the Decree of the CMU №179 "On Approval of the Procedure of the Proceeding According to the Applications of the Foreigners and Stateless Persons on Voluntary Return" was adopted. (http://zakon1.rada.gov.ua/laws/show/179-2012-%D0%BF)</p> <p>In April 2012, the Instruction on refoulement and compulsory expulsion from Ukraine of the Foreigners and Stateless Persons approved by the joint Decree of the Ministry of the Internal Affairs of Ukraine, Administration of the State Border Service of Ukraine and the Security Service of Ukraine №353/271/150. (http://zakon1.rada.gov.ua/laws/show/z0806-12)</p> <p>Adopted by the Decree of the President №622/2011 dated 30 May 2011.</p> <p>Action Plan on implementation of the Concept of Migration Policy of Ukraine was adopted on 12 October 2011. (http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=1058-2011-%F0)</p>



<p>9. Establishment of a mechanism for the monitoring of migration flows, defining a regularly updated migration profile for Ukraine, with data both on illegal and legal migration, and establishing bodies responsible for collection and analysis of data on migration stocks and flows.</p>	<p>Improvement of the data exchange mechanism within the integrated inter-agency information and telecommunication network "Arkan" which controls crossing of the state border of Ukraine by persons, transport vehicles and cargo (during 2011).</p> <p>Creation of a unified national database for monitoring migration flows in Ukraine (June 2011).</p> <p>Preparation of proposals on Ukraine's needs in international technical assistance for creation of a unified national data base for monitoring migration flows. Submission of the proposals to the MFA and the MEDT in order to hold consultations with the international organisations and foreign countries on involvement of such assistance (May 2011).</p>	<p>CMU by the Decree №481-r dated 18 July 2012 approved the Action plan for 2012 on establishment within the State Migration Service the departmental subsystem of integrated inter-agency information and telecommunication network which controls crossing of the state border of Ukraine by persons, transport vehicles and cargo.</p> <p>Data base named "Migration Profile of Ukraine" was established and is open of the official site of the State Migration Service of Ukraine. (http://static.dmsu.gov.ua/yevropejska-intehratsija/1077-mihratsiyniyi-profil)</p> <p>On 23 May 2011, State Migration Service of Ukraine referred the list of proposals to the MEDT regarding the needs in international technical assistance.</p> <p>MFA informed the State Migration Service about the interest of the International Centre for Migration Policy Development in granting the Service the international technical assistance.</p>
Asylum policy		
<p>10. Adoption of legislation in the area of asylum in line with international standards (1951 Geneva Convention with New York Protocol) and EU standards, providing grounds for international protection (including subsidiary forms of protection), procedural rules on examination of applications for international protection, as well as rights of asylum seekers and refugees.</p>	<p>Providing supervision of the draft Law "On Refugees and Persons in need Of Subsidiary and Temporary Protection" (registration № 7252) in the Verkhovna Rada of Ukraine (till the adoption of the Law).</p> <p>Drafting of legislative acts necessary for implementation of the Law "On Refugee and Persons in Need of Subsidiary and Temporary Protection" (within a month after the adoption of the Law).</p>	<p>Adopted on 8 July 2011, entered into force. This law is a substantial step ahead, as it establishes sufficient norms for asylum seekers (for the first time in Ukraine). (http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=3671-17)</p> <p>The Decree of the MIA №649 dated 7 September 2011 "On Adoption of the procedure of consideration of the applications and issuance of the documents necessary for decision of the cases regarding the recognition of the person as a refugee or the person in need of subsidiary and temporary protection, forfeit and deprivation of the status of refugee and subsidiary protection and and reversal of decision on recognition of the person as a refugee or the person in need of subsidiary protection".</p> <p>On 18 October 2012, the Law "On Amendments to the Certain Legislative Acts of Ukraine on the Issues of Refugees and Persons in Need of Subsidiary and Temporary Protection" (№5290-VI) entered into force. The Law amends the changes to the number of legislative acts in particular "On Employment of the Population", "On Education", "On the State Assistant to the Families with Children", basic legislative acts in the area of public health, "On the Protection of the Childhood", "On Higher Education", "On Social Services", "On State Assistant to the People without the Right for Pension and Disabled Persons".</p> <p>On 29 November 2012, the Law "On Amendments to Certain Legislative Acts of Ukraine due to the Adoption of the Law on Free Legal Assistance" was adopted. The changes were amended to the Law "On Refugee and Persons in Need of Subsidiary and Temporary Protection" in the part about providing free initial and secondary assistance for the refugees and persons in need of subsidiary and temporary protection.</p> <p>On 1 January 2013, the Law "On Employment of the Population" entered into force. It foresees that every person is entitled to free choice of the employment. The foreigners and stateless persons, who permanently reside at the territory of Ukraine, persons who are recognized as refugees in Ukraine and are granted the asylum in Ukraine, persons who are recognized as persons in need of subsidiary and temporary protection are entitled to employment according to the procedure adopted for the citizens of Ukraine.</p>

Elements of the Visa Liberalisation Action Plan (VLAP)	Measures envisaged by the Government (according to the National Plan on implementation of the Action Plan on Liberalisation by the EU of a Visa regime for Ukraine)	Comments
SECTION 3: PUBLIC ORDER AND SECURITY		
<i>Preventing and fighting organized crime, terrorism and corruption</i>		
11. Adoption of a comprehensive strategy to fight organized crime, together with an action plan containing a timeframe, specific objectives, activities, results, performance indicators and sufficient human and financial resources.	<p>Submission of a draft Concept of the Policy in the Sphere of fighting Organised Crime to the CMU for further submission to the President of Ukraine within the established procedure (May 2011).</p> <p>Submission of a draft Action Plan on Implementation of the Concept of the State Policy in the sphere of Fighting Organised Crime to the CMU for consideration within the established procedure (within a month after the adoption of concept).</p>	<p>The document was adopted by the CMU on 22 June 2011 and referred to the President. It was finally adopted by the Decree of the President of Ukraine on 21 October 2011. (http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=1000%2F2011)</p> <p>Adopted by the CMU on 25 January 2012.</p>
12. Adoption of a Law "On trafficking in human beings"; adoption of an Action Plan to effectively implement the State Programme for Combating Trafficking in human beings containing a timeframe, specific objectives, activities, results, performance indicators and sufficient human and financial resources.	<p>Submission of a draft Law "On Counteraction to Trafficking in human Beings" to the Cabinet of Ministers of Ukraine for further submission to the Verkhovna Rada of Ukraine for approval within the established procedure (May 2011).</p> <p>Providing supervision of the draft Law "On Counteraction to Trafficking in Human Beings" in the Verkhovna Rada of Ukraine (till the adoption of the Law).</p>	<p>The Law has been elaborated through a number of consultations and discussions held with domestic and international civil society organisations.</p> <p>The Law "On Counteraction to Trafficking in Human Beings" was adopted on 20 November 2011 and signed by the President of Ukraine. The Law complies to the relevant Convention of the Council of Europe.</p>
	<p>Submission of a draft Law "On Adoption of the National Programme on Counteraction to Trafficking in Human Beings for the period till 2015" to the CMU for further submission to the Verkhovna Rada of Ukraine within the established procedure (within a month after the adoption of the Law).</p>	<p>On 15 February 2012, the CMU issued the decree "On Adoption of the National Programme on Counteraction to Trafficking in Human Beings until 2015".</p> <p>This document defines the MSP as the state employer of the project. According to this document the Ministry became responsible for the state policy in the area of counteraction to trafficking in human beings.</p> <p>The MSP is entrusted to elaborate and submit to the CMU in 3 months term the project of the National special-purpose social programme on counteraction to trafficking in human beings till 2015.</p>
	<p>Providing supervision of the draft Law "On Adoption of the National Programme on Counteraction to Trafficking in Human Beings till 2015" in the Verkhovna Rada of Ukraine (till the adoption of the Law).</p>	<p>On 15 February 2012, the MSP was entrusted to elaborate and submit to the CMU in 3 months term the project of the National special-purpose programme social program on counteraction to trafficking in human beings for the period till 2015. As of the end of February there was adopted only the Concept of this special-purpose programme.</p>
	<p>Providing supervision of the draft Law "On a Free Legal Assistance" (registration № 4406) at the Verkhovna Rada of Ukraine (till the adoption of the Law).</p>	<p>The Law "On Free Legal Assistance" has been adopted on 2 June 2011. Signed by the President of Ukraine, and entered into force.</p>



<p>13. Adoption of legislation on preventing and fighting corruption and establishment of a single and independent anti-corruption agency; strengthening coordination and information exchange between authorities responsible for the fight against corruption.</p>	<p>Submission of the draft National Strategy on Prevention and Counteraction to Corruption for 2011-2014 to the President of Ukraine within the established procedure (May 2011).</p>	<p>National anti-corruption strategy was adopted by the Decree of the President of Ukraine on 21 October 2011, №1001/2011. (http://www.president.gov.ua/documents/14092.html)</p> <p>On 29 November 2011, the CMU approved the National Programme on Prevention and Counteraction to Corruption for 2011-2015 where the concrete anti-corruption measures, executor and relevant terms of execution are defined.</p> <p>The Law on Prevention and Counteraction to Corruption (№3206) finally entered into force on 1 January 2012. During 2012-2013 there were amended the number of amendments to this Law.</p> <p>The Decree of the President of Ukraine №33/2012, dated 25 January 2012, defined the procedure of organisation of the conducting of the special inspection regarding the persons who claim to occupy the posts connected with fulfilment of the function of the state or local government.</p> <p>The Act of the CMU №16, dated 11 January 2012, defined the procedure of keeping the documents and using the data indicated in the declaration on property, incomes, outcomes and the financial commitments and the information about opening the foreign-currency-denominated account.</p> <p>According to the opinion of some experts this procedure contravenes in some way the Law of Ukraine on Access to Public Information.</p> <p>The Decree of MJU №39/5, on 11 January 2012, approved the Regulations on Unified state register of persons who committed the corruption delicts. According to the Regulations, since 1 February 2012, MJU has been forming and maintaining the state register of corruptive persons which is a part of the state register of the judicial acts.</p> <p>The Law entered into force by the Decree of the President of Ukraine on 14 May 2013.</p> <p>In 2013 there were introduced the number of bills in the are of amendin the changes to the anto-corruption legislation in particular to the Law on the Bases of Prevention and Counteraction to Corruption, Law on the Access to the Public Information, Law on the Judicial System and Status of Judges, Code of Administrative Violations, etc.</p> <p>On 14 May 2013, Verkhovna Rada adopted the draft law "On Amendments to Certain Legislative Acts of Ukraine on Realisation of the National Anti-Corruption Policy", which sets up the number of progressive norms and is the result of the wide compromise of the political parties. Still this Law didn't take into account the massive number of the remarks issued in the 2nd report of the European Commission on the fulfilment of the VLAP (February 2012). (http://zakon4.rada.gov.ua/laws/show/224-18)</p> <p>In general the Ukrainian anti-corruption legislation doesn't meet all the recommendations of GRECO та OECD and requires the further improvement.</p> <p>The lack of the independent body authorised to conduct the anti-corruption investigations, institutional weakness of the coordinating body (National Anti-Corruption Committee), the absence of the legislation on the conflict os interests remain the main problems.</p>
<p>14. Adoption of a national strategy for the prevention and fighting of money laundering and financing of terrorism; adoption of a law on the prevention of financing of terrorism.</p>	<p>Improvement of activities of the units of the law enforcement bodies and other state authorities in the sphere of fighting corruption in the state sector (During 2011).</p> <p>Elaboration of standards for providing administrative services in the sphere of migration in order to make the process automatic (June 2011).</p> <p>Submission of a draft of the joint Decree of CMU and NBU "On Adoption of the action Plan on Prevention and Counteraction to Legalisation (Laundering) of Proceeds from Crime and Terrorism Financing for 2011" to the Cabinet of Ministers of Ukraine within the established procedure (June 2011).</p>	<p>There is a lack of certainty regarding the issue of establishment of the single independent anti-corruption body. In February 2012, MJU announced that the relevant bill had been referred to the President's consideration. But the text of the bill was not published.</p> <p>On 14 May 2013, the draft law on the National Anti-corruption Bureau was introduced in Verkhovna Rada. But the bill failed to gain the required number of votes.</p> <p>On 26 October 2011, the government approved thr Decree №1098 "Certain Issues of Providing Administrative Services by the Units of MIA and State Migration Service of Ukraine". (http://zakon2.rada.gov.ua/laws/show/1098-2011-%D0%BF)</p> <p>Document was adopted by the joint Decree of CMU and NBU №270 dated 9 March 2011. (http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=270-2011-%EF)</p>

Elements of the Visa Liberalisation Action Plan (VLAP)	Measures envisaged by the Government (according to the National Plan on implementation of the Action Plan on Liberalisation by the EU of a Visa regime for Ukraine)	Comments
15. Adoption of a new National Strategic Programme on drugs and its related action plan; ratifying the Memorandum of Understanding with EMCDDA.	Analyzing legislation in the sphere of combating illegal trafficking in drugs, psychotropic substances and precursors. Following the results of the analysis to submit the proposals to the CMU on amendments to legislative acts in order to improve the state regulation in the mentioned sphere (July 2011).	The Concept of the implementation of the state policy in the sphere of combating illegal trafficking in drugs, psychotropic substances and precursors for the period of 2011-2015 was approved by the Decree of CMU №1808-r dated 13 September 2010. The related Action Plan was approved by the Decree of CMU №2140-r dated 22 October 2010.
16. Adoption of relevant UN and Council of Europe conventions in the areas listed above and on fight against terrorism.	Intensification of cooperation between Ukraine and EMCDDA in the framework of the Memorandum of Understanding between the Ministry of Health of Ukraine and the EMCDDA (during 2011).	CMU approved the Concept "On establishment of the Drug situation monitoring system in the sphere of counteraction of illegal trafficking in drugs, psychotropic substances and precursors" on 18 October 2011. The Memorandum of Understanding concluded between Ukraine and EMCDDA (28.01.2010) does not require the ratification by the Verkhovna Rada of Ukraine.
17. Adoption of a legal framework on mutual legal assistance.	Identification of a list of international treaties in the sphere of fighting organized crime and terrorism to which Ukraine should accede and submission of the relevant proposals (May 2011).	Ukraine ratified all the relevant conventions and protocols of the UN and the Council of Europe. In April 2013, Ukraine acceded to the Protocol against the Illicit Manufacturing and Trafficking in Firearms, Their Parts and Components and Ammunition, Supplementing the United Nations Convention against Transnational Organized Crime (2001). (http://zakon4.rada.gov.ua/laws/show/159-18/paran2#n2)
Judicial cooperation in criminal matters		
18. Ratification of the 2 nd Protocol of the European Convention on mutual legal assistance.	Providing supervision of a draft Law "On Ratification of the Second Additional Protocol to the European Convention on Mutual Assistance in criminal Matters" in the Verkhovna Rada of Ukraine (till the adoption of the law).	Ratified on 1 June 2011.
19. Conclusion of an agreement with Eurojust.	Providing supervision of a draft Law "On Amendments to Certain Legislative Acts of Ukraine in the Context of Ratification of the Second Additional Protocol to the European Convention on Mutual Assistance in Criminal Matters" in the Verkhovna Rada of Ukraine (till the adoption of the Law).	The Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine in the Context of Ratification of the Second Additional Protocol to the European Convention on Mutual Assistance in Criminal Matters" has been adopted on 16 July 2011 and entered into force.
20. Establishment of an adequate coordination mechanism between relevant national agencies and a common database guaranteeing direct access in the entire territory of Ukraine.	Holding negotiations on the text of the Agreement between Ukraine and the Eurojust on Cooperation (September 2011). Conclusion of the Agreement between Ukraine and the Eurojust on Cooperation (September 2011).	According to MJU, the Agreement with Eurojust was initialled on 8 December 2011. The Agreement is initiated. The preparations for the official signing are going on. As of June 2013 the information about the terms of signing of the Agreement is absent. The significant role plays the lack of the positive assessment of the actual system of personal data protection in Ukraine.
Law enforcement co-operation		
20. Establishment of an adequate coordination mechanism between relevant national agencies and a common database guaranteeing direct access in the entire territory of Ukraine.	Adoption of a common instruction on cooperation between the law enforcement bodies in the sphere of combating organized crime (May 2011).	Approved by the Joint Decree of the MIA and Central administration of the SSU on 10 June 2011, №317/235. (http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=z0822-11)



<p>21. Conclusion of an operational cooperation agreement with Europol with special emphasis on data protection provisions.</p>	<p>Holding negotiations on the text of the Agreement between Ukraine and the Europol on Operational Cooperation (September 2011).</p> <p>Conclusion of the Agreement between Ukraine and the Europol on Operational Cooperation (IV quarter of 2011).</p>	<p>The conclusion of the Agreement is being continually postponed and depends on the positive assessment of the actual system of personal data protection in Ukraine which remains absent as of June 2013.</p> <p>The conclusion of the Agreement depends first of all on the positive assessment of the actual system of personal data protection in Ukraine. See above.</p>
<p>Data Protection</p>		
<p>22. Adoption of an adequate legislation on the protection of personal data and establishment of an independent data protection supervisory authority.</p>	<p>Elaboration of drafts of legislative acts necessary for implementation of the Law "On Personal Data Protection" and functioning of the State Service of Ukraine for Personal Data Protection (during 2011).</p> <p>Providing supervision of the draft Law on Amendments to a Certain Legislative Acts of Ukraine on Violation of Legislation on Personal Data Protection during its consideration in Verkhovna Rada of Ukraine (till the adoption of the law).</p>	<p>On 4 February 2012, Verkhovna Rada of Ukraine amended the changes to certain legislative acts of Ukraine on enforcement of the liability for violation of the legislation on personal data protection.</p> <p>State Service on Personal Data Protection was established in Ukraine. The appropriate regulations were approved. The process of the ensuring of its institutional capacity is going on at the moment.</p> <p>Legislation on the personal data protection requires the changes and amendments. The MJU received appropriate order from the government.</p> <p>The Law "On Amendments to a Certain Legislative Acts of Ukraine on Violation of Legislation on Personal Data Protection" has been adopted on 2 June 2011.</p> <p>In May 2013 Verkhovna Rada adopted the Law "On Amendments to a Certain Legislative Acts of Ukraine on Improvement of the Institutional System of the Personal Data Protection" (№2282 on 12 February 2012) initiated by the government and worked out in the close cooperation with the EU experts.</p> <p>Vetoed by the President on 6 June 2013, due to the technical observations. Awaiting for the second examination by the parliament.</p>
<p>23. Ratification of relevant international conventions, such as the Council of Europe Convention for the Protection of Individuals with regard to the Automatic Processing of Personal Data and its 2001 Protocol.</p>	<p>Identification of a list of international treaties in the sphere of personal data protection which Ukraine should accede to and submission of relevant suggestions, if appropriate (May 2011).</p>	<p>The Convention and Additional Protocol were ratified in June 2010.</p>
<p>SECTION 4: EXTERNAL RELATIONS AND FUNDAMENTAL RIGHTS</p>		
<p>Freedom of movement within Ukraine</p>		
<p>24. Revision of legal and regulatory framework on registration and de-registration procedures for Ukrainian citizens and legally staying foreigners or stateless persons with a view to avoiding unjustified restrictions or obligations to their freedom of movement within Ukraine in particular with respect to conditions for legal stay without residence registrations and measures taken in case of failing to register as well as on the liability of tenants.</p>	<p>Carrying out an analysis of legislative acts defining procedures for registration/deregistration of place of residence and stay of citizens of Ukraine, foreigners and stateless persons who reside at the territory of Ukraine on a legal basis. Submission, if necessary, of the relevant proposals on improvement of legislation in this sphere aimed at ensuring equal access for all persons to mentioned procedures to the Cabinet of Ministers of Ukraine (May 2011).</p>	<p>On 5 July 2012, Verkhovna Rada adopted the Law "On the Amendments to Certain Legal Acts of Ukraine on Registration of the Place of Residence or Stay of Persons in Ukraine". (http://zakon4.rada.gov.ua/laws/show/5088-17)</p> <p>On 4 January 2013, the Decree of the MIA №1077 "On Adoption of the Procedure of Registration of the place of residence or stay of persons in Ukraine and the Samples of Necessary Documents" entered into force. The Decree was elaborated by the State Migration Service in pursuance of the Law of Ukraine "On the Amendments to Certain Legal Acts of Ukraine on Registration of the Place of Residence or Stay of Persons in Ukraine". (http://zakon1.rada.gov.ua/laws/show/z2109-12)</p>

Elements of the Visa Liberalisation Action Plan (VLAP)	Measures envisaged by the Government (according to the National Plan on implementation of the Action Plan on Liberalisation by the EU of a Visa regime for Ukraine)	Comments
25. Revision of legal and regulatory framework so as to ensure effective access to travel and identity documentation without discrimination, and in particular as regards vulnerable groups.	<p>Carrying out an analysis of legal basis regulating issuance of travel documents and documents identifying a person. Submission of relevant proposals on improvement of legislation in this sphere in order to ensure equal access of all persons to mentioned procedures to the Cabinet of Ministers of Ukraine, if necessary (May 2011).</p>	<p>On 2 October 2012, there was adopted the Law "On Unified Demographic State Register and Documents which Confirm the Citizenship of Ukraine, Identifying the Personality or Special Status". The Law regulates the issues of the ensuring the access of all the persons including disabled persons and the other sensitive groups to the obtaining of the documents identifying the personality.</p>
Citizens' rights including protection of minorities		
26. Adoption of comprehensive anti-discrimination legislation, as recommended by UN and Council of Europe monitoring bodies, to ensure effective protection against discrimination.	<p>Submission of a draft Decree of the President of Ukraine "On Adoption of the Strategy on Combating Discrimination in Ukraine" to the CMU within the established procedure to be further submitted to the President of Ukraine for consideration (May 2011).</p>	<p>Instead of the Strategy on Combating Discrimination in Ukraine, which was expected to be adopted in 2011, the complex anti-discrimination legislation was elaborated and now remains in the process of implementation.</p> <p>On 6 September 2012, Verkhovna Rada adopted the Law "On the Basis of Prevention and Counteraction to Discrimination in Ukraine". (http://zakon4.rada.gov.ua/laws/show/5207-17)</p> <p>On 8 April 2013, the President of Ukraine by the Decree put into force the Strategy on Protection and Integration into the Ukrainian society of the Roma national minority till 2020". (http://www.president.gov.ua/documents/15628.html)</p> <p>In 2013, the draft law "On Amendments to the Certain Legislative Acts of Ukraine on Preventing and Combating Discrimination in Ukraine" (register number – 2342 dated 19.02.2013).</p>
27. Actively pursue the specific recommendation of UN bodies, OSCE/ODIHR, the Council of Europe/ECRI and international human rights organisations in implementing anti-discrimination policies, protecting minorities and combating hate crimes.	<p>Providing of the active cooperation with the UN, the OSCE, the Council of Europe on efficient implementation of anti-discrimination strategies of these organizations in Ukraine (during 2011).</p>	<p>The active interaction between governmental bodies and relevant international organizations has been reflected in a large number of joint activities. Meanwhile, independent reports on Ukraine's performance in this sphere are still rather critical. It shows the lack of efforts and will demand the intensification of cooperation.</p>
28. Ratification of relevant UN and Council of Europe instruments in the fight against discrimination.	<p>Identification of a list of international treaties in the sphere of fighting all demonstrations of discrimination to which Ukraine should accede and submission of relevant suggestions, if necessary (May 2011).</p>	<p>Ukraine is a part of majority of the international treaties in the sphere of human rights protection.</p> <p>On 7 November 2011, Ukraine signed the Convention of Council of Europe "On the Violence against Women and Domestic Violence".</p>
29. Specify conditions and circumstances for the acquisition of Ukrainian citizenship.	<p>Providing the active spreading of information about legal basis on acquisition of citizenship of Ukraine (May 2011).</p>	<p>In 2013, in Verkhovna Rada there were registered the number of draft laws in the area of reclamation of the issues of citizenship. They concern in particular the issues of dual citizenship in Ukraine and the list of requirements for naturalization.</p>

2. INTERNAL ISSUES ON THE EUROPEAN INTEGRATION AGENDA

Ukraine's progress on the road to European integration strongly depends on its internal developments. This involves: promoting constitutional reform aimed at developing system of checks and balances between state institutions; ensuring the effectiveness of the electoral framework (i.e. addressing the shortcomings revealed during the 2012 elections, including the impossibility to establish results in five single mandate constituencies); guaranteeing the respect for human rights and freedoms, in particular, the freedom of expression, peaceful assembly and association.¹

This section gives a brief analysis of the internal situation after the 2012 parliamentary elections in all concerned sectors.

Implementing the principle of separation-of-powers: a persistent imbalance

Crisis of parliamentarism. On 12 December 2004, by adopting the constitutional amendment that transferred some appointment powers from the President to the coalition of parliamentary factions (formed in the Parliament after elections), Ukraine had made a step toward bringing its political system closer to the European model – in contrast to an overall tendency of strengthening presidential powers characteristic of the Eurasian space.

On 30 September 2010, the Constitutional Court adopted a decision whereby it reinstated the Constitution in the wording of 1996, re-establishing a strong executive under the leadership of a powerful President. That was an anti-constitutional reform and a step back from evolution of political system in the European direction. The Head of State got decisive tools of influence on all branches of power: legislative, executive and judicial. Today, the principle of separation-of-powers no longer exists in Ukraine.²

The elections results to the Verkhovna Rada of the 7th convocation saw the opportunity to change the situation and restore parliamentarism in Ukraine. The main preconditions that might bring positive changes are as follows: the government has won neither constitutional (a goal set before the elections) nor stable parliamentary majority (represented by the Party of Regions, Communist Party, and some independent MPs – and, therefore, it is not homogeneous³); there are more opposition parties

represented in the new parliament (*Batkivshchyna*, *UDAR* and *Svoboda*); the opposition is more willing to take action in order to achieve its goals.

In particular, following the blockade of Parliament, the opposition managed to push for amendments to the Law “On the Rules of Procedure of the Verkhovna Rada of Ukraine” designed to ensure personal voting by national deputies required by the Constitution; and to add to the parliamentary agenda such issues as conducting elections to bodies of local self-governance, cancelling the pension reform; ensuring decriminalisation of the Criminal Code articles, under which, Yuliya Tymoshenko was imprisoned.

By and large, the opposition now exerts stronger influence on parliamentary agenda-setting and, by ensuring personal voting in Parliament, has some leverage on the law-making process and parliamentary decisions. This has encouraged the authorities and pro-government forces to mobilise efforts aimed at countering the opposition. *First*, the authorities, fearing a victory of opposition candidates, have put off a repeat of the elections in five so-called “troubled” single mandate constituencies and the elections of the Kyiv mayor and the city council.

Second, with the help of judiciary, a campaign was launched to take powers from members of opposition and independent MPs not loyal to the President. For instance, following the lawsuits filed after the elections (violating the terms of appeal and based on no real legal grounds), the MPs Petro Baloha and Oleksandr Dombrovskiy saw their parliamentary mandate suspended by court.⁴ There had been no legitimate means for implementing these

¹ Those lines and problems are mentioned, in particular, in the Ukraine-EU Association Agenda, in the “Füle list”, and in the Joint Statement of the 16th Ukraine-EU Summit (for the document text see the official web site of the President of Ukraine).

² For more detail see: Parliament and the 2012 parliamentary elections in Ukraine: Political situation, public spirits and expectations. – *National Security & Defence*, 2012, No.7-8, p.3-18.

³ The most striking examples: inability of the majority to dismiss the NBU Chairman Serhiy Arbutov and to appoint Ihor Sorokin instead of him on the first try; voting of a part of the CPU faction for cancellation of the pension reform and no-confidence in the Government of Mykola Azarov.

⁴ See: Higher Court stripped two MPs of their mandates. – *Ukrayinska Pravda*, February 8, 2013; Court ordered Rybak to take cards and MP certificates from Baloha and Dombrovskiy. – *Ibid.*, 2 June 2013 (in Ukrainian).

decisions.⁵ The annulment of Serhiy Vlasenko's, Yuliya Tymoshenko defence lawyer, mandate⁶ was yet another questionable move rising concerns of the EU leadership.⁷

Third, the authorities have been actively "poaching" MPs elected to the Verkhovna Rada with support from the opposition. For instance, at the stage of parliamentary faction formation, MPs Oleksandr Tabalov and Andriy Tabalov refused to join *Batkivshchyna*, despite a written oath. Later on, Vitaliy Nemylostyvyi, Roman Stadniychuk (registered in place of Serhiy Vlasenko), Oleh Kanivets, Ihor Skosar, Volodymyr Kupchak, Vyacheslav Kutovyi also announced their withdrawal from *Batkivshchyna*; and Vasyl Kravchuk was expelled. UDAR also reported of pressure exerted on several members to make them leave the faction.⁸

Accession of opposition MPs to the ruling majority is used by the authorities to cause a split within and among the opposition factions, and for defamation of the parliamentary opposition and its leaders in the eyes of voters.⁹

Subordination of the executive branch to the President and its irresponsibility. The Government's staffing and formulation of its policy rest with the President, who, however, bears no responsibility for its activity. Since the inauguration of Viktor Yanukovich none of three Governments has presented its programme of action to the Verkhovna Rada for approval and, respectively, not reported for the results of its activity (for more detail on the specifics of organisation and activity of the executive branch see the Insert "*Executive branch...*").¹⁰

In other words, the Parliament has no say in the Government formation, and actually no influence on its policy and no practical possibilities to control it.¹¹ The Government even passed a directive that allows national deputies to attend its meetings only with the consent of Prime Minister, contrary to provisions of the Law "On the Status of a National Deputy of Ukraine".¹²

While the previous Governments comprised representatives of different (competing) groups from within

⁵ See: "Shapoval: if CC takes mandates from Baloha and Dombrovskiyi, there will be complete collapse". – *Ibid.*, March 1, 2013 (*in Ukrainian*).

⁶ Court took mandate from Vlasenko. – *Ibid.*, March 6, 2013 (*in Ukrainian*).

⁷ For instance, on March 5, 2013, High Representative of the Union for Foreign Affairs and Security Policy Catherine Ashton and EU Commissioner for Enlargement and European Neighbourhood Policy Stefan Füle called upon the Ukrainian authorities "to address this situation so as to avoid creating any perception of misuse of the judiciary for political purposes". See: Joint Statement by spokespersons of Ashton and Füle on political developments in Ukraine. – EU Delegation to Ukraine web site, http://eeas.europa.eu/delegations/ukraine/press_corner/all_news/news/2013/2013_03_05_1_en.htm.

⁸ See: Leshchenko S. "Vitaliy Kovalchuk: The authorities may resort to provocations in order not to admit Klitschko to presidential elections". – *Ukrayinska Pravda*, June 25, 2013 (*in Ukrainian*).

⁹ See: "The authorities want to split the biggest opposition faction – Arseniy Yatseniuk". – Yukiya Tymoshenko's Bloc web site, <http://byut.com.ua/news/14426.html> (*in Ukrainian*).

¹⁰ The insert materials were prepared by experts V.Tymoshchuk and Ye.Shkolnyi (Centre for Political and Legal Reforms).

¹¹ Parliament and parliamentary elections in Ukraine 2012: Political situation... p.34.

¹² MPs were banned to come to the Cabinet of Ministers without Azarov's permit. – *Ukrayinska Pravda*, March 13, 2013 (*in Ukrainian*).

EXECUTIVE BRANCH: ORGANISATIONAL AND ACTIVITY PROBLEMS

Institutional organisation of the executive branch. In the EU countries, approaches to organisation of the executive branch, given the principle of administrative autonomy in the EU, rest not on legal requirements but on established approaches that may be termed as unwritten standards. They involve: observance of the principle of legitimacy, separation of political and administrative functions and positions, etc.

In Ukraine, the executive branch is *de facto* controlled by the President and his administration, not the Government – due to the reinstatement of the Constitution in the wording of 1996. Furthermore, contrary to the Constitution, the Head of State has assumed the power to appoint and dismiss all deputy heads of these bodies and to provide the so-called "instructions" to all executive bodies and their heads.¹

In December 2010, the President by his Decree reorganised the central executive bodies. The number of ministries was reduced from 20 to 16. "Governmental bodies" were either liquidated or reorganised (incorporated into ministries or transformed into "other central executive bodies"). Out of over 110 central bodies of power, nearly 70 were left. The number of Government members was reduced from 25 to 16 due to the reduction of the total number of ministries, liquidation of the position of the Minister of the Cabinet of Ministers and combination of positions of vice prime ministers with ministerial posts. "Other central executive bodies" were classified as agencies, services, inspections – and this was one of the positive effects of reorganisation, since it has brought some clarity to the system of central executive bodies.

Those changes did not increase the efficiency of the governmental machinery. The overly centralised model of governance with full subordination of the executive branch to the President led to an institutional gap between decision-making (a prerogative of the President) and their implementation.

Ministers have little room for initiative. Sometimes some heads of "other central executive bodies", thanks to personal relations with the Head of State, have more influence than ministers. Responsibilities are uncertain, since formally, specific officials and bodies of power are responsible for different sectors, while the Head of State alone should be held responsible, in view of the assumed powers. Such "strict hierarchy" may be mobilised to perform some assignments of the President but is incapable to perform systemic and efficient work.

"State collective bodies" (national commissions regulating natural monopolies) are also almost entirely subordinated to the President, which does not meet the standards of democratic countries.²

By now, the changes of 2010 have been reversed. The Government has 24 members (almost as many as before the reform). The number of ministries was raised (to 18), the post of the Minister in the Cabinet of Ministers was restored, positions of vice prime ministers were again separated from ministerial.³ Collegiality and transparency of the Government work were impaired due to liquidation of governmental committees in 2010.

The reforms and laws often have become only a tool for preserving the inefficient governmental machinery. Governmental decisions are taken using the technology of remote initialling, without fully-fledged communication among ministers.

Quality of policy formulation (decision-making). The decision-making process in Ukraine is characterised by non-transparency and low participation of the public and stakeholders. The main reasons include the lack of tradition and political culture, "arrogance of power" (meaning that the government always knows best what and how it should work), lack of efficient consultation mechanisms, weakness of civil society.

Many decisions were hastily taken by the authorities, without regular monitoring of problems, their prioritisation, analysis of reasons, planning options for solutions, or assessing possible gains and risks, etc. Given the permanent budget deficit and the merger

¹ According to the Laws "On Central Executive Bodies" and "On the Cabinet of Ministers of Ukraine".

² See: Law "On Central Executive Bodies", Article 24.

³ See: Cabinet of Ministers of Ukraine. – Governmental portal, <http://www.kmu.gov.ua>.



of political power and business interests, the sectors where one can “earn” more by using various illegal schemes have been priorities. A large number of state programmes (currently over 120), different plans of measures, etc. enable the authorities to implement them selectively.

When political priorities are set, attempts are made to use the Presidential power to determine the state agenda, for instance, through the annual National Action Plan on implementation of the Programme of Economic Reforms.⁴ But at the same time, they contain too many tasks (that may hardly be termed priorities), some tasks are clearly unrealistic⁵ and contradict each other even in the same document.

The authorities fail not only to forecast problems but also to properly respond to them. Many officials are lacking the knowledge and skills necessary for policy analysis. The procedures for preparing answers are outdated and time-consuming. In such conditions, “proactive” work is actually impossible.

Officials of all levels, including local self-government bodies, are overburdened with “assignments” of higher echelons and inter-agency paperwork. These “assignments” (especially of the President) restrict room for dialogue, discussion, search and choice of best options. “Assignments” as such are often spontaneous or lobbyist, do not always help solve problems and sometimes even create new ones.

The legal and regulatory framework regulating the sector of “public consultations” makes an emphasis on information, not on work with respective groups. The Law “On Principles of State Regulatory Policy in the Field of Economic Activity” contains detailed requirements for the procedure of drafting regulatory acts, their discussion, etc. However, it applies only to business rule-making and is relatively efficient with regard to regulations. Instead, its influence on the Government and lawmakers is limited. One example is presented by the conflict associated with the adoption of the Tax Code,⁶ when only the mass protests made the government make at least some concessions concerning the small business.

The Governmental Procedure for public consultations on the formulation and implementation of state policy applies to fewer bodies of power.⁷ That act is selectively applied by supreme bodies of power and has only a recommendatory character for local self-government bodies.

So, Ukraine has no public consultations as a permanent target-oriented process. Public councils are of little effect (due to the lack of trust in the appointment procedure),⁸ and rather artificial “public experts examinations”⁹ are in the forefront. It is no wonder, therefore, that the authorities usually present society with a *fait accompli* (passed decision) and do not consider it a problem.¹⁰ There are also natural problems caused by limited terms given by lawmakers and/or leadership for decision drafting.

While the authorities do not take an active stance in organising discussions of their initiatives and efficient consulting mechanisms, the society in general lacks the will and ability to monitor the authorities’ initiatives, promptly respond to them, and provide adequate proposals and comments.

INTERNAL AND EXTERNAL FINANCIAL AND ANTI-CORRUPTION CONTROL

The efficiency of internal and external control of public administration in Ukraine is low. Internal audit is not used in practice. Rules of internal anti-corruption control are applied on a very limited

scale, since there is no independent institution in charge of it. Instead, the situation always depends on personality traits of an executive (i.e. his/her integrity).

Internal audit. Until recently, functions of internal financial control within the system of executive bodies have been assigned to their control and audit units. Their activity was of little effect, in particular, due to a limited competence and lack of independence to perform unbiased inspections. The competence of control and audit units covered only verification of the legitimacy of use of funds, preservation and procedure of use of property attached to the body, correctness of accounting, etc. They did not perform audit of the efficiency of the body’s administrative activity and implementation of budget programmes. Furthermore, those units entirely depended on the head of that body in HR issues, activity planning, decisions of unscheduled control measures (that required a special order of the Minister), etc.

In September 2011, the Government Resolution No.1001 approved the Procedure for creation of structural units of internal audit and conduct of such audit at ministries, other central executive bodies, their territorial bodies and budget institutions... (hereinafter – the Procedure). Also, the Ministry of Finance approved the Standards of Internal Audit.¹¹

Among the positive features of these acts, one should note the expansion of competence of the units. They were authorised to perform financial audit, audit of compliance and audit of efficiency (i.e., efficiency of functioning of the internal control system, degree of implementation and achievement of goals set in strategic and annual plans, efficiency of planning and implementation of budget programmes and results of their implementation, quality of provision of administrative services and exercise of controlling and supervisory functions, tasks set by legislative acts, and risks that affect performance of the institution functions and tasks).

Now, there are problems with measurements for such audit (for instance, existence of strategic plans, etc.). Key problems related to insufficient independence of relevant units have not been solved: they are again made directly dependent on the leadership of the body where they work. Internal audit standards envisage direct subordination and reporting of the internal audit unit to the head of the body.¹² Furthermore, according to the Procedure, decisions of scheduled and unscheduled internal audit are taken by the head of the body. Complete dependence is observed in solution of HR issues and provision with resources.

External control. Functions of external financial control in Ukraine are primarily vested in the Accounting Chamber. Noteworthy, the **Accounting Chamber is the only external control body in Ukraine that has sufficient independence.** According to SIGMA, other state control bodies, despite vaster experience and much greater potential, cannot compete with the independent status of the Accounting Chamber, since they are executive bodies and, therefore, do not meet the main international requirements of external audit bodies.¹³ Meanwhile, the Accounting Chamber has no powers to bring to responsibility persons guilty of violation of the budget discipline. It may only report this fact. Most reports of the Accounting Chamber, in particular, of financial violations in specific bodies,¹⁴ entail no adequate reaction.

The State Financial Inspection (former Main Control and Audit Department)¹⁵ is a central executive body. This status makes its activity fully dependent on the Ministry of Finance, and even more – on the President’s will. That is why its ability to perform comprehensive and impartial financial control of all actors without exception is rather doubtful.

⁴ See, e.g.: Presidential Decree “On National Action Plan for 2011 at Implementation of the Programme of Economic Reforms for 2010-2014 “Prosperous Society, Competitive Economy, Efficient State” No.128 of March 12, 2013.

⁵ For instance, the National Action Plan for 2013 at Implementation of the Programme of Economic Reforms... contains 254 targets (goals), each of them includes several objectives, and this is a pdf document of 234 pages. Also, the Plan tasks the Government to submit to Parliament in April 2013 the Bill “On the List of Administrative Services and Payment (Administrative Fee) for Their Provision”, although that task normally cannot be well done within such terms. The same refers to the task to approve process cards of administrative services by April, 2013 (Item 83.4).

⁶ See, e.g.: Tax Code adopted despite protests. – BBC Ukraine, November 18, 2010; <http://www.bbc.co.uk/ukrainian>.

⁷ The last version was approved by CMU Resolution No.996 of November 3, 2010.

⁸ See, e.g.: Clashes in Kyiv: “Regions” united with Adelaja’s sectarians. – TVi TV company web site, January 30, 2013; <http://tvi.ua>; Why do they fight for Public Councils? – *Radio Liberty* web site, February 8, 2013; <http://www.radiosvoboda.org> (in Ukrainian).

⁹ CMU Resolution “On Approval of the Procedure of Promotion of Public Expert Examinations of Executive Bodies’ Activity” No.976 of November 5, 2008.

¹⁰ Such was the case with the “Kharkiv agreements” on the Russian Black Sea Fleet, the Laws “On Fundamentals of the State Language Policy”, “On All-Ukrainian Referendum”, etc.

¹¹ Order No.1247 of October 4, 2011.

¹² *Ibid.*, Item 3.2.

¹³ Ukraine governance assessment. – Site of the Organisation for Economic Cooperation and Development (OECD), March 2006.

¹⁴ See, e.g.: Crazy millions of the Ministry of Interior. – Accounting Chamber of Ukraine, July 2, 2008; <http://www.acrada.gov.ua>; Mercedes, Cadillac... at the expense of charity. – *Ibid.*, September 28, 2010 (in Ukrainian).

¹⁵ Presidential Decree “On Regulations of the State Financial Inspection of Ukraine” No.499 of April 23, 2011.

the Party of Regions, after the 2012 parliamentary elections, it is dominated by those loyal to the President.¹³ Meanwhile, his accusations of the Government members of wrecking reforms and loss of responsibility had no personal consequences whatsoever.¹⁴

Apparently, the main task of the executive branch resting on such principles will be to secure the victory of Viktor Yanukovich at future presidential elections, and its activity in other domains will be subordinated to pursuing this goal.

Future of the constitutional reform. Implementation of the constitutional reform is among the priorities on the EU-Ukraine dialogue agenda. The authorities have assigned the key role in that process to the Constitutional Assembly. However, analysis of the work of that body since its creation shows that, *firstly*, the Assembly has been unable to engage all political forces and the public in the process of drafting constitutional amendments; *secondly*, its decisions tend to reflect the position of only one political actor – the President of Ukraine, *thirdly*, the public has been unaware of any constitutional amendments or concrete bills being **developed by the Assembly**. So far, the Constitutional Assembly has been used mainly to legitimise bills drafted by other governmental institutions.

On 21 June, the Constitutional Assembly has passed a draft concept of amendments to the Constitution for further discussion and proposals. Judging by the text released in the mass media, the document gives no answers to key issues with regard to the constitutional reform (i.e., the model of state governance, the principle of separation-of-power, and allocation of responsibilities) and enables the adoption of a new Constitution by referendum.¹⁵

Controversial nature of referendums. Hence, the procedure for amending the Constitution might not be confined to the Parliament – the only body authorised to make such changes, but to a national Ukrainian referendum.

According to the Law “On National Referendum of Ukraine” passed in the last days of work of the Verkhovna Rada of the 6th convocation, a national Ukrainian referendum may now be used to adopt a new wording of the Constitution, amend the Constitution, as well as to cancel, invalidate or reverse laws introducing changes to the Constitution (constitutional referendum).

The Law, despite its unconstitutional character (since it allows to circumvent the Parliament), was signed by the President. The authorities have been actively involved

in implementing its provisions, creating the regulatory framework and organisational structures, providing funding, and testing possible mechanisms for organisation of a referendum.¹⁶

The Venice Commission negatively assessed the Law, noting that constitutional amendments must be adopted in the procedure prescribed by the Constitution in force; otherwise it might be ruinous for constitutional stability and legitimacy in Ukraine.¹⁷

Although, the issue of local referendums remains undecided, a relevant governmental bill has already been submitted to the Parliament.

Electoral legislation: departing from fundamental European standards

Ukraine’s electoral legislation has always been in the focus of the OSCE, PACE, and the European Parliament as well as criticised by them for frequent changes to legislation for the sake of political interests. That is what makes the Ukrainian political tradition different from written and unwritten “rules of the game”, which operate in the EU countries and are being adopted by candidate countries for accession to the EU.

On the one hand, state representatives, including President Viktor Yanukovich, have publicly declared their intentions to reckon with criticism and recommendations of international institutions. On the other – those declarations either have not yet been implemented or are being implemented too slowly.

The situation pertaining to the Election Code represents a good example. The Code was drafted as far back as 2009 with an active participation of the EU, involving Ukrainian and international experts (in particular, from the OSCE and the Council of Europe). In 2010, the pro-presidential majority confirmed its plans to adopt it. In December 2010, the draft Code received mainly positive assessments from the Venice Commission.¹⁸ However, in 2011, the Electoral Code was taken from the electoral agenda. Today, while the European side continues to insist on its adoption, the leadership shows no signs of being ready to take it into consideration again.¹⁹

The President’s Address to the Verkhovna Rada proposed to switch to “preference party lists voting” and move toward creation of a single unified system of rules and procedures for elections at all levels and for voting at local and national referendums. The President has proposed to “step up efforts aimed at creating an Electoral Code”.²⁰

¹³ See, e.g., “History of One Family”. – Korrespondent.net, February 8, 2013, <http://korrespondent.net> (in Russian).

¹⁴ See: “Head of state: In 2012, implementation of the plan of reforms was obstructed”. – Official Internet office...

¹⁵ Approval of the Concept with account of submitted proposals is expected before the end of October, 2013.

¹⁶ On April 2, 2013, CEC adopted Resolutions “On the Procedure of Provision of District and Local Commissions for the All-Ukrainian Referendum with Premises and Equipment”, “On Forms of Submissions and Applications for Formation of Ordinary, Special and Foreign Stations of an All-Ukrainian Referendum”, “On Forms of Certificates of Actors and Other Participants of an All-Ukrainian Referendum”, “On Specimen and Description of Seals of a District Commission for the All-Ukrainian Referendum and Local Commissions for the All-Ukrainian Referendum of Ordinary, Special and Foreign Stations”, “On the Procedure of Transfer to Local Commissions for the All-Ukrainian Referendum at Foreign Stations of Ballots for Voting at an All-Ukrainian Referendum in the Foreign District”. See: CEC regulatory acts, list of acts for April 2013. – Official web site of CEC, <http://www.cvk.gov.ua/pls/acts/New>. See also: CMU Resolution “Some Issues of Preparation and Conduct of an All-Ukrainian Referendum” No.16 of January 16, 2013. – Verkhovna Rada web site; Regions are instructed to get ready for referendum. – Comments.ua, April 10, 2013, <http://comments.ua> (in Ukrainian).

¹⁷ Opinion on the Law on National Referendum of Ukraine. – European Commission for Democracy Through Law (Venice Commission). – Venice Commission web site, [http://www.venice.coe.int/WebForms/documents/?pdf=CDLAD\(2013\)017e](http://www.venice.coe.int/WebForms/documents/?pdf=CDLAD(2013)017e).

¹⁸ Venice Commission Opinion No.593 of December 20, 2010. – Verkhovna Rada web site, http://zakon4.rada.gov.ua/laws/show/994_a39 (in Ukrainian).

¹⁹ Such calls are present, in particular, in the EU Council Conclusion of December 11, 2012, OSCEODIHR final report on elections to the Verkhovna Rada, European Parliament Resolution on the situation in Ukraine of December 13, 2012, Joint Statement following the EU-Ukraine summit of February 25, 2013.

²⁰ Annual Address of the President of Ukraine to the Verkhovna Rada of Ukraine “On Internal and External Situation of Ukraine in 2013” – NISS web site, http://www.niss.gov.ua/content/articles/files/Poslannia_2013c7954.df (in Ukrainian).



The Venice Commission received from the Ukrainian Ministry of Justice the draft Laws “On Amendments to Certain Legislative Acts of Ukraine as regards the Improvement of the Legislation on Elections” and “On the Repeat Elections of People’s Deputies (Members of Parliament) of Ukraine to the Verkhovna Rada of Ukraine (Ukrainian Parliament) of the VII Convocation in Particular Single Mandate Constituencies in Relation to the Impossibility to Establish Trustworthy the Vote Returns and Results of People’s Deputies of Ukraine Elections on 28 October 2012”.

The Joint Opinion of ODIHR/OSCE positively assessed the following changes: providing the criteria for establishment of single mandate constituencies; requiring election commissions to notify representatives of parties or single mandate candidates of mistakes and inaccuracies in registration documents; limiting temporary changes in voter registration in order to avoid falsifications; requiring election commission to discuss their decisions at sessions; introducing requirements for reporting on the origin and use of campaign funds before election day and for publication of these reports on the CEC web site.

The following key issues were raised: limitations on the right to be a candidate, which exclude anyone convicted of a deliberate crime, regardless of the severity of the crime committed; a five-years residency requirement for candidates; preferences for parliamentary parties’ representation on election commissions; lack of independent monitoring of campaign finance; maintaining the maximum number of voters per precinct.²¹ Some limitations proposed by the Ministry of Justice seem quite reasonable in a present-day situation (e.g., limitation on the right to be a candidate for those convicted of committing crimes, as envisaged in the Constitution, or a five-year residence of a candidate).

Assessment of political rights and civil liberties: no progress

Situation surrounding the observance of basic rights and freedoms in Ukraine has been deteriorating from year to year, as witnessed by international monitoring (e.g., the Freedom House, the US State Department, etc.). For instance, in 2012, the Freedom House gave Ukraine a “partly free” status (in 2010, the country was “free”).²²

The factors, which led to such assessments, include: deteriorating quality of parliamentary elections; growing pressure on the opposition and the judiciary, which resulted in the imprisonment of Yuliya Tymoshenko; weakening of freedom of mass media, and growing opportunities for corruption.²³ Among the most serious problems the annual US State Department Ukraine 2012 Human Rights

Report mentioned a politically motivated imprisonment of Yuliya Tymoshenko and Yuriy Lutsenko, and, similar to the Freedom House report, noted the growing interference of state and pressure on mass media, including violence against journalists.²⁴

Regulatory framework for assemblies. The Ukrainian model of relations between the state and society has failed to ensure a consistent regulatory framework for peaceful assemblies. This allows the competent authorities to restrict the citizens’ right to peaceful assembly, especially when it comes to protests and demonstrations held against the regime.

The existing legal framework for peaceful assembly is incomplete and outdated, and lacks a precise procedure for organising and holding peaceful assemblies and reasons for their possible prohibition. **A basic law is absent.** Local authorities are either guided by the Article 39 of the Constitution that guarantees the citizens’ right to peaceful assembly upon prior notice, or try to substitute the law with doubtful (in terms of their compliance with the Constitution) decisions of local self-government bodies. Formally, the Decree of the Presidium of the USSR High Council “On the Procedure for Organising and Holding Rallies, Meetings, Street Marches and Demonstrations in the USSR” No.9306 of 28 July 1988, is still valid.²⁵ Such a situation leaves space for arbitrariness of the authorities, and makes it hard to challenge their decisions in court.

The most common means of restricting the civil right to peaceful assembly are the local authorities’ petitions to courts with a request to prohibit certain events. As a rule, courts tend to satisfy such claims (Insert “Use of courts for preventing...”, p.22).

The European Court of Human Rights, when considering the case of O. Verentsov against Ukraine (he was punished with three days of administrative arrest for organising an unauthorised meeting) found a 20-year “gap” in the Ukrainian legislation on freedom of peaceful assembly and called upon Ukraine to immediately implement the respective reforms.²⁶ Previously, the need to ensure freedom of peaceful assembly was noted in the Joint Statement following the 16th EU-Ukraine Summit.²⁷

The Strategy for public policy to promote the development of civil society in Ukraine in 2013 and priority measures for its implementation (enacted by a Presidential Decree of 25 June 2013) envisaged the drafting of a relevant bill by taking into account the recommendations of the Venice Commission and its further submission for consideration to the Parliament.²⁸ This can be either a positive sign of the authorities’ understanding of the need to make

²¹ Joint Opinion on the Draft Amendments to the Laws on Election of People’s Deputies and on the Central Election Commission and on the Draft Law on Repeat Elections of Ukraine, European Commission For Democracy Through Law (Venice Commission) and OSCE/Office For Democratic Institutions and Human Rights (OSCE/ODIHR). – OSCE web site, <http://www.osce.org/odihr/elections/102816>.

²² Ukraine. Freedom in the World 2013. – Freedom House web site, <http://www.freedomhouse.org/report/freedomworld/2013/ukraine>.

²³ *Ibid.*

²⁴ Ukraine 2012 Human Rights Report. – US Department of State, Diplomacy in Action, <http://www.state.gov/documents/organization/204561.pdf>.

²⁵ See: Verkhovna Rada web site, <http://zakon2.rada.gov.ua/laws/show/v930640088> (in Ukrainian).

²⁶ ECHR proposes Ukraine to reform legislation of peaceful rallies – verdict in the case of Lviv resident Verentsov. – *Interfax Ukraine*, April 11, 2013, <http://interfax.com.ua> (in Russian).

²⁷ Joint statement of the 16th Ukraine–EU Summit. – President of Ukraine web site, <http://www.president.gov.ua/news/26963.html> (in Ukrainian).

²⁸ Plan of measures at implementation of the Strategy of the state policy of promotion of civil society development in Ukraine in 2013. – *Ibid.*, <http://president.gov.ua/documents/15829.html> (in Ukrainian).

USE OF COURTS FOR PREVENTING THE EXERCISE OF THE CIVIL RIGHT TO PEACEFUL ASSEMBLY AND EFFECTS OF SUCH PRACTICE

Analysis of the judicial practice in 2010-2013 shows that the courts have been increasingly active in prohibiting peaceful assemblies, by often disregarding the Constitution of Ukraine or basing their decisions purely on assumptions.¹

This shows that courts are willing to satisfy the government's requests to prohibit peaceful assemblies, by any means. At the same time, there have been mass and regular violations of the right to peaceful assemblies by law-enforcement agencies – interference with participation in peaceful assemblies, preference to one party during their conduct, ungrounded termination of peaceful protests and detention of its participants, non-interference of militia in cases of violent clashes between opponents, excessive use of force against participants of peaceful assemblies, etc.²

There is a tendency to persecute organisers and participants of peaceful assemblies (previously observed in 2004), in particular seen in application by courts of different coercive measures to such persons, including the administrative arrest. The government has been active in resorting to criminal proceedings and conviction of participants of various mass actions.³

For instance, according to the Ministry of Internal Affairs, there had been over 172 thousand peaceful protests in 2011 (in 2010 – over 260 thousand). Meanwhile, the number of court rulings prohibiting peaceful assemblies in 2011 was larger than in 2010, and in 2010 – twice higher than in 2009.⁴

According to the expert data (obtained from the analysis of court decisions entered in the Unified State Register of Court Decisions), the number of cases restricting peaceful protests considered in 2012 by district administrative courts increased by more than a third, compared to 2011: 362 rulings against 227, respectively. Among them 318 rulings prohibited peaceful assemblies (203 bans in 2011). The percentage of bans remained almost the same: in 88% of cases, the courts had ruled in favour of the government⁵ (in 2010 – 83%).⁶ At that, there were regions where the district and appellate courts passed 100% of decisions in favour of the authorities (in particular, this refers to the city of Kharkiv).⁷

The courts proved to be rather creative in reasoning their decisions, in particular, by saying that:

- organisers of peaceful protests did not specify the forms and methods of medical assistance to their participants;
- in the notice, the organisers did not specify the peaceful nature of the protest or the exact location of loudspeaker equipment;
- the protest against the “law on language of Kivalov-Kolesnichenko” organised in the centre of Kyiv fell on the beginning of July, when the US Independence Day was celebrated, and due to the importance of this holiday, there was “a real threat of terrorist acts”;
- a peaceful protest was planned “during the winter period and therefore, as a consequence, the heating equipment could have been used”;
- a meeting might have caused “negative reaction and reasonable indignation” from the city residents and visitors.⁸

To prohibit peaceful assemblies, the courts also often referred to the practice of the European Court of Human Rights, while ignoring its decisions.

The reversal of the position of appellate courts reviewing decisions of local courts in such cases also strikes the eye. While in 2009, appellate courts passed 38% of decisions in favour of the authorities (i.e., organisers of peaceful rallies won the majority of cases in the appellate instance), in 2010 – 66%, in 2011 – 73%; and in 2012, the share of judgements favourable for the authorities hit 76%.

Experts predicted that year 2013 may see further complication of exercise of the right to peaceful assembly. Such fears stem from the fact that the Higher Administrative Court of Ukraine at the beginning of the year passed a few decisions that “dissolve any hopes for changing the judicial practice with regard to peaceful assembly”.⁹

Implications

The authorities by prohibiting peaceful protests through judicial decisions try to “curb” the people – to neutralise protest spirits in society, to prevent undesired changes in the socio-political situation by barring organised mass actions, especially those of political nature. As one could see from the above, in recent years the courts have become the main tool for extinguishing popular anger.

Meanwhile, more often this anger is directed against the judicial and law-enforcement systems. This refers not only to the so-called political cases but also to many others. For instance, the murder case of Oksana Makar, the case of “Pavlichenko”, the case of brutal beating and rape of Iryna Krashkova by police officers in the village of Vradiyivka, Mykolayiv region.

Such public events are often of large scale, involve extreme forms of public response and political implications. For instance, the mass protests related to the “Pavlichenko case” were well organised, involved many young people, and happened around different places in and beyond Ukraine. The mass demonstrations caused by the events in Vradiyivka escalated into an open confrontation between local residents and representatives of the government and led to an attack on the local police department. In fact, the events in Vradiyivka resembled the “Maydan”, where local residents defended their constitutional rights to life, security, honour and dignity. As a result, the locals had given the authorities an ultimatum to ensure proper legal reaction to crime.

Characteristic of these events was the fact that their participants defended not personal or corporate (political) interests, but civil rights, in particular, the right to a fair trial and equality before law.

These events demonstrate not only the critical level of public distrust in the government, but also the fact that public institutions designed to protect citizens from unlawful encroachments are regarded by them as a source of insecurity. Mass protests are particularly dangerous for the current political regime, therefore the government will do all possible to prevent them and minimize their consequences. That is what makes the President and the heads of law-enforcement agencies to resort to unusual methods of response to both the events that might lead to mass protests, and to mass protests as such.

¹ Chemerys V. Freedom of assembly: Ukrainian practice. – <http://www.pravda.com.ua/columns/2012/05/14/6964413/> (in Ukrainian).

² Human rights in Ukraine: 2011. Summary report by human rights organisations. Freedom of peaceful rallies. – Information web site of the Kharkiv human rights protection group, <http://khpg.org/index.php?id=1332322109>; Authorities began bulldozing leaders of voter uprising in Pervomaisk. – <http://ordua.com/2013/03/24/vladapochalaterorizuvatiliderivpovstannyavibortsivupervomajsku/?lpage=1>; Law-enforcers in Rivne “detained” participants of a peaceful event. – <http://www.civicua.org/news/view.html?q=1802358> (in Ukrainian).

³ See, e.g.: In Khmelnytskyi, court passed sentence to four participants of the tax Maydan. – <http://tyzhden.ua/News/26641>; Participant of peaceful event “Execution of judges” sentenced to 50 hours of corrective work. – <http://pravoznaty.org.ua> (in Ukrainian).

⁴ Human rights in Ukraine: 2011. Summary report by human rights organisations. Freedom of peaceful rallies. – <http://khpg.org/index.php?id=1332322109> (in Ukrainian).

⁵ Such data differ from the judicial statistics of the State Court Administration, according to which, in 2012, district administrative courts passed 398 rulings in such cases, 349 of them (88 %) sustained petitions to limit peaceful rallies. According to experts, the difference between the register and statistic data may be explained only by that some decisions, contrary to the law, are not entered into the register. See: Sereda M. Freedom of peaceful rallies 2012: court test. – Yurydychnyi Visnyk Ukrayiny, March 16, 2013, p.67 (in Ukrainian).

⁶ Human rights in Ukraine: 2011. Summary report by human rights organisations. Freedom of peaceful rallies. – <http://khpg.org/index.php?id=1332322109>

⁷ The number of court bans of peaceful rallies in 2012 substantially increased. – <http://pravo.org.ua>.

⁸ Top-6 absurd court decisions banning peaceful rallies. – <http://racurs.ua/news/7474> (in Ukrainian).

⁹ Sereda M. Freedom of peaceful rallies 2012: court test ...; Higher Administrative Court complicated life of picketers. – <http://www.unian.ua/news/554269> (in Ukrainian).



these changes in the near future or simply an attempt to once again simulate the adoption of European standards.

Freedom of speech and mass media: old problems persist. Freedom of speech and independence of mass media in Ukraine are rather peculiar. Namely, most of the national and regional mass media are not business projects but, rather, tools for promoting business and political interests of their owners.

The public has no influence on the information policy and cannot be sure that media provides an objective and complete information rather than propaganda of the authorities.

Here is one example of an attempt to exercise public control of the leading TV channels. On 10 December 2012, the International Renaissance Foundation and Inter Media Group Ltd (the company – owner of Inter TV channel²⁹) signed a Memorandum on the creation of a public council at the Inter TV channel.²⁹

But on 1 February 2013, the channel changed its owner. The new shareholders of Inter Media Group Ltd included companies belonging not only to a businessman Dmytro Firtash but also to the Presidential Administration Head Serhiy Lyovochkin³⁰ that gives ground to suggest political motives behind that sudden change.³¹ The channel's Public Council was liquidated.³²

The end of April saw an alarming situation surrounding the independent television channel TVi that used to be loyal to the opposition. The abrupt change of owners, with one of the co-owners denying any sales talks, was yet another attempt of the current regime to establish control of the channel.³³

The purchase of one of the biggest Ukrainian media holdings UMH Group³⁴ by VETEK Group also have attracted much attention. The VETEK Group is owned by a young Kharkiv businessman Serhiy Kurchenko,³⁵ who is believed to be a puppet, while the actual goal of the sale was to monopolise media in Ukraine.³⁶

At the same time, the attempts are made to effectively introduce censorship on the Internet, as shown by the bill submitted by the National Deputy Volodymyr Oliynyk (Party of Regions).³⁷ Although Mr. Oliynyk had recalled the bill under public pressure, this does not rule out similar attempts on behalf of the government in the future.

According to the Press Freedom Index 2013 provided by the international human rights organisation “Reporters

without Borders”, in 2012 Ukraine ranked 126th out of 179 countries in the general ranking of freedom of press – that is, 10 lines down, compared to the previous year.³⁸ This is the worst indicator since the Orange Revolution. In particular, the report notes more frequent acts of violence against journalists in Ukraine, not investigated by the authorities.

The creation of public television is also problematic. On 3 July 2013, the Parliament passed in the first reading the bill “On Public Television and Radio Broadcasting in Ukraine” (353 votes “for”). However, according to conclusions of the respective parliamentary committee and the Main Scientific Experts Office of the Verkhovna Rada, the bill has yet to be improved, since it contains some serious drawbacks and does not comply with the concept of public television and radio broadcasting.

Summing up, it can be argued that the situation surrounding the freedom of press in Ukraine does not fully meet European standards. However, despite all the controversy, the freedom of press still exists in Ukraine, which makes it different from other Eurasian countries.

Problems of the judiciary and status of the prosecution

One of the main official goals of the 2010 judicial reform was to bring the Ukrainian judiciary system in line with international, first of all, European standards.³⁹ However, the reform has brought the opposite results, since the negative aspects of current judicial practices outweigh some positive elements introduced by it (Insert “Impact of the judicial reform”).⁴⁰

The issue of “selective justice” and non-compliance of the role and tasks of the public prosecution with European norms – enabled by a significantly increased dependence of the judiciary and judges on the executive branch and, above all, the President of Ukraine – have been among the main drawbacks of the Ukrainian judicial system.

IMPACT OF THE JUDICIAL REFORM

The reform failed to solve the systemic problems repeatedly noted by national experts, human rights activists, and international institutions, including the Venice Commission and the ECHR. In the first place this refers to: the spread of corruption in courts; dependence of courts and judges; politicisation of the procedure for appointing judges; violation of reasonable terms of review of judicial cases (red tape); mass non-execution of court judgements; heavy load on courts; regular underfunding of the judicial branch; critically low public trust in courts.

²⁹ Public supervisory council set up at Inter TV channel. – *Telekrytyka*, December 10, 2012, <http://www.telekritika.ua> (in Ukrainian).

³⁰ Presidential Administration Head Lyovochkin – Group DF will become a minority shareholder of Inter Media Group. – *Interfax Ukraine*, February 7, 2013 (in Ukrainian).

³¹ Presidential aide acquires big stake in leading TV station. – *Reporters Without Borders web site*, February 14 2013, <http://en.rsf.org/ukrainepresidentialaide-acquiresbig14022013.44074.html>.

³² Public council of Inter TV channel. Press Release. – Inter TV channel web site, March 7, 2013, <http://inter.ua> (in Ukrainian).

³³ See: Kostyantyn Kahalovsky: I was not and am not going to sell TVi. – *Ukrayinska Pravda*, April 25, 2013 (in Ukrainian).

³⁴ In particular, it included such publications as *Korrespondent*, *Forbes Ukraine*, *Komsomolskaya Pravda in Ukraine*, *korrespondent.net* Internet publication, *bigmir.net* portal.

³⁵ East European Fuel and Energy Company of Kurchenko buys UMH group media holding. – *forbes.ua* Internet publication, June 20, 2013, <http://forbes.ua/business/1354299kurchenkopokupaetmediaholdingumhgroup> (in Ukrainian).

³⁶ See, e.g.: Klitschko: Well-known people stand behind Kurchenko. – *Ukrayinska Pravda*, June 22, 2013, <http://www.pravda.com.ua/news/2013/06/22/6992840/> (in Ukrainian).

³⁷ Internet is bound by laws. – *Kommersant Ukraine*, June 10, 2013, <http://www.kommersant.ua/doc/2208588> (in Russian).

³⁸ See 2013 World Press Freedom Index: Dashed Hopes After Spring. – *Reporters Without Borders web site*, <http://en.rsf.org/pressfreedomindex2013.1054.html>

³⁹ See: Explanatory note to the Bill “On Judiciary and Status of Judges” (Reg. No.6450 of May 31, 2010) (in Ukrainian).

⁴⁰ Judicial reform in Ukraine: current results and nearest prospects: Razumkov Centre information and analytical materials. – Kyiv, 2012 (in Ukrainian).

With some reservations, the positive effects of the judicial reform include:

- a new procedure for appointing the candidates for judges;
- education and training of candidates for judges;
- some procedural changes (e.g., cancellation of the appellate instance's ability to send cases for a consideration to the court of the first instance);
- restriction of powers of court presidents and expansion of powers of judges meetings;
- automatic distribution of cases among judges;
- subordination of the State Judicial Administration to the Congress of Judges of Ukraine;
- a new procedure for removal of judges from office in connection with criminal prosecution;
- an increase of judges' salaries (first of all, for judges of local courts);
- implementation of a new procedure for declaration of incomes and expenditures by judges.

However, these positive elements are nullified by:

1) prevalence of negative effects of the reform; 2) dilution of the legislative essence of positive elements at their practical application (in particular, this refers to selecting candidates for judges and automatic distribution of cases among judges); 3) backward legislative changes (in particular, limitation of opportunities for public access to court judgements, weakening of financial control of judges' incomes and expenditures).

The reform has worsened the situation in the national judiciary and led to the emergence of new or the increase of old negative factors:

- increasing dependence of the judicial branch and judges;
- restricting possibilities to exercise the right to a fair trial;
- impaired access to justice;
- non-transparency of the judicial system;
- "washout" of the professional core of the judiciary;
- weakening self-governance of the judiciary;
- restrictions on social protection for judges.

Independence of the judiciary

The main European standard (priority norm) in the field of justice presumes guarantee of independence of the judicial branch (achieved, in particular, through independence of judges).

Formally, a series of legislative novelties of the judicial reform would appear as being in line with international standards and aiming to improve the situation regarding the independence of judges in Ukraine. They include, inter alia, the new procedure for appointing judges (first appointment) and change of the court president status, thereby reducing its procedural role.

Instead, these legislative novelties have only enhanced the political dependence of the judiciary already in place, when the basic law ("On the Judicial System and the Status of Judges") was still in the making.

First of all, this refers to the expansion of powers of the High Council of Justice, change of grounds for dismissal of judges for the breach of oath and the procedure of appeal against acts, actions and inaction of the High Qualification Commission of Judges Ukraine, the High Council of Justice, Parliament and the President.

The above Law enabled the High Council of Justice and its members (most of whom represent member of other than the judicial branches of state power) to have influence on judges' decisions, and substantially reduced the constitutional guarantees of the autonomy of courts and independence of judges, and their ability, as bearers of the judicial power, to defend their right to refute accusations of commitment of disciplinary offences and unreasoned dismissal from office.

The Law gave rise to a series of high-profile dismissals of judges for "breach of oath" in 2010 and during the 1st half of 2011, including the demonstrative dismissal of a judge of the Supreme Court, Deputy Chairman of the Council of Judges of Ukraine in 2007-2010 O. Volkov, and Chairman of the District Administrative Court in Kyiv O. Bachun, etc. This had a strong "educational" effect on representatives of the judicial branch as a whole and demonstrated the possibility of using courts for the purpose of "selective justice".

These steps created a situation where, according to then Supreme Court Chairman Vasyl Onopenko, the judges became "afraid of taking lawful decisions".⁴¹

Another serious blow on the judges' independence was delivered by legislative changes in organisation of judges' self-governance and principles of its functioning. The authors of the reform termed those changes as "sharp enhancement of judges' self-governance in line with requirements of the Council of Europe experts".⁴²

Instead, the analysis of legislative novelties that regulate the judges' self-governance and its application give grounds to conclude that there have been a sufficient reduction in the efficiency of judges' self-governance, its departure from solving the key problems of the judicial branch (first of all, guarantee of autonomy of courts and independence of judges).

Unconstitutional expansion of powers of the High Council of Justice, actual ruination of judges' self-governance and shattering of the constitutional status of the Supreme Court led to a serious deterioration of the situation with regard to the independence of judges. It was noted by national politicians, experts and international institutions. For instance, PACE Resolution No.1862 (2012) "*Functioning of Democratic Institutions in Ukraine*" expressed deep concern about the absence of an independent judicial system.

The situation was not improved by the Law "On Amendments to Certain Legislative Acts of Ukraine on Strengthening the Independence of Judges" adopted on 5 June 2012, that:

⁴¹ See: Vasyl Onopenko: "It fell to me" (speeches, letters, interviews, chronicle of events – 2006-2010). – Kyiv, 2010, p.488 (in Ukrainian).

⁴² See: Records of the Verkhovna Rada of Ukraine sitting on June 3, 2010. – Verkhovna Rada web site, <http://static.rada.gov.ua> (in Ukrainian).



- banned prosecutors to file complaints to the High Council of Justice – for verification of reports about breach of oath by judges, disciplinary offences by judges of the Supreme Court, higher specialised courts, to the Higher Qualification Commission of Judges – for disciplinary proceedings against judges of local and appellate courts until the completion of court review of the relevant case and effectiveness of the court judgement;
- banned the High Council of Justice members representing prosecution to check the breach of oath by judges following prosecutor appeals;
- amended the Laws “On the Rule of Procedure of the Verkhovna Rada of Ukraine” and “On Judiciary System and Status of Judges”, enabling the President and the Parliament to exercise their statutory powers in that domain only within the framework and on the basis of submissions by the High Council of Justice and the Higher Qualification Commission of Judges, without their own check of correspondence of candidates for judges to requirements provided by the legislation.

However, these changes – without reforming the High Council of Justice according to the European principles, eliminating the political accountability of this body and the Higher Qualification Commission of Judges to political institutions (especially, to the President), and their membership in them – had little practical impact on independence of the judicial branch in Ukraine. The current composition of these bodies responsible for appointment and conduct of disciplinary proceedings with respect to them, in the conditions of heavy load on many courts (which causes breach of the terms for consideration of cases by judges), **makes judges to stay loyal to the authorities, take decisions in their interests even without any input from their representatives.**

Prosecution of political opponents (“selective justice”)

Active use of courts and law-enforcement agencies to exert pressure on political opponents is becoming a usual practice.

For instance, numerous criminal cases were instituted against senior members of the previous government, mainly those who represented the *Batkivshchyna* Party or its political allies, in particular the cases against former Prime Minister

Yuliya Tymoshenko, Minister of Economy Bohdan Danylyshyn, Minister of Internal Affairs Yuriy Lutsenko, Head of the Customs Service Anatoliy Makarenko, acting Minister of Defence Valeriy Ivashchenko, First Deputy Minister of Justice Yevhen Korniyuchuk, Kharkiv Regional State Administration Head Arsen Avakov, and other representatives of certain ministries and agencies.

Most of them were taken in custody, including Yuliya Tymoshenko and Yuriy Lutsenko. However, according to expert conclusions, the restraints used far exceed the social danger of crimes imputed to those officials.⁴³ The ECHR ruled that the arrest and detention of Yuliya Tymoshenko and Yuriy Lutsenko was done in violation of the European Convention of Human Rights.⁴⁴

Experts, lawyers, representatives of other countries and international organisations termed such actions of the authorities as political persecutions.⁴⁵

Leaders of the European structures and leading countries of the world now see selective justice and politically motivated court judgements as one of the main obstacles on Ukraine’s road to European integration.

Executives of the European Council and the European Commission expressly say that in order to be a close partner of the EU, Ukraine should demonstrate strong political will and make resolute steps in that direction – one of them is solving the problem of selective justice.⁴⁶

As seen by some EU representatives, international institutions and foreign states, one of such steps was the release of Yuriy Lutsenko. For instance, the EU High Representative for Foreign Affairs and Security Policy Catherine Ashton and the EU Commissioner for Enlargement and European Neighbourhood Policy Štefan Füle noted that it was an important step of the Ukrainian authorities in solving issues, which caused concern with regard to selective application of justice. Their statement reads: “We salute President Yanukovich exercising his prerogative of pardoning in the cases of former Interior Minister Yuriy Lutsenko and former Environmental Protection Minister Heorhiy Filipchuk. [...] We now look forward to Ukraine addressing without further delay the outstanding case of selective justice and preventing any recurrence of selective justice by a comprehensive judicial reform in line with European standards, in order to fully implement the conclusions of the 10 December 2012 Foreign Affairs Council and the joint statement of the 25 February 2013 EU-Ukraine Summit”.⁴⁷

⁴³ See: Selective criminal persecution is a sign of undemocratic government. – Ukrainian Helsinki Human Rights Union, December 22, 2010; <http://www.helsinki.org.ua>; Experts: arrests of Tymoshenko government officials – fighting corruption, or political reprisals? – Voice of America, Ukrainian service, August 26, 2010; <http://www.voanews.com/ukrainian>; Bereziuk O. “Case of Korniyuchuk” as evidence of beginning of reprisals in Ukraine? – <http://glavcom.ua/articles/2552.html> (in Ukrainian).

⁴⁴ ECHR verdict in the case of Lutsenko against Ukraine. – Kharkiv Human Rights Group web site, <http://khpg.org/index.php?id=1359448470>; ECHR verdict in the case of Tymoshenko. Full text. – <http://news.bigmir.net/ukraine/702492RishennyaESPLyspraviTymoshenkoPovniitekst> (in Ukrainian).

⁴⁵ This is mentioned in PACE Resolution “Functioning of Democratic Institutions in Ukraine” of January 26, 2012; in the open letter by Foreign Ministers of Sweden, Great Britain, the Czech Republic, Poland and Germany released by *New York Times* in March, 2012, in the European Parliament Resolution of May 24, 2012, in the US Senate Foreign Relations Committee Resolution of June 25, 2012.

⁴⁶ H. Van Rompuy, J.M.Barroso. Key step for relations between the EU and Ukraine. – *Ukrayinska Pravda*, February 24, 2013 (in Ukrainian).

⁴⁷ Joint Statement by EU High Representative, Catherine Ashton, and Commissioner Štefan Füle on the pardoning of Yuriy Lutsenko. – http://www.consilium.europa.eu/uedocs/cms_Data/docs/pressdata/EN/foraff/136668.pdf.

Problem of reforming the public prosecutor's office

The reform of the Ukrainian public prosecution is one of the key conditions for signing the Association Agreement. This condition stems from the need: 1) to implement provisions of the Ukrainian Constitution that redefine the status and powers of national public prosecutor's offices; 2) to fulfil its international commitments, in particular, to the Council of Europe; 3) to fundamentally change the principles of activity of public prosecution, its place in the legal system of state.

Powers of public prosecutor. Ukraine's Constitution (Article 121) provides an exhaustive list of powers of public prosecutors. It does not include such functions as supervision of observance and application of laws (general supervision) and preliminary investigation. Transitional provisions of the Constitution (item 9, section XV) provide that public prosecutor offices continue to discharge those functions "until putting into force of laws regulating the activity of state bodies regarding control over the observance of laws, until the formation of a system of pre-trial investigation, and putting into force of laws regulating its functioning". 17 years have passed since the adoption of the Constitution, but Ukraine's public prosecution continues to exercise functions not intrinsic to prosecution in democratic states governed by the rule of law.

Ukraine's international commitments. Joining the Council of Europe, Ukraine assumed the commitments to change the role and functions of prosecution, to transform that institution into a body meeting standards of the Council of Europe. Considering issues of fulfilment of these obligations by Ukraine, PACE has repeatedly stressed the need of fulfilment of the obligation to reform public prosecutor's office and even noted a retreat in that issue. For instance, in Resolution 1466 (2005) "Honouring of obligations and commitments by Ukraine" of 5 October 2005, PACE regretted "the step back in the reform of the *Prokuratura* marked by the December 2004 constitutional amendments, to modify the role and functions of this institution as required by Assembly Opinion No. 190 (paragraph 11.vi) and paragraph 9 of the transitory provisions of the 1996 Constitution of Ukraine and in line with Assembly Recommendation 1604 (2003) on the role of the public prosecutor's office in a democratic society governed by the rule of law".⁴⁸

Fulfilment of international commitments. Parliament has seen many bills intended to change the status of public prosecutor. However, according to the Venice Commission, most of them mainly sought to preserve the Soviet model of prosecution, where public prosecutor's offices remained a powerful and overly centralised institute.⁴⁹ The Venice Commission generally positively assessed the Bill "On Public Prosecutor's Office" drafted by the Ukrainian Commission on Strengthening and the Rule of Law under the President of Ukraine (chaired by Serhiy Holovaty),

noting that the bill has been "an important step towards the reform of the Public Prosecutor's Office in Ukraine to bring it into line with European standards".⁵⁰ However, the President did not submit the Bill to the Parliament.

Therefore, despite numerous amendments to the Law "On Public Prosecutor's Office of Ukraine" and adoption of a new Criminal Procedure Code,⁵¹ public prosecutor's offices in Ukraine actually remain an unreformed institution.

The real functions of public prosecutor's offices. Over the years of Ukraine's independence, national public prosecution, in fact, failed to change the status of Soviet public prosecutor offices but managed to expand its powers.⁵² The past three years has seen its increasing influence on legal, political, economic and other processes in the country. Prosecution took a dominant place in Ukraine's legal system, contrary to principles of a democratic state governed by the rule of law, and a legal system dominated by the court. Given that court in Ukraine has actually lost its "natural" function of exercising justice, this is very alarming for further democratic and legal development of the country.

Domination of public prosecutor offices over courts and other law-enforcement agencies is evident in the criminal judiciary, especially in the so-called politically motivated cases. After the judicial reform of 2010, Ukraine appeared to be in a situation where public prosecutor's offices together with courts and other law-enforcement agencies present elements of one repressive mechanism of the state, whose activity is aimed at securing the present political regime and removing any potential danger.⁵³ Activity of public prosecutor's offices involves strong politicisation and neglect of the law, which, in particular, was established by the judgement of the European Court of Human Rights in the case of detention and arrest of Yuliya Tymoshenko and Yuriy Lutsenko.

Prospects for fulfilling the EU requirements to reform public prosecutor's offices. They, in the EU, are well aware of a real threat to democracy in Ukraine posed by the current situation with regard to public prosecution. That is why, the key institutions of the EU and their executives insist on reforming the public prosecutor's offices in Ukraine in line with European standards. Instead, it seems that the Ukrainian leadership is not interested in such reforms, since it will deprive it of an efficient mechanism for achieving political and personal goals (such as preservation of power, protection from legal responsibility, removal of political rivals, enrichment). That said, one might expect the public prosecution reform to be prolonged by all means and replaced by minor "cosmetic" changes that will change the form but not the substance of the core activity of public prosecutor's offices. This is particularly manifested by the ongoing preparations for the second reading of the Bill "On the Public Prosecutor's Office of Ukraine" (Reg. No.0886). ■

⁴⁸ See: <http://assembly.coe.int/Main.asp?link=/Documents/AdoptedText/ta05/ERES1466.htm>.

⁴⁹ See, e.g., Venice Commission Opinion on the draft Law of Ukraine "On Public Prosecutor's Office" dated June 13, 2009.

⁵⁰ See: Venice Commission Opinion No.667/2012 on the draft Law of Ukraine "On Public Prosecutor's Office". – <http://www.venice.coe.int/webforms/documents/?pdf=CDL-AD%282012%29019-e>.

⁵¹ The new Code of Criminal Procedure of Ukraine in fact left the function of pre-trial investigation of crimes to public prosecutor offices for five years.

⁵² For more detail see: Melnyk, M. Unbiased assessment of the new Code of Criminal Procedure will rest on its application. – *Dzerkalo Tyzhnya*. Ukraine, May 7, 2012, p.6 (in Ukrainian).

⁵³ Judicial reform in Ukraine: current results and near prospects..., p.94.

3. ECONOMIC ASPECTS OF UKRAINE'S EUROPEAN INTEGRATION

The Association Agreement between Ukraine and the EU contains provisions on establishment of a deep and comprehensive free trade area (DCFTA). Respectively, the effectiveness of those provisions (in case of the Agreement signing) will seriously influence the Ukrainian economy, in particular – Ukraine's trade with the EU countries and its trade partners beyond the European Union. This primarily refers to the Customs Union countries, first of all – Russia, now one of the biggest trade and economic partners of Ukraine.

The fact that Russia, a leading power of the Customs Union, is strategically interested in incorporating Ukraine prompted active discussion of the results and effects for Ukraine from its accession to the CU or from signing the Association Agreement.

This discourse that takes place in political (including higher) circles of all concerned parties – the EU, Ukraine and Russia, is an important element of final decision-making. The arguments include, *inter alia*, assessments of economic effects for Ukraine from making its final choice. Therefore, it makes sense to present such comparative assessments in this section.

3.1. Key elements of European integration influencing Ukraine's economy

Participation in European integration by nature is not just a process of interaction between the EU and Ukrainian economies but, first of all, it is **the process of deep penetration of the EU institutions (legislation, norms and rules of business, best practices, etc.) into the Ukrainian economy**. Here, the EU acts primarily as a factor of influence on internal processes. For Ukraine, however, opting for the EU – a global power, an active actor of international economic relations and a member of influential international organisations also entails choosing one's place in the world economy and in the process of formulating and implementing key decisions on global economic development (Insert "*The EU as a global economic and political power*"). In this connection, the following factors are of primary importance.

Trade liberalisation, investment flows and labour migration

The process of Ukraine's integration with the EU will result in trade liberalisation (in goods and services). The provisions of DCFTA contained in the Association Agreement envisage substantial and growing (over ten-year transition period) process of removing barriers to mutual movement of goods and services. At that, **change of trade procedures with the EU will not influence the procedures of Ukraine's trade with other countries of the world and will not restrict Ukraine's ability to enter into other free trade agreements, including with the Customs Union**.

Ukraine's integration with European market will mean:

- **significant expansion of consumer choice** in domestic market, since the supply of goods and services will become similar to supply structure within the common EU market;

- possible **reduction (or, at least, a limited growth) of prices** for certain goods and services as a result of increasing competition in the domestic market, and cancellation or reduction of customs duties;
- growing **incentives for modernisation and innovation** for domestic manufacturers in conditions of growing competition.

The provisions of the DCFTA envisage opening up most of the service sector, which may strongly facilitate access to the EU market for Ukrainian service providers. At that, transborder provision of services is a subject to national procedures that guarantee equal treatment of foreign and local services. Similarly, DCFTA envisages **introduction of national procedures for mutual investment**, which will substantially simplify investment procedures, first of all – for direct investments.

To be sure, opening of markets and cancellation of custom duties will bring not only gains but also **complications to some sectors of economy**. In light of trade liberalisation, Ukrainian manufacturers of goods competing with imports from the EU will experience growing pressure from competitors and face the danger of closure of non-competitive enterprises. However, such difficulties are not unconditionally bad, since in the longer run, and on condition of adequate reaction to new challenges, they **may encourage development and modernisation of economic structures**.

In the result of DCFTA, **Ukraine's state budget** will be short of revenues¹ from collection of duties on imported goods and income tax payable by non-competitive Ukrainian enterprises. However, those losses may be more or less offset by the growth of revenues from taxes on incomes of exporting enterprises and general intensification of investment activity in a more competitive environment. Stimulating **growth of globally competitive industries** through competition the state **will gradually expand its revenue-based budget**.

¹ With the annual imports from the EU to Ukraine to the amount of \$25.753 million (2011), reduction of the average import duty rate (4.5% in 2011, according to the WTO) to 0% would mean budget losses to the amount of \$1.159 million.

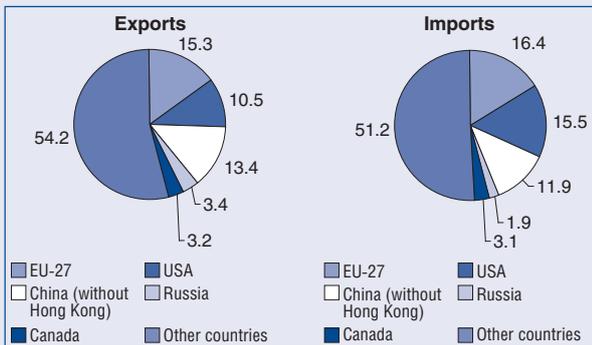
THE EU AS A GLOBAL ECONOMIC AND POLITICAL POWER

1. The EU represents the main regional market in the present-day world economy, by many parameters exerting serious influence on the general dynamic and structural changes in the world economy in general.

As of 2010, the EU accounted for over a quarter (25.8 %) of the world GDP.¹ By this indicator, the EU was ahead of the US (22.9 %), China (9.1 %), Japan (8.7%) and other countries. By the way, Russia accounted for only some 4%.²

In 2011, the EU accounted for 15.3% of the world total exports and 16.4% – of imports (Diagram “Share in world...”).³ Although the EU share in the world trade shows a downward trade (in 2004, the EU accounted for 19% of the world exports and 19.3% – imports), this is mainly attributed to the above-average growth of shares of developing countries and emerging markets.⁴

Share in world exports and imports (2011, %)



Despite the relatively slower growth of foreign ties of the common EU market, compared to some of the most dynamic markets of the world, the general indices of the EU market dynamics are rather high. For instance, exports of goods from the EU to third countries during the decade of 2001-2011 rose by 73.2%, imports – by 72.4%; exports of services in 2000-2010 – by 69.4 %, imports – by 51.3%.⁵ By and large, both the EU exports and imports of goods and services in absolute figures already exceed €2 billion a year – which by itself witnesses the trade and economic potential of the EU.

The EU presents a gravity centre for trade flows of many countries. For instance, the share of the EU market in exports of the US, China and India makes almost 20%, Brazil and RSA – over 20%, Russia – almost 50%. In imports, those figures make: for the US and Australia – a bit less than 20%, Brazil – 20%, RSA – over 30%, Russia – over 40%.⁶ Noteworthy, **Russia, competing with the EU for the title of the gravity centre for post-Soviet states, has record-high indices of dependence of trade flows on the common European market.**

2. The EU influence also rests on its huge investment potential. This, in particular, is manifested in very significant capital investments beyond the EU borders that achieved their maximum before the global crisis of 2008-2009 (in 2007, the EU invested in the economy of other countries of the world €550.7 billion, but till 2010, under the effect of global instability, including in the euro zone, that figure dropped to €106.7 billion).⁷

By the end of 2009, the EU invested in other European countries totalling €885.1 billion (which made 24.1% of its total accumulated direct investments; the EU invests more only in North America – 35.2%). The possibility of active employment of the EU capital is witnessed, in particular, by the experience of Russia that in 2009 raised direct investments from the EU worth €88.8 billion. For Ukraine,

the relevant figures are much less impressive, but also substantial: in 2007, direct investments from the EU totalled €5.3 billion, in 2008 – €7.3 billion, in 2009 – 3 billion. However, since 2009, the inflow of capital from the EU has actually stopped. **Therefore, the investment tool of the EU seriously weakened.**

3. The EU, alongside with the US and Japan, is one of the world leading centres for innovative development.

- The EU has rather a high index of innovative activity of enterprises active on its market: on the average, in 2008-2010, the share of innovatively active enterprises there made 52.9%, in Germany (the country that may be termed the EU leader of innovation) – as much as 79.3%. Even in countries that lag behind in this respect (Bulgaria, Poland, Latvia, Romania, Hungary), the relevant index made 27.1-31.1%,⁸ which is almost three times higher than in Ukraine. That is, presence on the highly competitive market of the EU encourages innovation.
- The EU possesses a huge potential of high-tech development. The high-tech industry sector of the EU in 2010 accommodated 48 thousand enterprises with a turnover in excess of €522 billion that created added value totalling €163.6 billion. The EU sector of science-intensive services had 834 thousand enterprises. All in all, science-intensive activities in the EU employ nearly 76 million people (35.5% of all employed). Investments of venture capital that support high-tech innovations in 2011 totalled €43 billion only for EU15 (i.e., the EU members before its enlargement in 2004). High-tech exports beyond the EU market hit as much as €240.2 billion in 2011, although the demand for high-tech imports is also rather high – €267.2 billion.⁹
- The EU is one of the leading generators of new knowledge and technologies necessary for technological progress. This is witnessed by the data of the volumes of patenting and, in particular, the number of patent applications in the European Patent Office – EPO and the US Patent and Trademark Office – USPTO. By the former indicator, the EU is the world leader – 34 721 patent applications in 2010, while the US had 24 744, Japan – 16 777, Russia – only 212. Per 1 million residents, the EU figure makes 109, US – 97, Japan – 148, Russia – 1. At that, in such key sector as nanotechnologies, the EU accounts for 45% of all patent applications in EPO, while the US – 22%, Japan – 14%, other countries of the world – 19%.¹⁰ It should be noted however that by the number of patent applications to USPTO, the EU yields to the US four-fold, Japan – 1.7 times (although surpasses Russia 94-fold).¹¹ Per 1 million residents, the EU critically lags in patenting behind its main rivals – 7-8 times.¹² This is a result of its lag in funding scientific research – 2.03% of the EU GDP in 2011,¹³ while in US, that figure makes 2.87% (2009), in Japan – 3.36% (2009), in the Republic of Korea it hit 4%,¹⁴ while the EU “Europe 2020” high-tech development programme obliges the European Union members to maintain that indicator at a level of 3% of the GDP.

4. The EU has a substantial degree of control over decision-making processes in the world leading interstate organisations – G20 and G8, as well as the key international economic organisations – the World Trade Organisation, the International Monetary Fund, the World Bank, etc. Importantly, the position of the IMF Executive Director is traditionally occupied by a representative of the EU, and this has an immediate effect on access to funds of that institution. By and large, no important decision of those institutions shaping the general architecture of the world economy may be taken without due regard to the common position of the EU members.

¹ Hereinafter (unless otherwise is specified), it refers to the EU-27.

² Eurostat. The EU in the World 2013. – Luxembourg: Publications Office of the EU, 2012, p.18.

³ Source: Eurostat. Share of EU in World Trade. – <http://appsso.eurostat.ec.europa.eu>.

⁴ For example, China's share in world exports over the same period increased from 9.5 % to 13.4 %, and Russia – from 2.9% to 3.4 %; China's share world imports increased from 8.5% to 11.9 %, and Russia's - from 1.1% to 1.9%.

⁵ Calculated on the basis of data from: Eurostat. The EU in the World 2013. – Luxembourg: Publications Office of the EU, 2012, p. 95, 98.

⁶ Eurostat. The EU in the World 2013. – Luxembourg: Publications Office of the EU, 2012, p.97.

⁷ Data on EU investments is from: Eurostat. Europe in figures. Eurostat Yearbook 2012. – Luxembourg: Publications Office of the EU, 2012, p. 97-103.

⁸ Eurostat. Science, technology and innovation in Europe – 2013. – Luxembourg: Publications Office of the EU, 2013, p. 68.

⁹ Eurostat. Science, technology and innovation in Europe – 2013..., p. 103-108.

¹⁰ Eurostat. Science, technology and innovation in Europe – 2013..., p. 90, 95.

¹¹ Calculated on the basis of data from: Eurostat. Patents granted by the USPTO by priority year at the national level. – <http://appsso.eurostat.ec.europa.eu>.

¹² Eurostat. Europe in figures. Eurostat Yearbook 2012. – Luxembourg: Publications Office of the EU, 2012, p. 601.

¹³ Even so, the cost of scientific research in the EU is very high, according to Ukrainian standards. It amounted to €257 billion in 2011. In addition, this figure is much higher than in Russia – 1.16 % of GDP.

¹⁴ Eurostat. Science, technology and innovation in Europe – 2013..., p.26.



One should also take into account the need to **increase government spending related to structural changes** in the economy, relocation and retraining of workers. However, Ukraine desperately needs to increase such spending not only in the context of European integration, but also to achieve progressive structural reforms. If a country aims to occupy a decent place in the twenty-first century global economy, it cannot avoid this spending.

One problematic issue in the context of European integration is presented by **low pace of progress in regulation of labour migration**. The Association Agreement does not grant Ukrainians to be freely employed in the EU, but makes it somewhat easier due to: gradual liberalisation of visa regime; ongoing dialogue on migration and joint management of these processes; promoting social integration of legal immigrants from Ukraine in the country of residence; establishing the principle of non-discrimination of Ukrainian citizens legally employed on the territory of EU countries in terms of working conditions, remuneration and dismissal as compared to EU citizens; it provides that all EU members should conclude bilateral agreements with Ukraine concerning terms and conditions of employment of Ukrainians in their respective countries with possibility of gradual improvement of these conditions; wider access to professional training in those countries.

Relevant provisions on the scope of services, which include regulating the issues of temporary (up to six months during a year) employment for Ukrainians in EU countries as representatives of Ukrainian legal entity or as independent experts providing services within the EU, will also play a role here.

Harmonisation (convergence) of standards regulating economy

Harmonisation (convergence) with development policy and norms regulating economic life in the EU will exert, among all other effects of European integration, the strongest positive effect on Ukraine's economy. Harmonisation with the EU regulatory norms will be especially strong for sectors described in the Insert "Harmonisation with the EU regulatory standards ...".

Therefore, the conclusion of the Association Agreement including DCFTA, will bring **systemic reforms to key sectors of Ukrainian economy, increase the "civilisational" level of its market environment and introduce advanced methods and tools for state regulation of economic processes.**

For instance, adaptation to the EU law and policy on environmental protection will need to develop an overall environmental strategy and sectoral strategies in that field as well as the policy on climate change. This will entail relevant institutional reforms in line with approved schedule, allocation of competence in the field of environmental protection management between different levels of governance, implementation of procedures for integration of environmental protection issues into other policy areas, search for human and financial resources required for success, enhancement of responsibility for pollution prevention, and implementation of strategic approaches to investments in infrastructure and technologies in the sector.

Harmonisation with EU regulatory standards in certain sectors of economy

- **Infrastructure industry:** operational standards and policies for telecommunication services development (postal and electronic), financial services, transportation, including introduction of intelligent transport systems;
- **information society development,** including the spread of e-governance, e-business, e-education and e-healthcare, interoperability of electronic networks between Ukraine and the EU, regulatory convergence;
- **energy sector** – within the framework of participation in the Energy Community;
- **science and technologies** – within the framework of Ukraine's participation in the European Research Area;
- **some aspects of industrial policy:** regulatory practice, promotion of energy efficiency, environmentally-friendly and innovative policy, development clusters), enterprises in general, especially small enterprise based on the European Charter for Small Enterprises;
- **audio-visual policy;**
- **agricultural policy and policy of rural development,** especially with regard to provision of sustainable agricultural development, animal welfare and quality of agricultural production;
- **public procurements:** public procurements system in Ukraine should undergo fundamental reforms in line with a specially designed "road map" and adopt guiding principles for public procurements of the EU by applying EU legal standards to relevant Ukrainian legislation;
- **regulation of competition** with sequential introduction of the basic principles and mechanisms of the EU market in this area;
- **protection of consumer rights,** with approximation to standards specific of the EU;
- **protection of intellectual property,** with emphasis on protection of geographical indications;
- **environmental protection,** with introduction of strategic approaches specific of the EU;
- **employment, social policy** and creation of equal opportunities, including introduction in Ukraine of some EU labour law directives, countering discrimination and provision of gender equality, guarantee of healthy and safe working conditions;
- **protection of public health,** including gradual integration of Ukraine with European public health networks;
- **education** (first of all, higher), with creation of conditions for enhancing students' and professors' mobility, recognition of educational qualifications;
- **macroeconomic policy** (some aspects) – to ensure macroeconomic stability, sound public finance and sustainable balance of payments;
- **tax system** – with gradual approximation to the EU tax structure;
- **corporate law** (some aspects), with emphasis on accounting and reporting (audit);
- **financial law,** first of all, provisions on combating fraud.

Positive effects of approximation to the EU regulatory standards are to be manifested, first of all, by the **quality of state governance**, which is now negatively assessed. Actually all indicators of state governance in Ukraine provided by the World Bank are below world average, while in the EU they are significantly above average (Table “*Comparison of governance indicators of the EU and Ukraine*”).²

Public administration reform will significantly improve the government regulation by bringing it closer to the principles of the EU law, in particular in the following areas:

- **customs regulation:** adaptation to requirements of the relevant EU legislation and, in particular, *EC Customs Blueprints*; in this context – consistent implementation of measures aimed at improving customs procedures in Ukraine to enhance transparency and simplify customs procedures for bona fide operators, avoid discrimination, prevent fraud, apply advanced methods of customs clearance (risk assessment, control after the customs clearance and audit firms) to reduce terms of customs procedures, etc.;
- **tax system:** improvement and development of tax system in Ukraine and its administration, including improved tax collection procedures and control in this sector, with an emphasis on VAT refund mechanisms, intensified fight against tax evasion and tax fraud; gradual approximation of the Ukrainian tax system to the EU tax structure;³
- **organisation of budgeting:** development of a system of mid-term budget forecasting and planning, improvement of target-oriented approaches to budgeting and analysis of the efficiency of

implementation of budget programmes; substantial improvement of external and internal audit of public finances in line with international standards⁴ and best practices of the EU;

- **regulation of competition and subsidies:** aligning national legislation with the EU competition law within three years from the moment the EU-Ukraine Association Agreement comes into force; banning forms of state assistance that distort competition; and on the contrary, creating legal opportunities to direct state assistance for the purposes consistent with EU rules, including for implementation of important development projects of common interest, simplifying certain economic activity and activity in some separate sectors – on the basis of procedures that prevent the misuse of such types of assistance;
- **organisation of public procurements:** should be based on national rules for competition with participants from the EU countries. Reforming public procurement system will substantially constrain room for arbitrary, non-transparent, non-competitive decisions, and therefore, reduce opportunities for “grey” income (bribes, “kickbacks”, etc.).

Aligning Ukraine’s indices of global competitiveness with that of the EU’s average, especially when it comes to quality of institutions, goods markets efficiency, financial markets development, technological readiness, business sophistication and innovation is yet another potentially important element (Table “*Global competitiveness index ...*”).⁵ This means that **integration into European structures will provide Ukraine with some strong incentives for potential long-term gains.**

Comparison of governance indicators of the EU and Ukraine,
(after the World Bank methodology, 2011)

		State governance indicators (scale: from -2.5 to +2.5, average level = 0)					
		Voice and Accountability	Political stability and absence of violence/terrorism	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
EU	Average	1.12	0.77	1.16	1.22	1.18	1.03
	Maximum	1.61 (DNK)	1.38 (FIN)	2.25 (FIN)	1.93 (DNK)	1.96 (FIN)	2.42 (DNK)
	Minimum	0.41 (ROM)	-0.06 (GRC)	-0.22 (ROM)	0.51 (GRC)	-0.09 (BGR)	-0.20 (ROM)
Ukraine		-0.10	-0.15	-0.83	-0.56	-0.86	-0.99
<i>For comparison: member countries of the Customs Union and SES</i>							
Russia		-0.94	-0.88	-0.40	-0.35	-0.78	-1.09
Belarus		-1.63	-0.29	-1.09	-1.21	-1.08	-0.74
Kazakhstan		-1.19	-0.17	-0.26	-0.28	-0.63	-1.01

² Source: The World Bank. Worldwide Governance Indicators, 2012 [Electronic resource]. – Available at: <http://www.govindicators.org>; aggregated data – calculations by the Centre experts.

³ In particular, this refers to introduction in Ukraine in course of five years from the Agreement effective date of the EU Council directives on the common VAT system, harmonisation of the structure of excise duties on alcohol and alcoholic beverages, as well as the structure and level of excise duties on tobacco products. See: Council Directive 2006/112/EC of November 28, 2006, on the common system of value added tax, with exception of provisions applicable to EU Member States and special tax regimes; Council Directive 92/83/EEC of October 19, 1992 on the harmonisation of the structures of excise duties on alcohol and alcoholic beverages; Council Directive 2011/64/EU of June 21, 2011, on the structure and rates of excise duty applied on manufactured tobacco (codification).

⁴ In the field of external audit, this means introduction of standards and methods of the International Organisation of Supreme Audit Institutions (INTOSAI), in the field of internal audit – Institute of Internal Auditors (IIA), International Federation of Accountants (IFAC), INTOSAI.

⁵ Source: World Economic Forum. The Global Competitiveness Report 2012–2013. – Geneva: World Economic Forum, 2013. – p.15-20; aggregated data – calculations by the Centre experts.


Comparison of global competitiveness indices of the EU and Ukraine,
 (after the World Economic Forum methodology, 2012–2013)*

		Global competitiveness factors (scale: from 1 to 7)											
		Basic requirements				Efficiency enhancers						Innovation and sophistication factors	
		Institutes	Infrastructure	Macroeconomic stability	Health and primary education	Higher education and training	Goods market efficiency	Labour market efficiency	Financial market sophistication	Technological readiness	Market size	Business sophistication	Innovation
EU-27	Average	5.13	4.54	4.82	6.22	5.13	4.64	4.49	4.39	5.27	4.31	4.61	4.15
	Maximum	6.36 (DEU)	6.03 (FIN)	6.18 (LUX)	6.82 (FIN)	6.18 (FIN)	5.32 (LUX)	5.42 (GBR)	5.50 (FIN)	6.29 (SWE)	6.02 (DEU)	5.71 (DEU)	5.75 (FIN)
	Minimum	3.22 (ROM)	3.33 (ROM)	2.42 (GRC)	5.51 (ROM)	4.31 (BGR)	3.86 (ROM)	3.56 (GRC)	3.13 (GRC)	4.09 (ROM)	2.38 (MLT)	3.47 (ROM)	2.92 (ROM)
Ukraine		3.13	4.10	4.40	5.78	4.70	3.82	4.44	3.52	3.60	4.60	3.70	3.16
<i>For comparison: member countries of the Customs Union and SES</i>													
Russia		3.09	4.52	5.80	5.75	4.59	3.62	4.23	3.19	4.13	5.76	3.31	3.01
Kazakhstan		3.96	4.05	6.07	5.37	4.37	4.24	4.98	3.49	4.20	4.14	3.58	2.92

* Belarus is not present in the World Economic Forum Global Competitiveness Index.

Participation in development programmes and activity of integration institutions

Development of international integration is justified only if it leads to noticeable improvement of conditions for doing business and implementation of large-scale economic development projects.

In this connection, vast opportunities for Ukrainian businesses are related to favourable **business environment** of the EU (Table “Comparison of ranking on the ease of doing business ...”).⁶ Analysis of the parameters of foreign trade procedures shows that European integration will substantially simplify procedures for foreign trade and reduce expenses on execution of trade agreements, that will enhance the overall competitiveness (Table “Comparison of some conditions...”).⁷

Those potentially important gains are boosted by the expected right of Ukraine to take part in the activity

of the EU institutions dealing with the Agreement implementation, and in all current and future EU programmes opened under the 2010 Framework Agreement concerning general principles of Ukraine's participation in the EU programmes.⁸ 20 out of 29 EU institutions are already fully open for countries-participants of the European Neighbourhood Policy, according to the decision of October 2007, two are partially open; while out of 31 programmes, the EU have fully opened seven, and partially – 16.

Factors influencing key sectors of national economy

Industry. In industry, new opportunities for development will be related to **duty-free access to internal market of industrial goods of the EU. However, the main gains from it are to be expected only in a longer run** – since wider access of technologically perfect industrial goods to the common European market is

Comparison of ranking on the ease of doing business in the EU and Ukraine,
 (after the methodology of the World Bank and the International Financial Corporation, 2013)

		Rating of ease of doing business (rank among 185 countries of the world)											
		General	Starting a business	Construction permits	Getting electricity	Registering property	Getting credit	Protecting investors*	Paying taxes	Trading across border	Enforcing contracts	Resolving insolvency	
EU-27	Average	40	74	69	74	62	54	68	62	36	47	36	
	Maximum	5 (DNK)	10 (IRL)	8 (DNK)	2 (DEU)	5 (LTU)	1 (GBR)	6 (IRL)	6 (IRL)	4 (DNK)	1 (LUX)	5 (FIN)	
	Minimum	102 (MLT)	150 (MLT)	167 (MLT)	168 (ROM)	176 (BEL)	176 (MLT)	128 (HUN, LUX)	136 (ROM)	98 (SVK)	160 (ITA)	102 (ROM)	
Україна		137	50	183	166	149	23	117	165	145	42	157	
<i>For comparison: member countries of the Customs Union and SES</i>													
Russia		112	101	178	184	46	104	117	64	162	11	53	
Belarus		58	9	30	171	3	104	82	129	151	13	56	
Kazakhstan		49	25	155	80	28	83	10	17	182	28	55	

* Calculated on the basis of three indices: the extent of disclosure, director liability (for conduct of transactions in personal interests) and ease of shareholder suits (against company executives and directors for unlawful acts).

⁶ Source: World Bank and International Financial Corporation. Doing Business 2013. <http://russian.doingbusiness.org/reports/globalreports/doing-business2013>; aggregated data – calculations by the Centre experts.

⁷ Source: *Ibid.*

⁸ Framework Agreement between the European Union and Ukraine on the General Principles for the Participation of Ukraine in Union Programmes [of 2010].

**Comparison of some conditions of foreign trade and investment activity
in some EU member countries and Ukraine,**
(after the methodology of the World Bank and the International Financial Corporation, 2013)

	Indicators of foreign trade and investment activity											
	Foreign trade						Investments					
	Documents to export (number)	Time to export (days)	Cost to export (US\$ per container)	Documents to import (number)	Time to import (days)	Cost to import (US\$ per container)	Procedures to start a business (number)	Time to start a business (days)	Strength of investor protection index (0-10)	Total taxes (number)	Time to pay taxes (hours)	Total tax rate (% profit)
Germany	4	7	872	5	7	937	9	15	5.0	9	207	46.8
Italy	4	19	1 145	4	18	1 145	6	6	6.0	15	269	68.3
Poland	5	17	1 050	5	16	1 025	6	32	6.0	18	286	43.8
Ukraine	6	30	1 865	8	33	2 155	7	22	4.7	28	491	55.4
<i>For comparison: member countries of the Customs Union and SES</i>												
Russia	8	21	2 820	11	36	2 920	8	18	4.7	7	177	54.1
Belarus	9	15	1 510	10	30	2 315	5	5	5.3	10	338	60.7
Kazakhstan	9	81	4 685	12	69	4 665	6	19	8.0	7	188	28.6

largely restricted by current technological level and correspondence of the product quality to European standards. Rather a long adaptation period and large investments (in assets and human capital) will be needed for production restructuring in line with the EU standards and technical regulations. This will require introduction of European technical regulations, EU standards, systems of metrology, assessment of compliance of products and market supervision in Ukraine. At that, EU standards of the EN class are to be implemented in Ukraine as Ukrainian standards replacing obsolete GOST. Ukraine's accession to the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) is especially important. Successful implementation of those measures **is to give Ukrainian companies much wider access to the common European market and at the same time will bring deep structural modernisation of the Ukrainian industry.**

Creation of better opportunities for access to high-tech markets of the EU will also be facilitated by granting national procedures (or the most favoured status, if the latter is more advantageous) for establishment and activity of subsidiary companies, branches and representative offices of Ukrainian enterprises in the EU. This will let them deploy efficient foreign trade, sales and service networks, indispensable for a high level of competitiveness.

An extremely important precondition for the Ukrainian industrial sector development is to be presented by **focus on energy efficiency and energy conservation**, development of new, renewable sources of energy, envisaged by the Association Agreement – by contrast to Eurasian integration, offering reduction of prices of energy resources with conservation the present energy-intensive and strategically futureless structure of the Ukrainian industry. The EU encouragement of the **environmental trend in industry development**, in particular, in Ukraine's leading metallurgy sector, also looks promising.

Frequently expressed fears that DCFTA with the EU will cause large-scale reduction of production and workplaces in Ukraine's industry are a clear exaggeration. The absolute majority of what could be reduced in Ukraine in the face of foreign competition has already been reduced. The current level of tariff protection of industrial production on the average makes only 3.7%, and 43.1% of all tariff positions of non-agricultural products already pay no import duty. Cancellation of such limited customs protection will not be a shock for the Ukrainian industry. More than that, the most vulnerable sector – Ukraine's car-building industry – will enjoy *special protective measures*, providing for automatic application of a protective duty in case of critical growth of imports damaging national manufacturers.

Some negative effect on domestic industrial production may be exerted by the gradual reduction in export duties on some raw materials produced in Ukraine up to their complete cancellation, envisaged by DCFTA.

In the first year after the provisions of integration agreement dealing with DCFTA come into force, export duties will be preserved for exports of live animals – 23%, raw hides – 12.5%, sunflower seed – 9.1%, non-ferrous metal scrap and alloys and semi-finished materials – 10.0-13.64%, ferrous metal waste and scrap – €9.5/tonne. Those levels will gradually be reduced in line with the agreed schedule to 0% for ferrous metal waste and scrap within 7 years, for other items – within 10 years after the Agreement effectiveness.

This will lead to **complication of conditions for competition on the domestic market in the food processing, light industry and metallurgy.** Domestic manufacturers will have to buy relevant raw materials at higher prices, going up on the domestic market under the effect of foreign demand. However, for stabilisation of the situation, Ukraine may automatically apply protective measures if export of the concerned raw materials exceeds the threshold set by the agreement. I.e., changes in the conditions of competition in those sectors are to be gradual and enable adaptation.



Production and supply of agricultural produce.

The effect of cancellation of customs tariffs within the framework of DCFTA in that sector will be much greater. The average import duty rate on agricultural produce in the EU is 13.9%, i.e., 3.5 times higher than on industrial products, and more than a quarter (26.5%) of tariff positions are subject to rates exceeding 15%. In Ukraine, those indices are notably lower, although also rather high: 9% and 18.6%, respectively.

The advantages of wider access to European agricultural and food markets due to cancellation of import duties, however, are limited by imposition of tariff quotas on the overwhelming majority of items of Ukrainian agricultural and food exports, only for some commodity groups presenting mutual limitations (Table “Some limitations on mutual exports...”).⁹

However, **the main obstacles for exports of Ukrainian agricultural and food products to the common EU market will be posed by non-tariff measures – sanitary and phytosanitary regulators.** The key method to expand presence of Ukrainian enterprises on the European agricultural and food market is to **introduce in Ukraine** – on the basis of a relevant comprehensive national strategy – **European sanitary and phytosanitary norms and legislation** of conditions of animal welfare and associated norms

of mutual recognition of production conditions (including introduction of uniform certificate forms, where possible, and also mutual recognition of national control procedures).

Competitiveness of Ukrainian producers on the Ukrainian domestic agricultural and food markets is to grow due to the EU refusal from application of export subsidies (or equivalent support measures) practiced according to the principles of the EU common agricultural policy, **provided by the DCFTA provisions, to Ukraine.** This will bring a substantial increase in prices of products exported by the EU to the Ukrainian market and let domestic producers partially regain lost grounds.

At the same time, the Ukrainian agro-industrial sector will face the serious **task of bringing their production of great many agricultural products and drinks in compliance with requirements of protection of geographical indications of origin.**¹⁰ Also, such requirements will require additional expenses on rebranding of their products. However, the most popular brands in Ukraine may be adapted during a 10-year transitional period.

Therefore, **implementation of the economic portion of the Association Agreement between Ukraine and the EU will have controversial and not**

Some limitations on mutual exports of agricultural and food products stipulated in the EU-Ukraine free trade agreement

	Indicative general tariff quotas for export to... (tonnes/year expressed in net weight)	
	EU	Ukraine
Beef	12 000	
Pork	20 000 + 20 000 for some items of commodity classification	10 000 + 10 000 for some items of commodity classification
Poultry meat and poultry meat products	16 000 with linear increase in 5 years to 20 000 + 20 000 for codes 0207.12.(10-90)	8 000 with linear increase in 5 years to 10 000 + 10 000 for codes 0207.12.(10-90)
Milk, sour cream, condensed milk and yoghurts	8 000 with linear increase in 5 years to 10 000	
Milk powder	1 500 with linear increase in 5 years to 5 000	
Butter and milk spreads	1 500 with linear increase in 5 years to 3 000	
Eggs and albumens	1 500 (in egg shell equivalent) with linear increase in 5 years to 3 000 + 3 000 for code 0407.00.(30)	
Sugar (1701, 1702.20, 1702.90)	20 000	20 000
Other sugars (1702.30, 1702.40, 1702.60)	10 000 with linear increase in 5 years to 20 000	30 000 with linear increase in 5 years to 40 000
Common wheat, flour and pellets	950 000 with linear increase in 5 years to 1 000 000	
Barley, flour and pellets	250 000 with linear increase in 5 years to 350 000	
Maize, flour and pellets	400 000 with linear increase in 5 years to 650 000	
Ethanol	27 000 with linear increase in 5 years to 100 000	

⁹ Source: Association Agreement between the European Union and its member states and Ukraine (text). Annex: Indicative aggregate TRQs. – http://glavcom.ua/pub/2012_11_19_EU_Ukraine_Association_Agreement_English.pdf.

¹⁰ The relevant list of the EU agricultural and food products is given in the Agreement on 42 pages, the list of wines and alcoholic beverages – on 146 pages.

always favourable effects. However, on the condition of pursuance of a correct, strategically oriented economic policy of comprehensive reforms, Ukraine will get much better opportunities for economic modernisation and provision of a high level of global competitiveness.

3.2. Factors of influence of Russia and Eurasian integration projects

The best incentive for Ukraine's participation in Eurasian integration is presented by **the opportunity to obtain preferential access to Russian energy resources and other raw materials or semi-finished goods** on the basis of extension of national procedures of access to the relevant markets¹¹ to Eurasian integration participants. That factor is cited by adherents of the Eurasian road as the main argument.¹² However, there are circumstances that not only substantially limit the weight of that argument but also give a wider idea of the effects of Ukraine's participation in Eurasian integration.

1. Accession to the Customs Union (CU) would bring the important effect of a noticeable increase of the average import duty in Ukraine. The reason is that Russia, as the leading CU participant, joining the WTO, set its import duty at 7.8%, which is much higher than the bound import rate for Ukraine (5.8%) and moreover than its current rate for countries with the most favoured nation status (4.5%).¹³ Such changes would mean **artificial restriction of Ukraine's trade with third countries¹⁴ and replacement of more efficient imports from them with imports from the CU member countries, first of all, Russia.**

This means that in this respect Ukraine would appear in a situation close to that of Kazakhstan that after the accession to the CU had to raise import tariffs for many import items – in general, by approximately 5 points.¹⁵ This resulted in reduction of imports from beyond the CU, first of all, from China, which especially affected the automobile market.

In trade in goods, Ukraine's accession to the CU would mean:

- limitation of the consumer choice due to restriction of supply from third countries and its replacement with imports from the CU countries;
- use of Russia's dominant position on some markets for raising prices;

- impairment of incentives for innovations in the economy due to insufficient competition.

Even the advantages of preferential access to Russian energy resources may have a **short-living and very controversial effect on the Ukrainian economy:**

- they look more realistic in the middle run and will hardly have a serious long-term effect due to growth of costs of energy resources production on the territory of the Russian Federation;
- there is a possibility that the lion's share of benefits from the decrease of prices of energy resources will be obtained by Ukrainian energy monopolists and, possibly, taken offshore or wasted on elitist consumption;
- low prices of energy resources will hinder introduction of energy-efficient technologies in Ukraine, in that way preserving technological backwardness and conserving energy-intensive industries, being strategically futureless, since Ukraine has no comparative advantages in traditional energy resources.

2. Many of formally inaugurated CU mechanisms still work imperfectly, with many failures and confusion, sometimes – undesired and unpredictable effects.

For instance, one of recent studies¹⁶ of processes in the CU noted such its serious drawbacks as: a non-transparent system of regulation and differences in regulation systems at sectoral markets, concealed application of non-tariff regulation measures (in particular, in rail carriage, protection of national food markets), cumbersome procedures of confirmation of importation of goods to the customs territory of partner countries, non-coordination of systems of taxation and subsidies, technical regulation, weakening of control of the commodity turnover, which, in turn, leads to growth of smuggling, grey transactions, enhances risks of consumption of hazardous goods. Absence of a common law-enforcement system poses a serious problem.

The option of participation in Eurasian integration for Ukraine involves fewer problems with economy adaptation to the new conditions. But on the other hand, **due to lower requirements of Eurasian integration, domestic reforms so much needed by Ukraine's economy may never be implemented.**

¹¹ According to Annex 1 to the Treaty of the CIS free trade area, Belarus applies export duty to petroleum products exported beyond the CU and some other goods (e.g., rape seed, potassium fertilisers, raw hides and tannage, firewood, timber materials, leaf wood) exported beyond the EurAsEC; Kazakhstan – to goods exported beyond the CU: soya beans, rape and sunflower seed, crude oil, some petroleum products, natural gas, coal gas, etc., hides, wool, ferrous and some non-ferrous (copper, aluminium) metal waste and scrap, some products from ferrous metals, aluminium, etc.; Russia – to goods exported beyond the CU: some marine products, soya beans, rape and sunflower seed, ethyl alcohol, sulphur, some chemicals (phosphates, containing magnesium), cement, asbestos, iron, molybdenum, zirconium ores and concentrates, coke, fossil coal processing products, some chemical agents (benzene, toluene, etc.), crude oil and petroleum products, natural gas, propane, butane, ethylene, propylene, mineral and chemical fertilisers, polymers, hides, leather, timber and timber materials, cellulose, paper, gems and precious metals, metal waste and scrap, basic non-ferrous metal (copper, nickel, aluminium, lead, zinc, tin, wolfram, cobalt, bismuth, titanium, etc. (i.e., items covering the bulk of Russian exports).

¹² For instance, according to the calculations presented by the Governmental Commissioner for Cooperation with the Russian Federation, CIS, EurAsEC and Other Regional Unions Valeriy Muntiy, revision of prices of natural gas and their decrease at least two-fold will give Ukraine \$4.5 billion, cancellation of the export duty on oil (\$300/tonne) – \$3.5 billion. See: Decision of integration in the Customs Union should be taken in the first half of the year. – *Kommersant Ukraine*, April 5, 2011 (in Russian).

¹³ WTO. World Tariff Profiles 2012. – Geneva: WTO, 2012, p. 10; WTO NEWS. Working Party seals the deal on Russia's membership negotiations, 10 November 2011. – http://www.wto.org/english/news_e/news11_e/acc_rus_10nov11_e.htm.

¹⁴ On that basis, WTO members may demand compensations from Ukraine.

¹⁵ At that, for 1/10 of the tariff positions, such increase equalled from 5 to 10 points, for another 1/10 – from 10 to 20 points. See: EBRD. Regional Trade Integration and Eurasian Economic Union. Transition Report 2012, p.78, 82.

¹⁶ "Da Vinci AG" Analytic Group. On the efficiency of the Customs Union functioning at the present stage, March, 2013. – <http://www.davinci.org.ua/docs/CU140313.pdf> (in Russian).



3. Ukraine's integration policy may be influenced by possible application to Ukraine of certain restrictive measures on the part of the CU member countries, stripping Ukraine of trade preferences in case of DCFTA effectiveness (Annex 6 to the Treaty of the CIS free trade area of 18 October 2011).¹⁷ Application of those measures may cause a short-term aggregate negative effect from DCFTA.¹⁸ There is also a threat of loss of the current rules of unimpeded employment on the territory of the future SES countries, if Ukraine refuses to join it.¹⁹

For instance, the Eurasian project provides for fully liberalised movement of manpower.²⁰ It may be seen as its apparent advantage. However, it is not unconditional, since it also leads to the substantial growth of risks of unregulated migration and associated aggravation of the entire set of inter-ethnic and social problems, including the problem of transnational crime. From this viewpoint, **the phased solution of the problem of migration flows in the context of the European integration may have not only drawbacks but also some benefits, compared to the Eurasian approach.**

Therefore, use of strategic benefits of the European integration by Ukraine may be complicated by restrictive measures taken by the Russian Federation and other member countries of the CU (and the future Eurasian Economic Union), which they may take for their geopolitical goals.

4. Ukraine's participation in Eurasian integration will also involve a broad process of adaptation of the legislation to the common norms of the Eurasian integration community. The list of common regulatory documents in it is already rather long: 13 treaties effective within the framework of EurAsEC, 38 treaties aiming to complete the CU formation, and 43 other international treaties.²¹

Within the Customs Union, processes of coordination and unification extend to many issues, including: application of a common for all member countries customs tariff and common customs procedures on the basis of the common customs code; application of uniform export duties to third countries; coordination of principles of collection of indirect taxes at export/import of goods, performance of works and provision of services; coordinated regulation of access to internal markets for goods and services from third countries, including a common mechanism of application of special protective, antidumping and compensatory measures in trade, as well as joint measures of non-tariff regulation of trade; institution of a common system of trade preferences for third countries; uniform export control procedures; harmonised technical regulations and a coordinated policy of technical regulation, sanitary and phytosanitary

measures; uniform conditions of transit across the territory of the member countries; a coordinated stand on the WTO; a uniform system of customs statistics.

Transition to SES led to even greater coordination of the economic policy, with introduction of mechanisms: of a coordinated macroeconomic policy; uniform principles and rules of regulation of activity of natural monopolies; uniform principles and rules of competition; uniform rules of provision of industrial subsidies and state support for agriculture; coordination of principles of state (municipal) procurements; regulation of conditions of investment; uniform principles of regulation in the field of public health and protection of intellectual property rights; coordinated principles of the exchange policy; conditions of development of common markets of oil and petroleum products; conditions of access to services of natural monopolies in power engineering, gas transportation and rail transport, including principles of the pricing and tariff policy; regulation of the legal status of labour migrants; introduction of uniform (coordinated) technical regulations.

EurAsEC provisions envisage development and introduction of the *legislative framework* in the basic sectors of legal relations, establishing uniform for all participants fundamentals of legal regulation, in particular, in the fields of regulation of investments, innovative activity, competition, regulation of monopolies' activity, the energy sector, public health, education, budget, banking, land, tax, transport, pension legislation, as well as foreign economic activity in general, markets of goods, services and capitals, manpower, civil law, exchange regulation and control, migration, etc. (total, 22 big sectors of legal relations). I.e., **the sphere covered by the processes of harmonisation and unification in Eurasian integration structures is very wide and goes beyond the sphere covered by the processes of harmonisation of legislation of Ukraine and the EU.**

At that, serious problems may arise, because unification of conditions of regulation of business activity (registration of business and property, enforcement of contracts, etc.) will take place under the dominant influence of regulatory standards of the Russian Federation, that are worse than of other participants of Eurasian integration, e.g., Kazakhstan.

5. Developing relations with the CU and SES countries may bring serious potential gains and can ensure, in particular:

- treatment of Ukraine by the Russian Federation and other members of Eurasian unions as an equal partner, which may entail intensification of scientific, technological and production cooperation. This may bring significant effects of scale;

¹⁷ The Annex provides: "If participation of one of the Parties to the Agreement envisaged by Item 1, Article 18, leads to growth of imports from such Party in volumes causing damage or threatening to cause damage to the Customs Union industry, the member states of the Customs Union without prejudice to application of Articles 8 and 9 of this Agreement after relevant consultations of the Parties reserve the right to impose duties on imports of relevant goods from such former Party in the amount of the most favoured status rate".

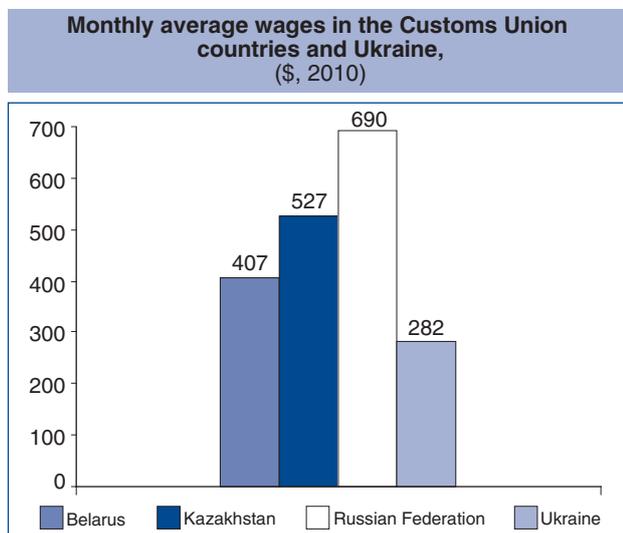
¹⁸ See the article by O. Shnyrkov "Economic effects of conclusion of the Agreement of Association between Ukraine and the EU with account of the possible reaction of Russia", published in this journal.

¹⁹ Some statements by Russian officials give grounds to suggest that after the effectiveness of the Eurasian Economic Union, the principle of freedom of employment will be provided only within its borders.

²⁰ Putin, V. A new integration project for Eurasia – a future, born today. – *Izvestia*, October 3, 2011; Declaration of Eurasian Economic Integration of November 18, 2011 (*in Russian*).

- possible simplification of access to Russian programmes and development funds as far as they back joint development programmes (for instance, through the special EurAsEC High Technologies Centre);
- possibility of minimisation of losses from Russian projects of gas pipelines to Europe bypassing Ukraine. However, accession to the CU alone may not be enough for that: *Gazprom* may demand creation of “joint structures”;
- possibility of using idle Russian capitals for development of Ukrainian enterprises, which, however, may be not the optimal choice, given the strategies of business development and norms of business ethics dominant in Russian companies, not too different from the present-day Ukrainian. Furthermore, facilitation of conditions for inflow of the Russian capital to the Ukrainian market may well result in its seizure of dominant positions in the sectors strategically important for Ukraine (aircraft building, pharmaceuticals, other science-intensive industries, energy, shipbuilding, communications, IT, engineering services) and subordination of their development to Russian decision-making centres.

6. Attractiveness of Eurasian integration may be boosted by possible approximation to wages paid in member countries of Eurasian unions, especially the richest of them – Russia. Even achievement of the level of Belarus would raise average wages in Ukraine by 44%, of Kazakhstan – by 87% (Diagram “Monthly average wages...”).²²



One should keep in mind however that the substantial growth of incomes in the CU observed in the recent years is mainly attributed to the favourable for Russia pricing trends on the world energy markets that may not be seen as a reliable long-term basis of prosperity, since that source of growth is not inexhaustible. Even in such conditions, the Russian Federation substantially lags behind the average EU level by per capita incomes – €25.8 thousand (let alone its leading countries): in Russia, it is 2.5 times lower – €10.5 thousand.

Therefore, the advantages of Eurasian integration are mainly **transient, and their strategic prospects remain uncertain.**

CONCLUSIONS

Ukraine’s integration to the EU will open doors into the world’s most powerful regional union that exerts strong influence on the overall dynamics, structural changes, technological level and format of regulation of the world economy.

Participation in the DCFTA with the EU will widen the consumer choice on the domestic market, keep prices down, promote modernisation and innovation, improve conditions for employment of Ukrainian citizens in the EU. DCFTA will grant Ukrainian goods and services wider access to the common EU market, although they will remain limited by tariff quotas on critical items of agricultural and food exports. The EU refusal from application of agricultural export subsidies to Ukraine will boost the competitiveness of the Ukrainian agricultural and food sector on the domestic market.

Ukraine may see the main gains from liberalisation in a longer run – with introduction of European standards, norms of technical regulation and consumer safety in the country. Important positive effects are to include enhancement of energy efficiency, energy conservation and environmental friendliness of economic development. Harmonisation with the EU development policy and regulation norms will exert the strongest positive influence on Ukraine’s economy and bring systemic reformation of the market environment, introduction of advanced methods and tools of state regulation.

On the other hand, the DCFTA will lead to closure of non-competitive enterprises, temporary reduction of budget revenues with simultaneous growth of public expenditures on economy restructuring. However, fears of substantial reduction of production and jobs in the DCFTA are clearly exaggerated.

Possible imposition of restrictive measures on Ukraine by the CU countries may cause a transient aggregate negative effect from the DCFTA with the EU.

Ukraine’s participation in the Eurasian integration will bring controversial results. On the one hand, it will improve conditions for scientific-technological and production cooperation, facilitate access to Eurasian and Russian development programmes and funds, give preferential access to Russian energy resources. On the other, it may bring seizure of dominant positions in the Ukrainian economy by the Russian capital, check of introduction of energy-efficient technologies, inevitable replacement of more efficient imports from third countries with imports from the CU (first of all, Russia). This will lead to limitation of the consumer choice on the Ukrainian market, let Russia use its dominant market position to raise prices. Due to the lower requirements of Eurasian integration to institutes, internal reforms badly needed for Ukraine’s economy may not be implemented. ■

²¹ Data of the Eurasian Economic Commission. – http://tsouz.ru/Docs/IntAgrmnts/Pages/Perechen_MDTs.aspx.

²² Sources: Russian Statistic Committee. Russia and countries of the world in 2012: Statistic digest. – Moscow, 2012, Table 5.3, p.108. Conversion into US dollars at year average exchange rates of the relevant national currencies to US dollar. – CIS Interstate Statistic Committee. – <http://www.cisstat.com/> (in Russian).

4. UKRAINE'S ENERGY SECTOR IN INTEGRATION PROCESSES¹

The energy sector is one of the most important (and most controversial) spheres of cooperation in the EU-Ukraine-Russia “triangle”.² So, its developments exert serious influence on integration processes in Ukraine. Such influence has increased after the creation of the Eurasian Customs Union, where Russia plays the key role. It is especially ardent, pushing the idea of Ukraine’s accession to the Customs Union and in that way offering a Eurasian alternative to Ukrainian plans of European integration.

This section briefly describes the key developments and trends in Ukraine’s energy sector in the context of integration.

4.1. State and trends of implementing the EU-Ukraine arrangements in the energy sector

Ukraine’s accession to the Treaty establishing the Energy Community may be seen as the main event of recent years in this sector. This step, *first*, confirmed the EU-Ukraine previous arrangements on cooperation in the energy sector, *second* – it could start the fulfilment of objectives set by the national legislation, since common objectives with the EU largely coincide with Ukraine’s internal objectives. Actually, here lies the primary importance of cooperation in the field of European integration.

Implementation of the European energy legislation through the Treaty mechanism can, *first*, substantially enhance Ukraine’s ability to withstand repeated attempts of the Russian Federation to politicise interstate relations in the energy sector, while accession to the common European market – can reduce non-transparency of the internal (first of all, gas) market.

Second, it gives Ukraine a real chance to make a practical step towards the European integration, especially when the EU strategic document “On security of energy supply and international cooperation – ‘The EU Energy

EU-UKRAINE COOPERATION DOCUMENTS AND THEIR GOALS

The Preamble to the EU-Ukraine Memorandum of Understanding on Energy Cooperation of 1 December 2005, reads: “In the field of energy, the EU and Ukraine share convergent interests and both could benefit from the integration of their respective energy markets, thereby enhancing the energy security of the European continent”.³

Ukraine’s accession to the Treaty establishing the Energy Community (1 February 2011) has brought the EU-Ukraine relations to a level of fulfilling commitments to implementing the European energy legislation,

Article 2 of the Treaty set clear **objectives in the context of the Energy Community membership:**

(a) create a stable regulatory and market framework capable of attracting investment in gas networks, power generation, and transmission and distribution networks;

(b) create a single regulatory space for trade in Network Energy;

(c) improve the environmental situation in relation to Network Energy;⁴

(d) develop Network Energy market competition.

Their achievement envisages, first of all:

- introduction by the contractual parties of the regulatory-legal framework of the European Community with respect to energy, environment, competitive policy and renewable energy sources (RES);
- introduction of a regulatory system enabling efficient operation of energy markets;
- creation of an energy market by the parties.⁵

It fact, it deals with a mechanism of the Ukrainian energy market reformation on the principles that coincide with those provided by the Law “On Fundamentals of Domestic and Foreign Policy of Ukraine” (2010). Article 7 of the Law provides that the key foundations of the internal policy in the economic sector include, in particular:

- Promoting competition as a key tool for improving the efficiency of the economy, ensuring effective regulation of the activity of natural monopolies, [and] preventing manifestations of monopolism...;
- transition of Ukrainian gas, oil and electricity networks to the conditions of **operation effective in the European Union states**.⁶

¹ This Section was written jointly with the NOMOS Centre Energy Programmes Director Mykhailo Honchar.

² For more detail see: EU-Ukraine-Russia Energy “Triangle”: Dependency, Interests, Contradictions. – *National Security & Defence*, 2012, No.45, p.30-36.

³ See: Memorandum of Understanding on Energy Cooperation between the European Union and Ukraine No.994-694 of 1 December 2005. http://ec.europa.eu/dgs/energy_transport/international/bilateral/ukraine/doc/mou_en_final_en.pdf.

⁴ See: Treaty establishing the Energy Community No.994-926 of October 25, 2005. http://www.energy-community.org/portal/page/portal/ENC_HOME/ENERGY_COMMUNITY/Legal/Treaty.

⁵ *Ibid.*

⁶ Law “On Fundamentals of Domestic and Foreign Policy”. Emphasis added – *Ed.*

Policy: Engaging with Partners beyond Our Borders” of 7 September 2011, emphasises the need to modernise Ukraine’s GTS and its soonest integration with the Energy Community: “*The EU must support efforts to rehabilitate Ukraine’s Gas Transmission System, while improving transparency and the legal framework. It should aim at faster integrating Ukraine into the Energy Community*”.⁷ However, the readiness to help will not persist indefinitely long, especially taking into account serious changes on the European energy markets.

EU energy strategy. The EU Energy Strategy till 2020 focuses on internal organisational problems and provides a number of requirements for the energy market participants, but does not impose strict commitments and, at the same time, has a limited ability (and will) to oppose an active expansionist energy policy of third countries.

The Strategy specifies five key priorities that in one or another way have an impact on Ukraine,⁸ namely:

- **energy conservation**⁹ – as the main precondition for the reduction of energy consumption and, respectively, passive strengthening of energy security.

Meanwhile, analysis of the gas consumption data in Ukraine in the recent years witnesses preservation of high energy intensity, despite a trend to some reduction of consumption, especially against the background of reduction of domestic extraction (Table “Trends...”).¹⁰

So, if Ukraine does not reform industrial assets and, in particular, electricity generation in the current decade, industrial production and generated electricity may face not only loss of competitiveness but also incompliance with the EU environmental requirements, which may result in limitation of their imports to the EU markets;

- **single energy market.** Formation of the market set to encompass all EU countries by 2015, which may be joined by the Energy Community member countries,

will enhance the role of markets, compared to bilateral agreements.

However, Ukraine’s delay in implementing the assumed obligations (in particular, the gas and electricity market reform) makes the use of that segment of cooperation unlikely, in particular, when raising funds for development and modernisation of the connecting infrastructure (especially for electricity) within the framework of Trans-European Energy Networks (TEN-E) during the next EU financial period (2014-2020).

So, despite the forecasted growth in electricity demand in the EU, Ukraine may lose its chance to become an important “electricity donor” for the EU due to a strategic delay with reformation of this sector.

First of all, this refers to the creation of connection infrastructure and production of “clean” electricity as preconditions for accession to the single EU energy market. Meanwhile, one should expect complications with trade in electricity from “dirty” coal generation.

The EU continues to implement projects aimed at diversifying energy supplies, in particular, the gas corridors “North-South” – an alternative route of gas supply (other than that of Russian origin) bypassing Ukraine designed to interconnect its western neighbours.

Hence, delaying the creation of an independent GTS operator on the principles accepted in the EU is one of the reasons for implementing projects aimed at developing the existing and constructing the new gas storage capacities by some EU states, which gradually impairs the potential importance of Ukrainian gas storages for regulating gas supply to the CEE countries;

- **a common position (“one voice”) of the EU on energy issues.** Speaking with “one voice,” the EU may bring some positive changes to energy relations between Russia and Ukraine, in case Ukraine continues to be a member of the Energy Community and implements

Trends of natural gas consumption and extraction in Ukraine

Key parameters	2007	2008	2009	2010	2011	2012	Comments
Total annual consumption of natural gas, BCM/year	66.798	63.459	50.144	55.923	59.305	54.775	A trend to restoration of the high pre-crisis level of gas consumption after 2009 (11.5% growth in 2010 and 6% in 2011) changed for a trend to reduction (7.6% in 2012) due to high gas prices.
Total annual domestic extraction of gas, BCM/year	21.104	21.444	21.505	20.521	20.139	20.185	A steady trend to growth of domestic gas extraction till 2009 changed for a decline by 4.6% in 2010. The change for small growth (0.22%) in 2012 cannot stabilise the situation.

⁷ See: Communication from the Commission to the European Parliament, the Council, the European economic and social committee and the committee of the regions on security of energy supply and international cooperation. – *EURLex*, 2011; <http://eurlex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:52011DC0539:EN:HTML:NOT>.

⁸ See: *Yevrobiuleten*, No.12, December 2010, p.19, http://eeas.europa.eu/delegations/ukraine/documents/eurobulletin/eurobullet_12_2010_uk.pdf (in Ukrainian).

⁹ See: Brussels hosted the EU-Ukraine summit. – *Yevrobiuleten*: Information publication of the EU Delegation to Ukraine, 2010, No.12, p.19 (in Ukrainian).

¹⁰ Source: Litra L. Solo on the Pipe: Energy Security of Ukraine in the context of the geopolitical choice. – Institute of World Policy, 2013, <http://iwp.org.ua/eng/public/815.html>.



provisions on the need to coordinate its activity in line with principles of the EU energy legislation. When it comes to Russia-Ukraine relations, the EU fails to speak with one voice since some of its member states always put energy relations with Russia first.

Hence, one can expect that “one voice of the EU” will be used only selectively, particularly in the context of demands to guarantee secure energy transit from Ukraine in case of possible recurrences of gas crises;

- **leadership in energy technologies and innovation.** This priority aims at promoting further growth of EU's energy independence by improving energy efficiency.

However, large-scale reconstruction of Ukraine's energy infrastructure using advanced technologies is unlikely – given the low investment capacity, inefficient mechanisms of credit policy, and lack of incentives from the state to achieve energy efficiency. This is obstructed also by the fact that the country's economy does not function as a single body, since it is divided among oligarchic groups, for whom, long-term investments are not a priority.

- **meeting interests of consumers** through reforms in pricing, connecting users to networks and transparent charging for services. This priority complies with the principles of the Third Energy Package and aims to ensure most favourable conditions for consumers of the EU energy market.

In terms of impact for Ukraine, this could mean that the EU will insist on adjusting energy prices to a level economically feasible for all consumers and businesses in order to overcome the opaque activity of Ukrainian energy enterprises and to open up the Ukrainian energy market for European corporations. **Just as in the previous instance, this will cause resistance of Ukrainian companies that are not used to operating in a competitive environment, but prefer shady monopolist division of national market.**

The EU Energy Strategy (in contrast to the Russian one) offers equal and transparent conditions to all participants – provided that they comply with the established rules. Therefore, **energy supply from Ukraine to the EU and transit routes across the territory of Ukraine may be preserved only on the condition of the energy sector functioning in line with principles of the EU energy legislation. Thus, delay in implementation of European rules or their inadequate introduction in the near future – before 2015 – can isolate Ukraine from the European energy market, which will have some serious negative long-term consequences.**

Ukraine's fulfilment of its commitments to the Energy Community was reviewed in the 7th EU-Ukraine Joint Report on Implementation of the Memorandum of Understanding on Cooperation in the Energy Sector During 2012: “...on 3 July 2012, NJSC ‘Naftohaz of Ukraine’ approved an Action Plan to implement the reorganisation of ‘Ukrtransgaz’ and ‘Ukrghazvydobuvannya’ by the end of 2012. The intention is that the restructuring is carried out on the basis of Ukraine's Energy Community commitments and ensures the independence of ‘Ukrtransgaz’ as a transmission system operator with all the responsibilities and effective decision-making required by the EU acquis, including in relation to cross-border transmission”.¹¹ The year is over, but reorganisation in line with EU norms was not accomplished. The reason is the real prospects of Eurasian integration.

Eurasian factor

Russia continues using its energy resources and pipeline infrastructure to achieve economic and political goals. In particular, in the context of pan-European energy relations, an updated Russian Energy Strategy reads: “Russia's pipeline infrastructure will become an integral part of the energy bridge between Europe and Asia, and Russia – a key centre for its management”.¹² The Programme on Efficient and Systemic Use of the Foreign Policy Factors for Long-Term Development of the Russian Federation (2010) states clearly of the need “to view Russia's participation in operation of the Ukrainian gas transit system as a strategic task”.¹³

Having achieved the strategic goal of blocking Ukraine from joining NATO, Russia has set for itself the following goals – to disallow Ukraine's European integration, to make it join the Eurasian integration projects and in fact to undermine the EU efforts in the framework of the Eastern Partnership and the Energy Community. Until recently, Ukraine has rejected proposals from the Eurasian Customs Union. Russia, however, after taking a short pause, has resumed its pressure by using gas and pipeline infrastructure incentives.

The bottom line is simple: Russia views the pipeline and other energy infrastructure as the main tool of Eurasian integration, as universal means for achieving any goal: economic, political, and so on. All it needs to do is to monopolise all the pipelines in the Eurasian space.

Having rejected the European rules of the game in the energy sector, Russia tries to pursue its energy policy ignoring the interests of its potential partners. In particular, this is manifested by a strongly negative assessment of the EU-Ukraine bilateral cooperation initiative on modernisation of the Ukrainian GTS stated in the Brussels Declaration of 23 March 2009.

¹¹ See: Seventh Joint EU - Ukraine Report. Implementation of the EU-Ukraine Memorandum of Understanding on Energy Cooperation During 2012. – http://ec.europa.eu/energy/international/bilateral_cooperation/doc/ukraine/20130225_mou_progress_report7_en.pdf.

¹² Energy Strategy of Russia through 2030. – <http://minenergo.gov.ru/aboutminenergo/energostrategy/> (in Russian).

¹³ The Programme was approved by the President of the Russian Federation Dmitri Medvedev in September, 2010. See: Programme of efficient systemic use of foreign policy factors for long-term development of the Russian Federation. – *Perevodika* Internet resource, May 11, 2010; <http://perevodika.ru> (in Russian).

In other words, not being a legitimate part of the EU-Ukraine energy relations, Russia has been actively trying to influence them by using all economic and political means in hand. At that, it puts focus on bilateral relations “behind closed doors” which happen to be the most effective in relations with post-Soviet countries.

Ukraine's energy sector: in-between the EU and Eurasian union

There are only a few instances of long-term strategic projects of Ukrainian hydrocarbon deposit development, which are successfully launched in line with international standards and best practices. During the 3rd meeting of the US-Ukraine Strategic Partnership Commission it was agreed that the US would assist with conducting an assessment of unconventional natural gas deposits on the Ukrainian territory. The Memorandum of Understanding between the US Government and the Ukrainian Government on unconventional gas recourses was signed, providing for assessment of resources, technical studies to better understand its production potential, economic indices and required investments for extraction. The tenders were won by Shell (the Yuzivska area), Chevron (the Oleska area), and a consortium led by ExxonMobile (the Skifska area of the Black Sea shelf).

Only time will tell on whether the production sharing agreements (PSAs) will be beneficial to Ukraine. We cannot but hope that it will be similar to the “contract of the century” in Azerbaijan. When, in 1994, Baku signed a PSA with respect to the Azeri-Chirag-Guneshli oil fields, it seemed that it signed an extremely unprofitable agreement with an international operating consortium led by British Petroleum, but 15 years later it became crystal clear that economically, socially, and politically, Azerbaijan is in a win-win situation.

Meanwhile, a number of developments in the energy sector indicate negative and dangerous tendencies that not only fail to contribute to Ukraine's European integration but also effectively obstruct it.

The project of building an LNG terminal: an example of inefficiency of state governance.¹⁴ Diversification in sources of natural gas supplies is among the priorities of the EU energy policy, since it closely relates to increasing gas market competition as well as energy security issues. According to the EU Directive 2009/73/EC,¹⁵ the EU legal mechanisms are aimed at providing a real choice of suppliers and increasing cross-border trade. This will promote the efficiency of gas supply, competitive pricing, and supply security.

Construction of LNG terminals is one of the most effective ways to achieve these goals by increasing the number of supply sources. **For Ukraine, receiving**

natural gas from alternative sources is of particular importance in a situation of its critical dependence on *Gazprom* that sells to *Naftohaz* on discriminatory terms of the gas purchase/sale contract for 2009-2019.

2009-2010 saw a fundamentally new stage of the global LNG trade, prompted by the “shale revolution” in the US and commissioning of new gas liquefaction facilities in Qatar, Yemen, Peru and Russia. As a result, LNG prices became much lower than prices for pipeline gas bound to the oil basket. This has further boosted LNG deliveries to Europe. According to the International Energy Agency (IEA) forecasts, volumes of LNG procurements by the EU countries in 2009-2030 will grow almost 3.5-fold and reach 240 BCM/year, or 32% of the total demand for natural gas.¹⁶ Ukraine cannot afford to stay aside those changes on the gas markets and should use the opportunities opened for it in connection with rapid growth of international trade in LNG. LNG deliveries may reduce dependence on *Gazprom* by 10 BCM, or 25-30%, compared to the 2012 level.¹⁷

Although Ukraine has no formal commitments under the Treaty establishing the Energy Community (TEC) to diversify gas supply sources, the construction of an LNG terminal (as well as the organisation of reverse deliveries from the EU countries) should be treated as strategic tasks of Ukraine's energy policy.

Solving this problem will lay down preconditions for real competition in Ukrainian domestic gas market – an important factor for convergence of Ukrainian legislation with European energy laws. At the same time, it will end Ukraine's reliance on Russian gas and will not only improve the efficiency of gas supply to consumers but also serve as a powerful tool for reducing political pressure from the Kremlin.

However, the prospects for its successful implementation already look rather illusive due to uncoordinated actions by the government, generally poor state governance and uncertainty with regard to the project strategy. For almost three years from its start, the LNG terminal construction project has hardly moved from the initial implementation phase. The main problem of concluding contracts with gas owners for an LNG supply has not been resolved, which makes it impossible to obtain commercial loans for equipment purchase and capital construction.

The signing of the gas terminal deal by Vladyslav Kaskiv, Head of Ukraine's State Investment Agency, with an unauthorised man Jordi Sarda Bonvehi in presence of both Ukraine's Prime Minister Mykola Azarov and Minister for Energy and Coal Industry Yuriy Boiko on 26 November 2012 represents an obvious example of Government's inability to manage a strategically important national project. According to the investment agency

¹⁴ Terminal for admission and regasification of liquefied natural gas (LNG).

¹⁵ European Parliament and Council Directive 2009/73/EC of July 13, 2009, concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC. – http://europa.eu/legislation_summaries/energy/internal_energy_market/en0017_en.htm.

¹⁶ Source: Fostering LNG Trade: Role of the Energy Charter. – Energy Charter Secretariat, 2008, p.101; BP Statistical Review of World Energy, June 2011, p.24.

¹⁷ For more detail on the project see: Alternatives of gas supply to Ukraine: liquefied natural gas (LNG) and unconventional gas. Razumkov Centre analytical report. – *National Security & Defence*, 2011, No.9.



press service, Mr. Bonvehi was believed to be representing the Spanish company Gas Natural Fenosa. However, right after the signing of the ill-famed document, that company released a statement denying it had given any mandate for a deal in Ukraine, and stating that the company had not even planned to join a consortium for LNG terminal construction.¹⁸

The reason to hasten the signing of these documents is attributed, *firstly*, to the Government's attempt to show a "nice picture" before the visit of Ukraine's President to Qatar and, *secondly*, to Ukraine's desire to show Russia that it is capable to individually solve its problems by diversifying sources of gas supply before the official launch of the South Stream project.¹⁹ Such tactics on behalf of Ukrainian Government, however, ended up being a complete political failure.

Concluding an illegitimate Agreement, that could take place only because of non-adherence to diplomatic procedures, has substantially undermined the trust of potential investors in the project and impaired chances of its efficient implementation. The mercifulness of Ukraine's President toward the state investment agency, which had clearly demonstrated its inability to manage the LNG terminal construction project, shows that under the guise of national energy security interests, the project is executed in a non-transparent manner and lacks the "immunity" to corrupt schemes.

Petroleum products market: increasing monopolisation and non-transparency

The petroleum products market is one of the key markets playing an important role for society, since petrol and diesel fuel are among those social goods that have a significant impact on households and on the competitiveness of national economy in general. Total sales of motor fuel in Ukraine, in 2012, in monetary terms amounted to \$10 billion, or about 6% of the GDP. This market is also one of the largest commodity markets in the country. The current development stage of the market has been influenced by the economic crisis of 2008-2009 and growing authoritarian tendencies after the 2010 presidential elections.²⁰ **Its main feature is the development of processes incompatible with the principles of functioning of the EU energy sector, namely:**

- a Government that is serving the interests of oligarchic groups and, as a result, incapable of regulating the market in line with national interests;
- growing investment risks for market operators, that do not resort to "shady" schemes;
- government-led monopolisation and "shadowisation" of the petroleum products market that is leading to violation of basic consumer right;

- increasing sales of smuggled products and volumes of fictitious exports;
- inability of the state to encourage improvement of the quality of petroleum products and to create an efficient quality control system for petrol and diesel fuels.

In addition, the development of the motor fuel market in Ukraine is accompanied by decreasing sales volumes and, as compared to the pre-crisis period, an accelerated degradation of the Ukrainian oil refining industry and oil extraction sector, as well as the growing tendency to substitute Ukrainian petroleum products with imports.

Degradation of oil refining industry. 2012 witnessed the worst performance of Ukraine's oil refining industry in the past 40 years due to a deep systemic crisis and complete failure of authorities to develop a proper state policy for this important market segment. Within a year, the processing of oil and gas condensate decreased by 49.5% compared to 2011 – that is, by almost 4.57 million tonnes. Currently, out of six oil refineries, only the Kremenchuk refinery processing oil of Ukrainian origin operates normally. As a result, due to a declining competitiveness of Ukrainian oil refineries, the share of imported oil products in the domestic market today exceeds 72%, which undermines the stability and reduces value added for the national oil refining industry.

In fact, this strategic sector of the economy now struggles to survive. However, the Government has not proposed any anti-crisis programme that would incorporate the interests not only of the "privileged" companies but also those of consumers, investors and market operators not linked to the government. **Instead, the Government's plan for recovery of the domestic oil refining industry is aimed, first of all, not at modernising refineries but receiving monopoly rent at consumers' expense by businesses close to them. The main mechanism involves eliminating competition among the importers of fuel by creating unjustified obstacles to customs clearance of petroleum products.** Clearly, it was no coincidence that the purchase of the Odessa refinery from Lukoil OJSC by the East European Fuel and Energy Company (EEFEC)²¹ and the introduction of measures aimed at limiting fuel imports happened simultaneously.²²

The Ukrainian fuel is much less competitive than the imported fuel due to significantly better technical conditions of Belarusian refineries. This situation emerged as a result of non-fulfilment (encouraged by the authorities) of investment commitments assumed by the owners of Ukrainian refineries when buying enterprises at lower price.

¹⁸ For more detail see: Terminal with one unknown – *EnergoBiznes* journal monitoring, December 4, 2012, No.48 (in Russian).

¹⁹ Qatar is the world largest LNG exporter. During the visit of Ukraine's President Viktor Yanukovich to that country on November 27, 2012, one of the main issues for discussion was the possibility of LNG deliveries to Ukraine. The pipeline commissioning ceremony was held on December 7, 2012, at *Russkaya* compressor station near the city of Anapa.

²⁰ For more detail on stages of the petroleum product market development see: Present-day problems of the state policy of petroleum product market development in Ukraine. – Scientific-Technical Center *Psychea*, 2012, p.715 (in Ukrainian).

²¹ EEFEC at the beginning of 2013 consolidated energy assets of the *Haz Ukrayiny* group of companies, whose official founder is S.Kurchenko. See: *Haz Ukrayiny* consolidates assets under a new brand – UNIAN, 22 February 2013, <http://economics.unian.net> (in Ukrainian).

²² Official reports of the Odesa refinery acquisition by EEFEC and beginning of the procedure of anti-subsidy investigation of imports of petroleum products from the Republic of Belarus to Ukraine were released in mass media in March, 2012.

Market monopolisation and “shadowisation”. Monopolisation of the petroleum products market has started in 2010 with monopolisation of deliveries of liquefied oil gas (LOG, or propane-butane) by the *Gaz Ukrayiny* group of companies. In two years, the Group managed to turn a highly competitive and dynamic LOG market into a monopolistic entity where it controls more than 70% of the market. This became the main reason for unreasonable price increases and drastic sales declines in 2012.²³

The main means, which *Gaz Ukrayiny* used to establish control of the LOG market “under the auspices of” the government are in some sense “classic”:

- introducing illegitimate bureaucratic customs barriers for competitors;
- creating opportunities for “optimisation” of taxes and duties for their own business;
- buying-up resources at auctions “for the needs of the population” and then reselling them within the commercial segment.

Obviously, *Gaz Ukrayiny* group would not have been able to take advantage of these non-market means, if it was not acting in the interest of those close to the government.²⁴

These mechanisms for obtaining economic preferences on the LOG market are fully inconsistent with Ukraine’s commitments to implement the EU legislation.

From the LOG market, these “shady schemes” have expanded to the market of petroleum and diesel fuels. As a result, according to the Finance Ministry, the state budget in 2012 was short of over UAH 4 billion of revenues due to reduction in legal imports of fuel. The Ministry of Finance in its calculations claims that the actual volumes of motor fuel consumption in 2012 exceeded by 936.9 thousand tonnes the data provided by the State Statistic Committee (or 22.3%). In previous years, that difference did not exceed 5%, which indicates a growing “shadowisation” of the market.²⁵ Despite the attempts by the Ministry of Finance to find solutions to this acute national problem, it remains impossible to resolve this issue as long as political power remains intertwined with business interests.

Since 2008, a rapid concentration of capital in the motor fuel market has been observed. If, in 2007, Ukraine had 24 companies owning or controlling 10 and more brand fuel stations in three and more regions, as of 1 January 2013, only 10 such companies remained. **Today, 5% of business entities perform more than half (53%) of all retail fuel operations.** At that, the share of fuel stations controlled by the *Privat* Group in Ukraine amounts to 27%, that is three times larger than that of their closest competitors.²⁶ *Privat* Group also controls three refineries, the biggest Ukrainian oil extracting company *UkrNafta*, oil transportation monopoly *UkrTransNafta*, and oil handling facilities. In other words, the *Privat* Group has enough tools for influencing the market in order to get non-competitive advantages.

However, its market position may soon be shattered by the EEPEC Company, pursuing an aggressive marketing policy aimed at monopolising import deliveries and fuel retail trade. If it succeeds, the market would be monopolised even stronger than it has been now, which will lead to a growing pressure on prices for consumers and restrict the consumers’ right to choice when it comes to purchasing quality products.

Quality of petroleum products. At times, nearly a third of Ukrainian fuel stations sell gasoline at prices below commercial return, indicating a large-scale trade in low-quality products. 250-300 thousand tonnes of gasoline surrogate components are being sold monthly in Ukraine. Instead of introducing the required legal and regulatory framework to improve the quality of motor fuel, the state creates favourable conditions for counterfeit production. Following termination (under the influence of lobbyists) of state funding for laboratory of fuel quality control in 2008, the state is no longer able to inspect the fuel quality against required standards. Meanwhile, the Government, acting in the interests of corrupt market operators, regularly extends the validity of outdated standards DSTU 4063:2001 and DSTU 3868-99²⁷ meeting Euro-2 norms, while the EU countries apply Euro-4 and Euro-5 standards, and the CIS countries – not below Euro-3. That is, the **Ukrainian Government allows selling in the domestic market the worst petroleum products in Europe. This reduces incentives to invest in upgrading oil refineries and creates problems for fulfilment of Ukraine’s environmental commitments under TEC.** Inaction of the Ukrainian authorities prompted the TEC Secretariat in March 2013 to open a case against Ukraine for a failure to adopt the EU legislation on a reduction in the sulphur content of certain liquid fuels.²⁸

Thus, the current stage of motor fuel market development in Ukraine is characterised by the increased level of unfair competition due to a growing tendency toward mergers between the state authorities and big business. This leads to further monopolisation and “shadowisation” of market relations, increases investment risks, and promotes the re-division of the market to the benefit of those companies “hand-picked” by the state leadership. All this violates the basic principle of the EU legislation – a basic right of consumers to purchase quality products at competitive prices.

Ukraine’s electricity sector: monopolisation instead of “europeanisation”

During the accession to TEC Ukraine assumed commitments to create a competitive and transparent electricity market, resting on the principles of Directive 2003/54/EC. However, the Ukrainian government failed to adopt the provisions of this key document within the established terms – before 1 January 2012. Instead, over

²³ For more detail see: Liquefied year outcomes. – *Terminal* oil review, No.9, March 4, 2013, p.610 (in Russian).

²⁴ Investigation: Gas King of the Whole of Ukraine. – *Forbes Ukraine*, November 12, 2012, <http://forbes.ua/business/1341072rassledovaniegazovyjkorolvseya-ukrainy> (in Russian).

²⁵ Ministry of Finance revealed the scheme of grey imports of petrol worth billions of hryvnias – *Dzerkalo Tyzhnya*, February 5, 2012, <http://dt.ua> (in Ukrainian).

²⁶ For more detail see: Geography of brands. Year 2012. – *Terminal* oil review, No.5, February 4, 2013, p. 610 (in Russian).

²⁷ Present-day problems of the state policy of petroleum product market development in Ukraine – Scientific-Technical Center *Psychea*, 2012, p.52-56 (in Ukrainian).

²⁸ Energy community demands from Ukraine reduction of sulphur content in petroleum products – *Terminal* oil review, March 7, 2013 (in Russian).



the last two years, the Ukrainian power generating industry has seen processes incompatible with liberal principles of the EU with regard to market reforms.

Growing market control by DTEC. Having acquired in 2011-2012 the shares of state-owned generating companies – *Dniproenergo* PJSC, *Zakhidenergo* PJSC, *Kyivenergo* PJSC, the DTEC Company has monopolised the segment of market pricing bids. The company's generating capacities have exceeded 60% of the rated thermal generation capacities in Ukraine, and together with *Energoatom* NNEGC generate over 85% of all electricity in the country.²⁹ One should also take into account the DTEC monopoly in electricity exports and the company's influence on the state policy (Insert "*DTEC monopoly in electricity exports and its impact on the state policy*"). Therefore, it may be argued that **DTEC influence on the electricity market and the state policy has been too strong to see any prospects for efficient development of Ukraine's electric power industry and to operate within the EU legal framework.**

DTEC MONOPOLY IN ELECTRICITY EXPORTS AND ITS IMPACT ON THE STATE POLICY

At the beginning of 2013, 99% of electricity exports were carried out by two DTEC subsidiary companies – DTEC PowerTrade and DTEC *Skhidenergo*. Upon receiving the complaints from private companies, the Energy Community Secretariat took a preliminary view that "the procedure for capacity allocation in case of non-congested interconnectors fails to respect relevant Energy Community rules".³⁰ According to TEC provisions, in case of not complying with TEC rules, Ukraine may be deprived of vote in that organisation.

In 2012, Foundation for Effective Governance founded by Rinat Akhmetov drafted an updated version of the Energy Strategy of Ukraine till 2030. That basic document on Ukraine's electric power development may actually be termed as an element of the DTEC "business plan" for getting additional profits by using administrative resources. Meanwhile, DTEC extensively exploits opportunities for promoting its interests to a legislative level.

Defects of the Ukrainian electricity market. Since the restructuring of the electricity sector in 1995, Ukraine has an electricity market model of a "single buyer", or a "pool". According to this model, the wholesale electricity market (WEM) is managed by a wholesale supplier – a state-owned *Energorynok* Company; while in the competitive sector, only thermal power plants submitting bids to that enterprise remain active. **Inefficient pricing system that limits investments in reconstruction and modernisation of infrastructure facilities of the electricity sector is the main drawback of this model.** Problems of WEM operation were especially

manifested, in 2012, by the amount of cross-subsidising which, according to the WEM Council, amounted to UAH 34.47 billion.³¹ Certificates of subsidies accounted for 30% of the wholesale electricity price.³²

The main contributor to the current electricity market model is a state-owned company *Energoatom*. For private thermal power plants to be able to sell electricity at higher rates, preserving the wholesale market price, NERC, influenced by lobbyists, has set the unreasonably low rates for *Energoatom*. As a result, the rates for NPPs in Ukraine are three times lower than for thermal power plants, while in the EU countries this difference does not exceed 30%. As a result of such distorted pricing policy, *Energoatom* in 2012 had UAH 2.7 billion of losses, DTEC – UAH 5.9 billion of profit. This pricing mechanism has had a ruinous impact on nuclear power engineering. It creates additional risks for extending the lifetime of old and constructing the new nuclear power units as well as the necessary measures aimed at ensuring safe operation of nuclear power plants.

The Draft Law No.0916 "On the Operating Principles of the Electricity Market of Ukraine" passed by the Parliament on 20 November 2012, not only fails to improve this "drawback" of the existing electricity market model but also makes it even worse. Its provisions, in particular, envisage the creation of the Fund for Regulating Pricing Imbalances, to be accumulated at the expense of two state-owned companies – *Energoatom* and *Ukrhydroenergo* – to subsidise private businesses close to the government, which own "green" power generating companies and thermal power plants, and to compensate for losses from electricity sale to households.

The present electricity market model and the one proposed by the Draft Law No.0916 under the influence of oligarchic groups distort the pricing system and fail to comply with TEC rules. They cannot promote proper conditions for attracting investments required for reliable and efficient functioning of the electricity sector in the interests of consumers in the long run. The lack of real reforms in the electricity market in line with the EU legislation will not only lead to critical repercussions for the entire industry but also result in decreasing competitiveness of the core sectors of Ukrainian economy due to overstated electricity rates.

Mapping the future

By 2015, Ukraine's energy sector will pass a bifurcation point caused by extra-sectoral factors – a choice between DCFTA with the EU and Russia-led Customs Union. This final choice will determine the future model for transforming not only Ukraine's energy sector, but also the Ukrainian state in general.

²⁹ For more detail see: Power engineering in Ukraine: the state and trend. Razumkov Centre analytical report. – *National Security & Defence*, 2012, No.6, p.3337.

³⁰ Electricity experts: Whom Akhmetov disturbs. – *Forbes Ukraine*, March 4, 2013, <http://forbes.ua/business/1348772ekspertelektroenergiikomumeshatrinat-ahmetov> (in Russian).

³¹ Derhachova O. Ukraine's nuclear power engineering: a sacrificial lamb – *Dzerkalo Tyzhnya*, March 15, 2013 (in Ukrainian).

³² Certificates of subsidies are a kind of compensations of losses from electricity supply to some categories of consumers, mainly households, for electricity suppliers working at a regulated tariff.

Since the second half of 2011, Ukraine has entered a “zone of turbulence”. Fulfilling commitments assumed when joining TEC can create the necessary mechanisms for combating corrupt non-transparent commercial relations by ensuring the division of responsibilities, transparency of tariffs, and equal access to infrastructure. Another scenario (Customs Union) would be a strengthened position of foreign monopoly suppliers, a rapid takeover of the energy sector (and other attractive economic assets in the future), and a growing political and economic dependence of the state over the next three years.

If Ukraine passes this “zone of turbulence” relying on European cooperation, it can minimise the negative effects. But if the country preserves a status of uncertainty in the “West-East” coordinates, it will turn into a “grey zone”, making cooperation with Ukraine in the energy sector happen only in case of a critical need.

The best-case working scenario should ensure Ukraine’s energy self-sufficiency till 2035. It may be a success, if the required basis for it is provided in the current decade (Insert “Proposals for a working scenario”).

This, in turn, will be possible if, *first*, favourable conditions are created for the funds long taken from Ukraine’s energy sector and accumulated in the offshore accounts to return to Ukraine. *Second*, if proper conditions are created for priority investment in the energy sector through mechanisms of public-private partnership, and also, by guaranteeing their non-dispersal.

More than once Ukraine has missed its chances to “europeanise” the national energy sector, and to reform it in line with national interests – not with the interests of oligarchic groups or external actors. Even in the light of many problems facing Europe today, the European vector of development is the most preferable for Ukraine.

Ukraine has a huge potential for energy conservation through the implementation of energy efficiency programmes. Coupled with growing extraction of conventional and unconventional gas, the country will soon be able to significantly reduce its critical dependence on imported energy resources. Further efforts aimed at developing the renewable energy and energy-saving technologies (as is the case in the EU) are essential. Energy saving programmes and programmes for use of local energy resources to generate heat should be adopted at the regional level. A large-scale programme for **thermo-modernisation** (growth of heat conservation due to prevention of losses of energy during its transmission and consumption) also should be adopted. That is, energy saving and more efficient use of energy substitution, will reduce gas consumption, and simultaneously boost its domestic extraction. This will enable to reduce gas imports to a level that does not make the national economy and policy critically dependent on it.

Through 2020, Ukraine should push for a two-fold process of integrating into the EU energy space and reforming its energy sector in line with the Treaty establishing the Energy Community and the Association Agreement to be signed at the Vilnius summit of Eastern Partnership. The Energy Strategy should be viewed as the basic document for synchronisation and subsequent integration of the Ukrainian energy sector into the EU energy space.

PROPOSALS FOR A WORKING SCENARIO

Strategic priorities:

- energy efficiency and energy conservation;
- developing domestic extraction of hydrocarbon energy resources;
- expanding RES;
- diversification through cooperation with the EU in gas supply to Ukraine;

The basic generation scenario till 2035 is gas-nuclear, with gradual replacement of imported gas with gas of domestic origin from both traditional and non-traditional sources, nuclear generation – on the technological basis of III+ generation reactors (not of the Russian origin).

Short-term (for 2013):

- the Energy Strategy updating in line with the Energy Community Treaty, key sectoral documents of the EU and IEA recommendations;
- adopting a decision that will confirm plans aimed at implementing the EU Third Energy Package within the framework of the TEC membership;
- reforming the oil and gas sector.

Mid-term (till 2015):

- effective independence of the energy regulator in line with the EU legislation and best practices;
- implementing the EU Second Energy Package and preparing for the Third Energy Package in the context of its obligations under TEC;
- creating a competitive environment for domestic energy market, and its opening for big European companies;

Long-term (till 2020 and beyond):

- promoting energy efficiency, introducing energy saving technologies, developing alternative energy;
- upgrading national power engineering in line with the EU acquis;
- engaging the world leading companies in exploration of the Black Sea shelf and development of non-traditional deposits of natural gas;
- implementing the Brussels Declaration aimed at modernising Ukraine’s GTS;
- creating strategic oil stocks in line with the EU and IEA requirements.

5. UKRAINE'S EUROPEAN INTEGRATION: SECURITY AND DEFENCE SECTOR

Security and defence issues occupy not the main but an important place in the EU-Ukraine relations.¹ Obviously, the EU integration does not represent an alternative to membership in a military-political alliance. Nevertheless, membership in a strong international organisation strengthens the country's position on the international arena and in resolving disputes with neighbours.

The EU-Ukraine security cooperation rests on common interests, as well as on a mutual interest in developing this cooperation and positive experience. Still, the cooperation potential remains largely unused due to a number of internal and external factors. The signing of the Association Agreement opens up new opportunities with regard to international-legal and regulatory-legal support provided for the development of military-political and defence industry cooperation, as well as cooperation in other non-military sectors that have direct impact on stability and security.

Motives and prospects for deepening cooperation with the EU

The existing formats, mechanisms and regulatory framework offer wide opportunities for Ukraine to develop a fruitful cooperation with the EU, in general, and with its separate institutions. The Partnership and Cooperation Agreement opened an opportunity for Ukraine to be able to participate in those EU programmes to which it financially contributes.²

Cooperation in such formats is of interest to Ukraine, especially when it comes to employing the EU capacity and its institutions to stabilise the situation in the country, counter the emerging threats, reform the security and defence sector, obtain technologies, expand presence on arms markets, and receive assistance for restructuring of the national defence industry.

AGENCIES OF THE EU SECURITY AND DEFENCE SECTOR

The EU agencies active in different segments of the security sector and open for cooperation with Ukraine include, in particular: the European Agency for the Management of Operational Cooperation at the External Borders of the Member States of the EU (FRONTEX), the European Institute for Security Studies (ISS), the European Defence Agency (EDA), European Police Office (EUROPOL), the European Police College (CEPOL).

The tentative list of 18 programmes and 20 agencies of the EU open for cooperation was approved by the EU Council on 5 March 2007. The Protocol relevant to the Agreement was signed in December 2010 and ratified by Ukraine in September 2011.

Ukraine has been pushing for development of relations with the EU to make up for the existing "security deficit", which is caused by:

- the critical state of the security and defence sector, limited capability of Ukraine's Armed Forces to perform the assigned tasks;
- lack of reliable external guarantees that could compensate for the deficiency of its own defence capabilities;
- rejection of NATO membership aspirations and adoption of a "non-bloc status".

The latter, in particular, drew the attention of the Ukrainian authorities to other international security initiatives and organisations, including the military aspects of relations with the EU. The non-bloc policy involves Ukraine's participation in developing the European collective security system, a continued partnership with NATO and cooperation with other military-political unions on issues of common interest.

Although domestic policy fundamentals in the national security and defence sector of Ukraine³ mention the EU only in the context of improving the system of democratic civilian control of power structures (Article 6), the National Security Strategy stresses that creating "conditions for Ukraine's integration in the common European political,

¹ The review covers cooperation in the EU Common Security and Defence Policy (CSDP) sector and some aspects of interaction in the field of Justice, Freedom and Security.

² For the Agreement text see the Verkhovna Rada web site (in Ukrainian), http://zakon4.rada.gov.ua/laws/show/998_012. The Agreement was ratified by Ukraine on November 10, 1994, <http://zakon4.rada.gov.ua/laws/show/237/94%D0%B2%D1%80>. For the tentative list of the EU programmes and agencies open for cooperation, see: Communication from the Commission to the Council and to the European Parliament on the general approach to enable ENP partner countries to participate in Community agencies and Community programmes, 4 December 2006, http://ec.europa.eu/world/enp/pdf/com06_724_en.pdf. Protocol to the Agreement (http://zakon4.rada.gov.ua/laws/show/994_a41) was ratified on 21 September 2011, <http://zakon4.rada.gov.ua/laws/show/376417> (in Ukrainian).

³ Law "On Fundamentals of Home and Foreign Policy" of July 1, 2010, <http://zakon4.rada.gov.ua/laws/show/241117>.

economic, legal space...” should be regarded as one of the main foreign policy tasks and a guarantee of its national security.⁴

It is noteworthy that despite the fact that the Lisbon Treaty (2009) has raised the EU's Common Security and Defence Policy (CSDP) to a priority level, it does not provide the security guarantees at the level of the Article 5 of the Washington Treaty (NATO). However, gaining membership in the EU provides additional opportunities for influencing national, regional and international security as well as strengthens the political and economic means to deter potential aggressors. Ukraine's awareness of this fact may substantially speed up the implementation of its European integration policy.

Ukraine, by building close relationship with the EU, strengthens its position in relations to other influential international partners, which boosts its capacity to counter external political, economic, energy pressures. However, a state aiming to gain these advantages should be ready to take on the additional commitments and responsibilities for collective decisions. Such readiness requires appropriate political, economic and defence capabilities. However, the main precondition for developing partner relations and strengthening solidarity among the allies is related to their compliance with agreements and fulfilment of the assumed commitments.

Cooperation progress

The EU-Ukraine cooperation in the field of Common Foreign and Security Policy (CFSP) and its component – the Common Security and Defence Policy (CSDP). Ukraine's cooperation with the EU in this sector covers many domains and activities: convergence on regional and global issues, strengthening dialogue and consultations, and practical cooperation on a wide range of issues promoting security and stability in the region. Therefore, Ukraine already at the preparatory stage can gradually but steadily move toward integration into the common European security space.⁵

One of the goals of cooperation with the EU in the security and defence sector – and a prerequisite for its further development – is presented by the need to achieve the required level of interoperability of Ukrainian units with those of the EU nations by adopting the standards identical to those of NATO. Successful implementation of jointly set priorities will bring Ukraine closer to the EU, and strengthen national and regional security and stability.⁶

Analysing the gains and prospects of the EU-Ukraine cooperation in the security sector, one should keep in mind the following reservations:

- the EU is not a military-political alliance and it will continue to prioritise non-military tools when implementing the CFSP;

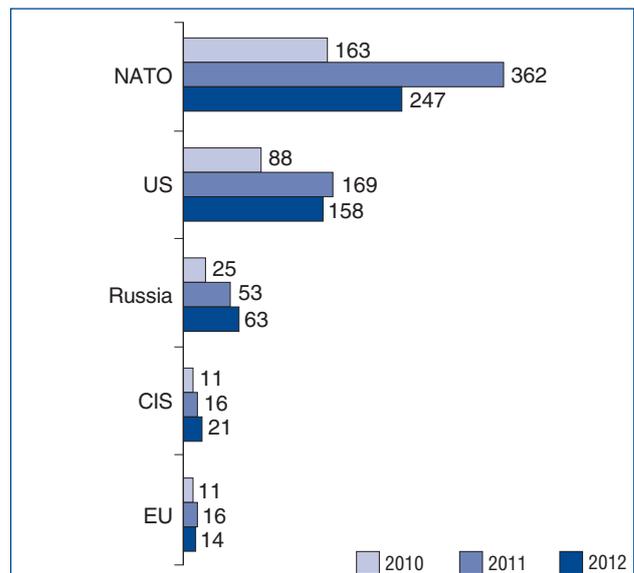
- the strategic level of the EU-NATO partnership, joint membership in both organisations, shared interests and values of countries of the Euro-Atlantic space blur the dividing line between these two organisations and between Europe and North America;
- despite some differences in the views of the EU countries and the US with regard to ensuring regional security and stability and fulfilling their partner commitments, there are more arguments for a community of interests and values, rather than their critical difference.

Security and defence sector. Cooperation in that sector takes place in line with the EU-Ukraine Association Agenda, the Working Plan of Cooperation between the Ukrainian Armed Forces and the Council of Europe Secretariat, and the Arrangements for consultation and cooperation between the European Union and Ukraine in EU-led crisis management operations. The main forms of cooperation include:

- political (military-political) dialogue;
- joint military exercises;
- participation in crisis management operations;
- participation in EU's tactical battle groups (EUBG);
- training of Ukrainian specialists in educational establishments of the EU countries.

The scope and intensity of Ukraine's military cooperation with the EU are much lower than with NATO (in 2012 – 14 joint events with the EU, compared

Intensity of Ukraine's international cooperation



⁴ Strategy of National Security of Ukraine “Ukraine in a Changing World” was put into effect by the President of Ukraine Decree No.389 of June 8, 2012, http://search.ligazakon.ua/l_doc2.nsf/link1/MUS18242.html.

⁵ Assessment of the success of the CFSP implementation in the EU remains rather critical. Although the EU countries can work out a common stand on most international problems, show practical readiness for participation in operations, the true role of the EU in solution of international security issues does not meet its economic potential and ambitions. Plans of creation of a “European NATO” have never been implemented for different reasons, including the ability to continue to use NATO capabilities, reluctance and unwillingness of the leaders of the majority of member states to allocate adequate resources to defence and to use military tools.

⁶ Report “On Implementation of the Ukraine-EU Association Agenda in 2011/2012”. – Governmental Portal, www.kmu.gov.ua/control/uk/publish/article%3FshowHidden=1&art_id=243281941&cat_id=223345338&ctime=1266423569791 (in Ukrainian).



to 247 with NATO) (Diagram “*Intensity of Ukraine’s international cooperation*”).⁷ However, given that most of the EU countries are members of NATO, the division between these two organisations has been vague. However, one should not also forget about Ukraine’s bilateral cooperation with the EU member countries in the format of other regional unions (the South-Eastern Europe Defence Ministerial, the Nordic Initiative, the Visegrad Four).

Cooperation with the EU provides the Ukrainian military with additional opportunities for participation in international exercises, crisis management and anti-piracy operations, EU battle groups, etc. In 2011, the Ukrainian units for the first time went on duty in the EU multinational battle group HELBROC (Bulgaria, Greece, Cyprus, Romania). In 2014, the Ukrainian units are to participate in the EUBG together with Poland, Slovakia, Hungary, the Czech Republic; a full-scale participation in EU NAVFOR anti-piracy operation Atalanta is being negotiated.

Cooperation with the European Defence Agency (EDA) takes place in the format of a political dialogue.

Its main tasks include the development of military assets for crisis management, promotion of cooperation in the field of European arms ammunition, strengthening of the European defence industry and its technological base, creation of a competitive European market of military equipment. Promising lines of cooperation and Ukraine’s participation in the EU projects of mutual interest have been identified.

Some aspects of the EU Area of Freedom, Security and Justice (the activity of law-enforcement agencies).

Cooperation here takes place in line with the Action Plan and the Schedule for its implementation, covering 15 key areas, including: border management, fight against organised crime, terrorism, human and drug trafficking, etc. Effective cooperation takes place on the level of the respective EU institutions:⁸

- *EUROPOL* – on 4 December 2009, an Agreement on strategic cooperation and coordination of efforts to prevent and combat all forms of international crime, terrorist threats, trafficking in humans, drugs and other psychotropic substances, and illegal migration was signed.
- The relevant activities have been implemented in direct contact between Ukraine’s Ministry of Internal Affairs and *EUROPOL* Secretariat. It has been agreed to conclude an Agreement on operational cooperation to support the fight against organised crime, terrorism and other forms of international crime, in particular, through exchange of information between Ukraine and *EUROPOL*. The draft Agreement is being currently negotiated. A positive example of cooperation in that sector was given by rather efficient interaction of the Ukrainian militia and police units of some European countries before and during the Euro-2012 football championship.⁹

- *European Union Border Assistance Mission to Moldova and Ukraine (EUBAM)* – on 7 October 2005, the Governments of Ukraine, Moldova and the European Commission signed a Memorandum of Understanding on EUBAM. Interaction with EUBAM is to facilitate harmonisation of the Ukrainian and Moldovan border management systems with European standards, perfection of professional skills and strengthening of institutional capabilities of the concerned agencies of the two states; infrastructure development and improvement of technical equipment of the Ukrainian-Moldovan border; joining efforts of Ukraine, Moldova and the EU aimed at countering transborder crime. Within the framework of EUBAM, cooperation with border and customs services of Ukraine and Moldova and joint operations have been conducted, involving other international partners (*INTERPOL*, *EUROPOL*, *FRONTEX*, the World Customs Organisation) and the respective agencies of the EU member states (in particular, of Austria, Great Britain, Germany, Poland, and Romania). On 7 May 2012, the Governments of Ukraine, Moldova and the European Commission agreed to extend the Mission’s mandate till 1 December 2014, and to focus its activity on achieving key objectives set by the Action Plan on liberalisation of the EU visa procedures for Ukraine.

Interaction with other EU institutions (i.e., *EUROJUST*, *CEPOL*, *ISS*, *FRONTEX*) takes place in the form of political dialogue in the areas of common interest.

Despite the high level of common interest, the potential for cooperation remains largely unused due to a number of internal and external factors.

Factors influencing the EU-Ukraine cooperation

Ukraine’s cooperation with the EU is influenced by both internal and external factors. The internal factors mainly stem from:

- general problems in relations at the top political level;
- inability of the Ukrainian authorities to properly manage the security and defence sector and to set the effective targets for its development.
- “on paper” approach of the Ukrainian political elite in achieving compliance with the EU security criteria and standards (for association and membership).

The external factors can be divided into two groups – “Western” and “Eastern”.

Internal factors. Despite the serious motives and prospects for deepening Ukraine’s cooperation with the EU in the security sector, there is an impression that this aspect is insignificant to the current authorities. The planned and implemented measures are largely

⁷ Source: White Book 2010, 2011, 2012. Armed Forces of Ukraine. – Ministry of Defence of Ukraine, http://www.mil.gov.ua/index.php?part=white_book&lang=ua.

⁸ Cooperation of Ukraine and the EU in the field of Freedom, Security and Justice. – Ministry of Foreign Affairs of Ukraine, [http://mfa.gov.ua/ua/about-ukraine/europeanintegration/justicefreedomsecurity\(in Ukrainian\)](http://mfa.gov.ua/ua/about-ukraine/europeanintegration/justicefreedomsecurity(in%20Ukrainian)).

⁹ Akulov S. Law-enforcement bodies of Ukraine: reserves and limitations of reformation. – Ukraine’s Security Sector Almanac 2012. – Razumkov Centre, Geneva Centre for Democratic Control of Armed Forces, 2012, p.115-116, http://razumkov.org.ua/upload/Almanakh_bezpeky_fnl.pdf.

formal and non-obligatory, and do not pursue concrete results needed by society and expected by partners. Cooperation is situational and consumer-like;¹⁰ it happens mainly at the agency level and goes on “by inertia”, following the policy of previous governments.

In the recent years Ukraine (in terms of approaches of its political leadership) has seen excessive politicisation and economisation of priorities in the security sector, its refocus on the needs of the current authorities.¹¹ The following threats came to the fore:

- destabilisation of the internal political situation, threatening the President and the Party of Regions with loss of power; artificial creation of differences in voter preferences (East-West, Europe-Russia, EU-CU) indeed can help to mobilise the electorate of the Party of Regions but it will also mobilise the opposition supporters, thereby deepening the political divide in Ukraine;
- negative effects of the crisis, which, combined with the short-sighted policy of the Government, rapidly leads Ukraine's export-oriented and poorly diversified economy to collapse;
- strained relations with Russia, forcing the Ukrainian government to make its integration choice now.

The results of the three years of Viktor Yanukovich's presidency give grounds to note the low level of practical attention to national security and defence issues. Election promises and subsequent declarations of intentions to reform the security and defence sector, in practice, resulted in further reduction of the Armed Forces and lack of a clear strategy for their development. Some positive changes (larger scale of military equipment repair, increments to money allowances, intensification of cooperation with Russia, preservation of partner relations with NATO) cannot change the general trend of degradation of the national defence capabilities.

Ukraine still has no clear idea of the targets and methods for reformation of the defence industry. Uncertainty with regard to the lines of the sector and separate enterprise development, absence of firm rules regulating political and economic relations in the country are viewed by potential Western partners (including EDA) as a serious risk and an obstacle to achieving a fully-fledged cooperation with Ukraine. Deepening cooperation with EDA (as well as within the framework of some sensitive programmes in other sectors) is hindered by the fact that Ukraine is not a NATO member – political restrictions on transfer of sensitive products and technologies also play a role.

In turn, representatives of the Ukrainian defence industry (and industry as a whole) fear a collapse that is allegedly related with Western companies coming to Ukraine. Meanwhile, such factors as the role of

competition in stimulating development and the need for developing new technologies, large-scale upgrading of production equipment, and ensuring good management remain omitted.

Deepening of cooperation between Ukraine and the EU in the field of law-enforcement agencies' activity is hindered by the above-mentioned politicisation of that activity and by the poor efficiency of reformation of law-enforcement agencies, primarily conditioned by the lack of common vision and strategy for reforms. As a result, attempts of reformation in some sectors (of some agencies) lack resources, cause incompatibility of the obtained results with each other and with the society and European partners' expectations. True goals of all measures in the sector are confined to protecting the political regime from public discontent and receiving profit from the use of power as an instrument for resources' distribution.

By and large, the main internal checks for stabilisation of the situation and implementation of reforms in all sectors without exception, including the security and defence sector, and Ukraine's progress on the road to European integration are presented by the authorities' focus on corporate (rather than national) interests, and their inability to ensure Ukraine's transformation into a strong, socially-oriented and efficient state.

Attitudes of the US, NATO, and some leading European countries to the EU-Ukraine cooperation.

Analysing the external influence of Western states and organisations (the US, Canada, NATO) on the development of the EU-Ukraine security cooperation, one should keep in mind the strategic and long-term character of the Euro-Atlantic relations. It is logical to expect that any initiatives promoting their development, stability and security in the Euro-Atlantic region, including the enlargement policy, partnership with the EU neighbours, meet the strategic interests of those actors.

Despite a general shift in its foreign policy priorities, the United States has continuously shown the interest in a democratic and European development of Ukraine. Being a key actor on the European continent, the US actively supports efforts that do not threaten the US national interests and endanger the efficiency of NATO functioning.

Today, there are all grounds to say that the US is interested in the development of the EU defence capabilities and not only does not see these processes as duplicating or competing with NATO but on the contrary – expects from the European partners greater responsibility for security in Europe and an active role in international security. More than that, enhancement of defence capabilities of the European NATO member countries exerts direct positive influence on the defence

¹⁰ In the Plan of Priority Measures at Ukraine's Integration in the EU for 2012, the overwhelming majority of measures is related with financial assistance from the EU. See: CMU Directive “On Approval of the Plan of Priority Measures at Ukraine's Integration in the European Union for 2012” No.184p of April 5, 2012, <http://zakon2.rada.gov.ua/laws/show/1842012%D1%80> (in Ukrainian).

¹¹ “Speaking of internal threats to national security ... , according to expert assessments, threats to economic security make over 90% of all kinds of real threats”. – See: Speech by NSDC Secretary Andriy Kliuyev at Parliamentary Hearings “On the State and Prospects of Development of the Military Organisation and Security Sector of Ukraine”. – Verkhovna Rada web site, May 23, 2012, <http://static.rada.gov.ua> (in Ukrainian). Politicisation of the security sector is witnessed by the trends to centralisation of management of the law-enforcement system, enhancement of its repressive functions, alongside with removal of democratic control and limitation of political rights and freedoms of citizens. See, e.g.: Melnyk O., Sungurovskiy M. Security sector in the context of socio-political development of Ukraine. – Ukraine's Security Sector Almanac 2012.



potential of the Alliance. Viewing NATO as the most efficient tool for the security and defence policy in the Euro-Atlantic space, the US and other NATO member states are particularly interested in the development of civil CFSP tools for crisis management, which can substantially supplement NATO military tools.

Security aspects of relations with Russia in the context of European integration

The present state and prospects of the Ukraine-Russian cooperation in the security sector generally meet the overall trends of bilateral relations. Meanwhile, they have some specificities, related, on the one hand, with the extreme sensitivity to the quality of relations at the top political level, on the other – with natural limitations that ensure some stability and predictability of those relations.

Ukraine's rapprochement with the EU, even on the level of political association and DCFTA, bears a threat to successful implementation of the Russian foreign policy strategy aimed at preserving its sphere of influence and reintegrating the post-Soviet space. Russia's intention "to build relations with Ukraine as the priority partner in the CIS, to encourage its involvement in deeper integration processes"¹² does not coincide with Ukraine's desire to ensure its "integration into the European political, economic, legal space with the purpose of joining the European Union".¹³

General political factors that influence security cooperation

The present situation largely resembles the period when the Kremlin showed deep concern with Ukraine's Euro-Atlantic aspirations as the main geopolitical problem of bilateral relations. The political leadership of the Russian Federation publicly and repeatedly said that it saw NATO's eastward enlargement as a threat to the Russian national interests. The Bucharest NATO Summit (2008) refusal to offer MAP to Ukraine and later legislative provision of Ukraine's non-bloc status (2010) marked an important achievement of the Kremlin foreign policy priorities. Later, when official Kyiv gave up plans of full membership in NATO, Moscow changed its attitude to Ukraine's European integration aspirations from relatively neutral to aggressively negative. Today, efforts of the Russian diplomacy again focus on preventing rapprochement between Kyiv and Brussels.

As before, Russian arguments are reduced to promises and intimidation. Promises are mainly presented in the form of "fantastic" calculations of economic benefits and chances to escape tough Russian decisions. Intimidation ranges from huge economic and political losses to "coercion to friendship".

To be sure, not all promises and threats should be taken seriously, but some of them have already come true, or will materialise, irrespective of Ukraine's actions. For instance, warnings of further curtailment of military and military-technological cooperation are very realistic, since those sectors more than others depend on the

nature and trends of bilateral relations. **Strategic relations between countries in national security and defence issues may be achieved only in presence of the spirit of true partnership.** Economic arguments in the national security sector are usually less weighty than a high level of trust and confidence in a partner.

Defence industry cooperation: economy, policy, security

Curtailment of cooperation between the defence industries of the Russian Federation and Ukraine is a natural process that began almost right after the USSR breakup. Initially it was related to general socio-economic problems, later – to the Russian political leadership's decision to create closed cycles of development, production and maintenance of weapons and military equipment. Half of almost 900 defence enterprises and design bureaus inherited by Ukraine ceased to exist in mid-1990s, only 143 of them are active now. Noteworthy, those enterprises were elements of the common Defence Industrial Complex (OPC) and obtained 80% of parts from Russia.¹⁴ The recent improvement of relations between the two countries brought only a provisional slowdown of the decline in cooperation that did not change the general trend. Russia clearly demonstrates that restoration of cooperation is possible only on the condition of control over Ukrainian assets. Such a stand may hardly be seen as partner-like and acceptable for Ukraine.

Today, nearly 80-90% of Ukrainian defence industry products are sold at foreign markets, with more than half of Ukrainian exports falling on the Russian Federation. The fact that Russia still has to buy goods and services from Ukrainian defence industry enterprises only reveals economic and technological obstacles for the import substitution strategy implementation by the Russian Government. The level of mutual dependence remains rather high, especially in aviation, rocket and space industry and shipbuilding. For a number of reasons, the options of substitution of Ukrainian exports with domestic batch production or through engagement of other suppliers cannot be implemented in the short and even long run. According to estimates made by Russian experts, critical dependence of Russia on Ukrainian aircraft engines and naval gas-turbine power units, services of Ukrainian specialists in maintenance of intercontinental ballistic missiles will persist for the next 15-20 years.¹⁵

Therefore, **the main factors that prevent sooner curtailment of cooperation with Ukraine by Russia in the defence sector are:**

- critical dependence of the Russian defence capability on goods and services of the Ukrainian defence industry;
- risk of economic losses and of weakening the national security and defence capability of Russia;
- economic feasibility.

¹² Regional priorities. Concept of the Foreign Policy of the Russian Federation, February 12, 2013. www.mid.ru/bdomp/nsosndoc.nsf/e2f289bea62097f9c325787a0034c255/c32577ca0017434944257b160051bf7f (in Russian).

¹³ Law "On Fundamentals of Domestic and Foreign Policy" (2010).

¹⁴ A Comprehensive Assessment of the Macroeconomic Effects of Various Forms of the Deep Economic Integration of Ukraine with Member States of the Customs Union and the Common Economic Space within the EurAsEC. Summary report. Centre for Integration Studies. St. Petersburg, 2012. p.147, – www.eabr.org/general/upload/reports/Ukraina_dokladtekst.pdf (in Russian).

¹⁵ A Comprehensive Assessment of the Macroeconomic ..., p.150-152.

Meanwhile, there are serious grounds to expect that Russia will try to further implement import substitution programmes, even with economic losses, and irrespective of Ukraine's integration trajectory.

Ukraine's defence industry faces an extremely difficult task. The Russian integration projects envisage domination of the Russian defence industry and promise the transfer of domestically produced arms to the "younger partner" for free or at domestic prices. Furthermore, the Russian defence industry development strategy provides for creation of independent cycles of development and production, leaving room to imports only where the national defence industry cannot technically meet the defence needs. The Western states prefer the initiatives on cooperation development (*pooling and sharing, smart defence, etc.*), but apart from tough competition and high requirements for product quality, the decisions of Western governments to award defence contracts also greatly depend on political aspects and the level of trust between partners.

The level of defence industry cooperation greatly depends not only on the political situation but also on commercial factors, especially when it comes to growing shares of private enterprises. The curtailment of military-technological cooperation between the two countries has been the result of implementation of the Russian strategy aimed at creating the closed arms production cycles, mentioned above. Meanwhile, given the time, technological and financial aspects of attainment of that strategic goal, Russia will have to continue to buy military goods and services from Ukraine. At that, the Ukrainian defence industry's ability to offer high quality and competitive goods and services, in particular because of developing of cooperation with leading Western companies, significantly lowers the risks of reducing trade with Russia.

Military cooperation

The past three years saw some recovery of military cooperation between Ukraine and Russia (including in the CIS and CSTO formats), compared to the previous years, when it "had no tangible positive dynamics".¹⁶ The number of joint activities doubled, Russia in 2012 offered 28 free vacancies for Ukrainian officers at the Russian military educational establishments. Also, the payment issue concerning the use of the *Nitka* aviation complex in Crimea, sensitive for Russia, has been finally resolved.¹⁷ Meanwhile, neither the intensity nor quality indicators of the Ukrainian-Russian military cooperation can be seen a strategic partnership. For instance, Ukraine's bilateral cooperation with the US remains three times more intense according to the number of joint activities and their substance (Diagram "*Intensity of Ukraine's international cooperation*").

Traditional forms of cooperation in the CIS format in the military sector include:

- meetings of the Council of Defence Ministers (CIS CDM);
- bilateral meetings (consultations) on issues of military and military-technological cooperation;
- coordinating committees dealing with air defence, topography services, personnel training;

¹⁶ For instance, in 2008, planned meetings on the level of defence ministers and chiefs of general staffs were cancelled. White Paper 2009, p.59.

¹⁷ White Paper 2012, p.50.

- participation in joint military exercises, conferences, contests, competitions, seminars.

Other important elements of bilateral contacts include:

- joint events related to fight against drug trafficking, smuggling and organised crime;
- mutual assistance in removing the aftermath of natural and man-made disasters;
- cooperation in meteorological support, military aviation safety.

The importance of military cooperation with Russia to promote the atmosphere of transparency and trust causes no doubt. Meanwhile, there are objective processes that should be considered prior to developing and formulating the strategy of bilateral relations. Ukraine should take into account the difference in approaches to security dominating the defence strategies of Russia and the EU (and NATO) countries. The main fact is that Russia, actively cooperating with NATO and the EU, does not intend to integrate into the European (Euro-Atlantic) security system. Ukraine, on the other hand, has been gradually aligning with NATO standards, improving the interoperability (on the level of procedures, doctrines, concepts, communications) between its armed forces and those of the EU and NATO member states. Therefore, with time, it will be even more difficult to continue the military cooperation between the two countries.

Bilateral relations of Ukraine with Russia in the security and defence sector will remain tense, since they depend on the overall state of relations between the two countries. At the core of the problem is the conflict of national interests, which is unlikely to be resolved in favour of Ukraine in the near future. Ukraine's strategic road of integration into European political, economic, legal space with the purpose of gaining the EU membership does not happen to coincide with Russian expectations to involve Ukraine in deeper integration processes within the CIS. Given the exceptional importance of keeping Ukraine in its sphere of influence, Russia will spare no efforts to disrupt the rapprochement between Kyiv and Brussels by using the tools that already proved successful in destroying Ukraine's Euro-Atlantic aspirations.

The state leadership faces the task to secure good-neighbourly and partner relations with Russia as an indispensable element for successful implementation of the strategic course of European integration, sound socio-economic development of the country, and strengthening national security, regional peace and stability.

Meanwhile, any decisions pursuing that extremely difficult task should not contradict the strategic European integration course of the country. Ukraine should preserve the existing format of military and military-political cooperation with Russia, including within the CIS and CSTO: meetings on the level of ministry and agency heads; join military exercises; agreements on conditions of temporary stationing of the Russian Black Sea Fleet on the territory of Ukraine; settlement of border disputes. More attention should be paid to initiatives promoting the atmosphere of trust and cooperation among power structures of the member states and developing human contacts. ■

6. CONCLUSIONS AND PROPOSALS

The priority task of the Ukrainian authorities is to implement the package of EU recommendations, which are a condition for signing the Association Agreement. Unfortunately, the problems of selective justice, reforms of the electoral system and public prosecutor's offices, etc. remain unresolved. It is high time to devote the available political, economic, organisational resources to them and to ensure the progress of reforms and adoption of the relevant laws, as sought by the EU.

Analysis of the state of EU-Ukraine relations before the Association Agreement signing gives grounds to make the following conclusions.

1. Domestic policy dimension of European integration

1.1 Ukraine is undergoing a phase in which democracy is curtailed, and in which the observance of human rights, including freedom of speech and press, deteriorates. It tends to adopt the experience of the countries that chose the path of Eurasian integration (Russia, Belarus, Kazakhstan) with de facto irremovable supreme state leadership and an absence of real political competition.

The fulfilment of European integration objectives is unsatisfactory. The reasons include: a) the authorities' attempts to fulfil some obligations in a way which formally meets the EU's requirements but does not promote the adoption of European values; b) insufficient coherence, controversy, poor coordination of authorities' actions designed to further European integration; c) the conflicting, destructive character of relations between the government and the opposition.

1.2. Ukraine has an inefficient and undemocratic system of governance. The decision-making process lacks transparency, coordination, and responsibility. The institutional organisation of governance bears signs of extreme centralisation and politico-oligarchic subordination. The concentration of administrative powers in the President's hands goes beyond the limits of the Constitution.

1.3. As a result of the judicial reform of 2010, the judicial branch in Ukraine ceased to exist as an independent branch of government and was actually "imbedded" in the presidential hierarchy.

The reform resulted in defiance of the constitutional principle of a separation of power into legislative, executive and judicial branches. Key powers are now concentrated in the President's hands. The balance of power has been broken, with the judicial branch losing its functional autonomy and independence. Independent judicial control over the legislative and executive branches, the President, public prosecutor offices and other authorities were effectively liquidated. Meanwhile, public and parliamentary control over courts weakened, which creates the preconditions for arbitrariness and impunity of judges.

The judicial system became more politicised, which is highlighted by the presence in the national judiciary of such things as "politically motivated court judgements", "selective justice", and the emergence of political prisoners. The judicial reform deteriorated

the accessibility of justice and impaired citizens' ability to exercise their right to a fair trial.

2. Economic prospects of relations between Kyiv and Brussels

2.1. The choice in favour of European integration rests on the notion that the EU is the main regional market in the modern world economy, exerts a serious impact on its overall dynamics and structural changes, carries great investment potential, is one of the world's leading innovation centres, and controls to a large extent decision-making on regulation the world economy.

2.2. The creation of a deep and comprehensive free trade area (DCFTA) will lead to an expansion of consumer choice on the Ukrainian market, a reduction or limitation of the growth in prices of goods and services, a growth of incentives for innovative development, as well as a facilitation of conditions for Ukrainian citizens' employment in the EU.

Meanwhile, the conditions in which the economy functions will become more complicated, due to: the need to close non-competitive companies and replace them with new ones; a temporary reduction of budget proceeds from collecting customs duties and income tax; a growth of budget expenditures on restructuring the economy.

2.3. Gains are expected from harmonisation with the EU's development policy and regulatory norms. It will bring a systemic transformation of the key sectors of the Ukrainian economy, a growth of the civilisational level of its market environment, the introduction of advanced methods and tools of regulating economic processes by the state, and therefore, will bring significant long-term socio-economic advantages.

2.4. In industry, new opportunities associated with customs-free access to almost the entire EU market of industrial goods may be used only in the long run. This will depend on the introduction of European technical regulations, standards, metrology systems, assessments of whether products comply with standards, and market supervision systems. The Association Agreement's emphasis on energy efficiency and energy conservation and the development of new renewable energy sources is important for industry development.

Fears of a large-scale reduction in production and workplaces in industry under the conditions of DCFTA are a clear exaggeration, disregarding the gradual character of liberalisation and the possibility of applying protective measures in separate Ukrainian industries.

2.5. In the agricultural sector, the advantages of wider access to EU markets are limited by the preservation of tariff quotas on critical items of Ukrainian agricultural and food exports. However, the main obstacles to exporting Ukrainian agricultural and food products to the EU market will be posed by sanitary and phytosanitary regulations.

The competitiveness of Ukrainian agricultural producers is to grow due to the EU's refusal to grant Ukraine export subsidies or equivalent measures in support of agricultural goods provided by the DCFTA. However, production must be brought in compliance with the provisions, which protect geographical indications of origin of some food products and drinks, and this will require additional costs. Some agricultural enterprises will face difficulties in connection with the gradual cancellation of export duties on live animals and sunflower seeds.

2.6. Under the influence of European integration, the state regulation of Ukraine's economy should be fundamentally transformed on the basis of the introduction of long-term strategic approaches. The stability of the public finance system will grow thanks to improvements in the tax system and a growth in tax collection capabilities. The key regulatory systems (first of all, customs regulations, the tax system, organisation of budgeting, regulation of competition and subsidies, organisation of state procurements) will be substantially improved due to the approximation of EU norms. This will substantially restrict the room for arbitrary, non-transparent, non-competitive decisions and corrupt actions.

2.7. The assessment of the efficiency of Ukraine's European integration is complicated by the possible application of restrictive measures by the Customs Union member countries, which include a threat of stripping trade preferences. This may cause a short-time negative aggregate effect from the DCFTA with the EU but cannot be seen as proof of the fallacy of European integration proper.

3. EU-Ukraine energy dialogue

3.1. After Ukraine's accession to the Treaty establishing the Energy Community (TEC), the Ukrainian energy sector faces formalised obligations of introducing the EU's energy legislation. The main goal of the document is to create a common, transparent European market in electricity and gas, which operates and develops in line with unified and harmonised EU rules. TEC provisions make up the core of the Association Agreement with the EU.

3.2. Accession to the TEC gave Ukraine an opportunity for a full-scale accession to the common EU energy space. However, implementation of the EU energy legislation in Ukraine has been only imitated. Government declarations of European integration conceal notable departures from the declared European values and a growth of administrative interference. Instead of promoting competition and protecting consumer and investor rights, internal gas, electricity and petroleum product markets remain dominated by corrupt schemes that increase monopolisation.

3.3. In the past two years, Ukraine has seen the prospects grow of large-scale investments in geological surveying and the development of deposits of non-traditional gas and natural gas on the Black Sea shelf.

In particular, a product sharing agreement was signed with Shell for the development of tight sandstone gas deposits; a similar agreement is prepared with Chevron for the development of shale gas and with a consortium led by ExxonMobil on the Black Sea shelf. However, successful development of new internal sources of gas is possible only on the condition of implementation of the EU energy legislation by Ukraine.

3.4. European integration paves the way for the creation of competitive and investment-attractive energy markets that operate in a developed legal framework and pursue, first of all, the satisfaction of consumer demands.

3.5. Withdrawal from the TEC will mean failure in the most advanced sectoral policy in the field of European integration.

4. Relations in the security sector

4.1. Ukraine is interested in the development of security cooperation with the EU, based on common interests and good experiences. For the EU, it is also important to engage Ukraine in the common security space and to develop capabilities for guaranteeing regional security and stability. Meanwhile, potential for cooperation remains largely unused due to a number of internal and external factors.

4.2. Security and defence issues occupy an important place in the Ukraine-EU relations. Integration into the EU cannot be seen as an alternative to membership in a military-political alliance. However, strategic partnership with a strong international organisation strengthens the country's position on the international scene and ensures additional capabilities for defence of national interests.

4.3. Signing the Association Agreement opens up new possibilities for regulatory-legislative support for the development of military-political, military, defence industry cooperation, as well as cooperation in other – non-military – sectors critical to stability and security.

PROPOSALS

To prevent unfavourable developments for Ukraine in its relations with Europe and to create conditions for the Association Agreement signing, the following steps should be made.

1. To focus on solving internal political and legal problems

1.1. It is high time to implement the often-repeated proposal to initiate a national round-table on the most pressing problems of society and state development that will unite representatives of the government and the opposition and leaders of civil society. The first results of its activity should include: a) a joint statement by participants of the irreversibility and absence of alternatives to Ukraine's course of European integration; b) coordination of approaches to solving the most pressing problems related with the Association Agreement signing; c) beginning of a broad PR campaign expounding the advantages and prospects of EU integration.

1.2. In order to step up European integration and create the conditions for signing the Association Agreement, the following measures should be taken.



The state political leadership is to give up its practice of using the courts in political and personal interests. To resolve to mutual satisfaction the problem of Yuliya Tymoshenko's imprisonment (the methods may include unbiased revision of the case in court, a pardoning by the President, treatment abroad, etc.).

To develop and adopt the Election Code, taking account of prior drafts, proposals of the expert community and civil society institutes, with material consent of the ruling and opposition forces on its key provisions.

To pass a decision on elections to the Verkhovna Rada in five so-called "problem" districts and on elections of the Kyiv City Council and the Kyiv city mayor.

To fundamentally reform public prosecutor offices. Their status and powers are to be brought in conformity with European standards. To that purpose, it is necessary to promptly adopt the new Law "On Public Prosecutor's Office" drafted by the National Commission for Strengthening Democracy and Establishment of the Rule of Law and generally approved by the Venice Commission.

To solve the problem of illegitimate stripping national deputies of their mandates, to abstain from applying pressure to representatives of the opposition in the Verkhovna Rada, opposition politicians, public figures, representatives of mass media by using judicial bodies, law-enforcement and control structures.

To cancel the Law "On All-Ukrainian Referendum" in its present wording that enables barring the Verkhovna Rada from law-making, or, as a trade-off alternative, to substantially amend it and to bring it in compliance with the spirit and letter of the Constitution of Ukraine, taking into account the recommendations of the Venice Commission and ODIHR/OSCE.

To adopt the Law on local referendums and in that way fill the legislative gap created by cancellation of the Law "On All-Ukrainian and Local Referendums".

To terminate the Constitutional Assembly after the completion of discussions and approval of the Concept of Introduction of Amendments to the Constitution of Ukraine. To create a Constitutional Commission in the Verkhovna Rada, with representatives of all parliamentary factions, which will be tasked with drafting amendments to the Basic Law – including the Constitutional Assembly proposals. To amend the Constitution solely in accordance with the requirements of the effective Basic Law.

To adopt a Law of peaceful rallies which meets democratic European standards and does not give the authorities the power to ban rallies at their discretion.

To adopt laws that enable the identification of the true owners of mass media, set requirements for the balanced and unbiased information of society, establish procedures of the authorities' and local self-government bodies' withdrawal from mass media founders and publishers.

1.3. To ensure the true independence of the judicial branch in accordance with the Constitution. To that purpose: to restore the independence and autonomy of judges' self-government, removing outside control of the formation and activity of judges' self-government bodies; to change the unconstitutional procedure of appointing

judges to administrative positions by the High Council of Justice, to assign that right to the Council of Judges of Ukraine; to take measures aimed at fundamentally changing the current principles of how judges are appointed and the HR management in the judicial system.

1.4. To restore the constitutional status of the Supreme Court.

1.5. To introduce amendments to the legislation limiting the right to judicial defence (in particular, to liquidate the institution of admission of cases for consideration to the Supreme Court, to change the procedure of appeal against decisions, actions and inaction of the President, the Verkhovna Rada, the High Council of Justice, the Higher Qualification Commission of Judges of Ukraine, providing the possibility of appeal and cassation against court judgements in such cases).

1.6. To ensure the legal responsibility of judges involved in the passage of apparently unjust decisions (including in publicised cases).

1.7. To give up pushing the Bill "On Introduction of Amendments to the Constitution of Ukraine for Enhancement of Guarantees of Independence of Judges", the implementation of which will lead to the effective establishment of total influence of the President on the judicial branch under the disguise of adopting international standards.

1.8. To reverse the judicial practice in so-called political cases, cases of peaceful rallies and cases of election disputes, bringing them in full compliance with the Constitution, the Convention for the Protection of Human Rights and Fundamental Freedoms, decisions of the European Court of Human Rights.

1.9. To provide for the implementation of the administrative reform with the purpose of rational delimitation of political and administrative functions and positions and the creation of conditions for the professional and stable functioning of the state service. The focus should be on the return of the supreme bodies of power to the constitutional framework and de-concentration of powers. Reform of the system of remuneration for officials should take place simultaneously with the reduction of pension preferences.

1.10. To adopt requirements and procedures for mandatory public consultations on a wide range of national and local projects, with sufficient time given to review draft decisions and their discussion by taking into account the interests of all concerned parties (groups).

1.11. To defend the interests of private persons when passing administrative decisions (acts) – to promptly adopt the Law on administrative procedures (Code of Administrative Procedure); to perform thorough deregulation (reducing the number of administrative services; simplifying procedures).

1.12. To implement the administrative-territorial reform, in order to create conditions for the proper functioning of local self-government and policy decentralisation.

1.13. To introduce tools of internal audit in public administration, to promote the creation of independent anticorruption units; to expand the powers of the Accounting Chamber.

2. To develop economic relations with the EU

2.1. To develop and submit to the Verkhovna Rada for consideration a draft state programme of the implementation of Ukraine's obligations envisaged by DCFTA with the EU, specifying the responsible bodies, concrete terms and required financial and other resources required for the full implementation of the assumed obligations.

2.2. To provide separate items for measuring the implementation of DCFTA provisions upon the submission of draft state budgets to the Verkhovna Rada, including funds for the restructuring of non-competitive enterprises, funding of modern infrastructure development, the promotion of growth of international competitiveness and the provision of other conditions for economic restructuring, as well as measures aimed at reforming institutional principles of economic development regulation.

2.3. To develop and approve a state programme designed to introduce the EU's technical regulations, standards, systems of metrology, assessment of compliance of products and market supervision, sanitary and phytosanitary norms in Ukraine, backed with an appropriate budget, measures aimed at personnel training and professional development and the creation of information and reference systems.

2.4. To apply to the EU governing bodies with a proposal to adopt a special joint statement (Memorandum) saying that the DCFTA agreement is not aimed against the interests of third countries and unions and should be viewed in the context of furthering closer direct relations between the EU and Eurasian integration unions.

2.5. To create a mechanism of consultations with reputable experts in Ukraine, to avoid conflicts between Ukraine's obligations under the DCFTA and the possible accession of Ukraine to some provisions (agreements) effective within the Customs Union, SES and other Eurasian structures. It should envisage consultations with authorised representatives of the EU, to check whether obligations Ukraine may assume within the framework of relations with Eurasian unions are in compliance with obligations Ukraine will assume under the DCFTA, and to consult with the EU before decisions on those issues.

3. To enhance cooperation in the energy sector

3.1. In line with Ukraine's obligations within the framework of the TEC and Article 7 of the Law "On Fundamentals of Domestic and Foreign Policy of Ukraine", the following should be done:

- to transform *Ukrtransgaz* PJSC into an independent company – the operator of Ukraine's gas transportation system in line with the EU criteria and best practices;
- to adopt the Law "On National Commission in Charge of State Regulation in the Energy Sector", providing the principles of its funding and independent status, releasing the Commission from the influence of other state bodies and lobbyist groups and enabling it to take reasonable and impartial decisions;
- to adopt the Law "On Principles of Electricity Market Functioning in Ukraine", providing for: equal and guaranteed access to networks; competition in electricity supply; refusal from any forms of cross-subsiding; transparent pricing; efficient protection of consumer interests.

3.2. Before 1 September 2013, the CMU is to take a decision on the implementation of the EU Third Energy Package.

3.3. Before 1 October 2013, to approve the updated Energy Strategy of Ukraine till 2030, providing for its compliance with TEC, key sectoral documents of the EU and recommendations of the International Energy Agency. To provide the basic generation scenario till 2035 – gas-nuclear, with gradual replacement of imported gas with domestic from both traditional and non-traditional sources, nuclear generation – on the technological basis of III+ generation reactors.

3.4. To improve regulatory-legal conditions for the enhancement of the efficiency of energy resources' use, the growth of domestic gas extraction (including non-traditional) and energy generation from renewable sources.

3.5. To create regulatory-legal and technological conditions for complete synchronisation of the Ukrainian GTS with gas transportation networks of the EU (first of all, of Poland, Hungary, Slovakia and Romania), which will make it possible to increase reverse supply from the EU countries and enhance competition on the Ukrainian gas market, to get rid of monopoly dependence on deliveries of Russian gas and promote a reduction in prices for consumers.

3.6. Jointly with national GTS operators of the Visegrad Group countries, interested investors and the European Commission, to work out a project to modernise Ukrainian underground gas storages for wider use, to promote their integration in the EU gas sector and enhance safety of supply to Ukraine and to markets of the neighbouring EU countries, and furthering the creation of an East European gas hub in the more distant future.

3.7. To provide for possible deliveries of liquefied natural gas (LNG) by 2016, with the construction of an LNG terminal. Implementation of that project will require urgent measures for fundamentally improving the quality of management.

3.8. To create regulatory-legal conditions for the promotion of competition on the market of petroleum products and the prevention of sales of smuggled and/or fake motor fuel. To urgently give up the practice of creating preferential conditions for "chosen" domestic oil traders through the erection of artificial barriers at custom clearance of imported petrol and diesel fuel.

4. To develop contacts in the security sector

4.1. To actively use the existing mechanisms and formats of cooperation with the EU in the security sector. To develop Ukraine's own defence capabilities to guarantee national security and to enable wider participation in joint events, exercises and operations with the EU in crisis management. To promote military-political dialogue with the EU countries.

4.2. To provide conditions for achieving the required level of interoperability of Ukrainian units with units of the EU countries. To expand the participation of Ukrainian units.

4.3. To intensify participation of Ukrainian units in the EU battle groups.

4.4. To promote cooperation with the EU in the fields of justice, freedom and security, according to a relevant Action Plan.

4.5. To step up military-technological cooperation with the European Defence Agency. ■

UKRAINE'S PATH TO EU: ACHIEVEMENTS, CHALLENGES AND PROSPECTS*

**SIGNING OF THE ASSOCIATION AGREEMENT WITH
THE EU IS JUST THE BEGINNING, NOT THE END**



Serhiy ARBUZOV,
*First Vice Prime Minister
of Ukraine*

– What are the most critical internal factors affecting the EU-Ukraine relations?

I would like to group these factors into tactical and strategic ones.

The tactical factors are specified in the known “Füle’s List” the one used by the EU to condition the relations of association. These are, so to speak, priority steps necessary to dispel all the doubts about Ukraine’s further development in the spirit of respect for political and economic freedoms.

We may argue if those doubts are reasonable or not (for instance, I personally consider them unreasonable), but they cannot be rejected and even ignored. Ukraine and the EU are waging a dialogue – free, but specific in its nature. Its specificity lies in, so to say, the asymmetry of this dialogue. It is like a saying that every product has its price. They quote the price, and we have to pay it. Bargaining is not appropriate. And with the Vilnius summit approaching, I guess that becomes ever clearer: we do not bargain – we do things. With problems, delays, internal disputes but we accomplish things expected from us.

As regards the strategic factors that influence the relations, they include solving Ukraine’s long-standing problems, such as convincing economic reforms, fundamental modernisation of the entire state machinery, overcoming internal political strife, solving problems in the dialogue between the government and civil society, etc. This list of “strategic” issues is much more complex in comparison to tactical problems we are dealing with today. However, the remedy to both is the same – it is the adoption of the European values, since they are the key to everything: to the country’s modernisation, overcoming political strife, civilised dialogue with civil society, etc.

– How would you assess external influences on Ukraine’s European integration?

External influences are present, too, but they exist in close connection with internal processes. On the one hand, Ukraine has chosen the path of European integration. On the other – we do not want that road to mean breaching economic ties with others, in particular, when it comes to relations with our CIS partners. We should build bridges, rather than burn them.

Finding a balance in relations with our partners in the East and the West in conditions of practical implementation of the European integration strategy is the supreme task of our diplomacy. This is difficult but not impossible. Presence of a strong political will is the main thing. And we do have it. I also see it on the part of such countries as Russia, Belarus and Kazakhstan. Apparently, the EU, too, should be interested in our European integration promoting the unification of the East and the West on the European continent, rather than deepening the divide.

I am not inclined to look for “dark forces” trying to derail the process of European integration. If we look at the core of the matter, not the geopolitical “tug of war”, then our accession to the European space meets the interests of all parties. Therefore, we, in Ukraine, should be conclusive, positively minded, showing good will and desire to cooperate – before and after the signing of the Association Agreement.

– Which integration path should Ukraine choose? What are the pros and cons of European or Eurasian integration?

This question is simple and difficult at a time.

Ukraine has chosen the road of European integration but remember that Russia is also a part of Europe.

European integration has been an official priority for Ukraine for many years. However, only now we make a real, practical step on that road – starting the relations of association and joining a deep and comprehensive free trade area with the EU. This transition from declarations to deeds is highly important. This is our chance. We have no right to miss that chance.

The advantages of the European integration are clear to everyone: access to the world’s biggest market; Ukraine’s new status as an investment market; practical adoption of the values making the basis of the EU. And the talk of disadvantages may be inappropriate here, considering those are the risks rather than disadvantages.

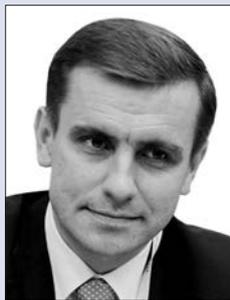
Signing of the Association Agreement is just the beginning, not the end. It opens up new opportunities, which we – successfully or not – can exploit. For instance, if in the first years after joining the FTA we simply have

* Interviews were conducted in March-June 2013. The respondents are presented in the alphabetical order.

to create qualitatively new opportunities for foreign investors. Otherwise, the association may be a “blank shot”. And vice versa, if such conditions are created, if we make use of positive dynamic present in the wake of signing the Association Agreement – we indeed can change a lot within and beyond the country, in particular, Ukraine’s international image.

The Eurasian integration, on its part, also involves advantages and risks. The main factor is that the Eurasian Economic Union is a relatively new geopolitical project. Figuratively speaking, there is a question mark rather than an exclamation mark placed next to it. The main gains of the Eurasian integration project are yet to be seen. It is only in the making. It may involve both cons and pros, because that it is a new cycle, a new beginning, a new trajectory in the East of Europe. And we have every reason to wish that project success, in order for it to be an upward trajectory. ■

**UKRAINE HAS NO TIME FOR EXPERIMENTS.
WE ARE TO REGAIN OUR PLACE
IN THE UNITED EUROPE**



Kostyantyn YELISEYEV,
*Advisor to the President of Ukraine,
Ukraine's Commissioner for Foreign
Policy and Integration Processes,
Ukraine's representative to the EU*

– What are the most critical internal factors affecting the EU-Ukraine relations?

I have always viewed the EU-Ukraine relations through the prism of European integration policy – not only because it is now a legislative norm and is supported by the absolute majority of Ukrainian citizens. I believe in Ukraine’s European future and will fight tooth and nail to make that dream come true.

The EU-Ukraine relations have entered a stage, the results of which will decide its fate at least for decades ahead. This “high point” best of all reveals internal and external systemic factors that influence the pace and substance of the national integration policy.

I proceed from the assumption that European integration is a strategic path for the country’s development, an incentive for domestic transformations designed to lead the society to a civilised political, economic and social standards, which form the basis of the EU integration model. European integration also represents a short cut to joining the club of the world’s most developed nations.

The history and experience of recent expansion waves have shown that social cohesion and joint efforts on the national level are necessary to pass this “road” successfully. The governing and oppositional political forces, civil society, business circles and citizens should act side-by-side for the sake of a common historic goal and realise their joint responsibility in creating the country’s image and perception in the world.

Unfortunately, despite the society consensus regarding the European trajectory of the country’s development, we see attempts to use “the EU card” and the European playground for narrow political interests.

The intrigue surrounding the conclusion of the Association Agreement between Ukraine and the EU, in my opinion, best of all illustrates that, when it comes to our European future, we are our own worst enemy. Officials in Brussels and European capitals are confused by mixed signals and the news they receive from representatives of the Ukrainian political community. There is an impression that some Ukrainian politicians are ready to sacrifice the Agreement for the sake of solving their personal political problems and satisfying their political ambitions.

Wasting time and resources on internal struggle, we greatly undermine the possibilities for prompt and solid fundamental transformations in all sectors of public life, including in the context of conclusion and implementation of the Association Agreement. Reforms are not implemented on their own. They require us to break with the customary way of life and political culture, change outdated legislative norms, overcome resistance and inertia of the bureaucratic machinery, and push for an active civic stance.

– How would you assess external influences on Ukraine’s European integration?

Ukraine has always played an important part in global geopolitics. Historically, we have been and for many remain a balancing country, an area of collision of the western and eastern civilisations, a “breadbasket of Europe”, a transit transport link between the West and the East. The common denominator of all those statuses is neutrality, existence between centres of integration.

However, the time for change, for a civilisational choice has come. That is natural, as the EU has reached Ukraine’s border in the West, and a new post-Soviet integration structure has been crystallised in the East.

The Association Agreement between Ukraine and the EU will be a turning point in the history of European geopolitics.

That is why external influences on Ukraine today may be the strongest since the World War II.

I am sure that the fate of the Association Agreement will be a true test of Ukraine’s independence, its ability to defend its sovereign choice, despite any influence or pressure.

If we pass this test with dignity, I am confident that the situation will change. The Ukrainian people will once again believe in its power, see a real uniting goal, and will demand its achievement from its politicians. After all, this is what democracy looks like.

– Which integration path should Ukraine choose? What are the pros and cons of European or Eurasian integration?

I would like to stress that Ukraine has already chosen a path for its integration. This is the European trajectory, which is legislatively backed and enjoys the support of the majority of Ukrainians.

However, if we go theorising, I would describe that choice as the choice between the past and the future, between deficit and wellbeing, between nostalgia and dreams.

The Eurasian integration will provide an opportunity to restore economic losses caused by the breakup of the Soviet Union and, maybe, even a chance to correct

some previous mistakes. In terms of time, this type of integration will be faster and will not require fundamental reforms of the political and economic system from the country. The energy resources, indeed, will be cheaper and Ukrainian enterprises will be able to regain their previously lost position in trade.

However, one cannot step in the same river twice. There will be no return to the times nostalgically recalled by some people. The time has changed.

Would the Eurasian integration promote reformation of the country, guarantee the observance of human rights and the rule of law, raise the competitiveness of the national economy, contribute to implementation of new technologies and to Ukraine's transformation from a raw-material appendage into an export-oriented high-tech state with high social and economic standards?

The fact that the countries involved in the Eurasian project have shown an extremely strong interest in partnership with the EU for the sake of modernisation may provide the best answer to these questions.

Meanwhile, the road to European standards, so attractive for Ukrainian citizens, will be long and uneasy. Implementation will require some time, substantial capital investments and efforts that will be translated into qualitative transformations and improvement of citizens' life.

However, European integration is a history of success, the road tested by an absolute majority of European nations, including those from the former "socialist camp". This is the road to wellbeing and prosperity.

Could we say the same about the potential of the Eurasian project? Or could all these years simply be wasted on yet another integration experiment?

I believe that Ukraine has no time for experiments. We are to regain our place in the united Europe and build our European future – rather than restore the Soviet past – together with modern elite of global and civilisational development.

This is not a one-day task. This is a task for generations.

Today, the Association Agreement with the EU will give us a chance to embark on that road. ■

"... THE REAL QUESTION IS NOT WHERE WE OUGHT TO GO BUT WHERE WE WANT TO GET TO"



Vitaliy KALIUZHNYI,
*Chairman of the Verkhovna Rada
Committee for Foreign Affairs*

– What are the most critical internal factors affecting the EU-Ukraine relations?

First of all, I would like to point out the amount of political speculations on that issue and continuous neglect by Ukrainian politicians of the fact that we, as an independent and sovereign state, should be solving our internal problems on our own instead of "washing dirty linen in public".

I see such behaviour as a sign of political immaturity, disrespect and inability to use one's own mind to solve purely domestic issues. Unless we respect ourselves, nobody will respect us. In other words: if Ukraine's political elite, like a troublesome relative, continues knocking at our European neighbours' windows crying for help, they will eventually get tired of it, stop taking us seriously, and when hearing the next "Help!" will simply shut the windows tight.

Furthermore, such a behaviour makes people think that their problems must be resolved by outsiders rather than by those whom they elect.

Another point, closely tied to speculations by some politicians, is unawareness and lack of knowledge regarding the EU among the Ukrainian people. However, the very same politicians are waging their election campaigns under slogans such as "European values", "European standards" (luckily not "European refurbishment"). That is a dangerous trend: all the benefits are being presented as something that happens automatically as soon as you "join". As if those "European standards" in the EU had not been formed as a result of European history, tradition, culture and search for compromises – and in reality they are far from ideal – but Ukraine was never part of these processes.

Instead, that is a huge challenge that requires us not to be blindly obedient but, first of all, to analyse what and how things should be done for Ukraine's own benefit.

One way or another, the lack of impartial information and public analysis and, the main thing, no clear understanding of what Ukraine really needs make some people blindly believe in the "European miracle", whilst some others tend to flatly reject Ukraine's European aspirations. The same, as the latest debate in the European Parliament on Ukraine has shown, is true for the European side.

– How would you assess external influences on Ukraine's European integration?

Unfortunately, at present, external influences are all about who succeeds in getting Ukraine to join their integration plans. The tools being used involve sweet talks and promises, threats, and even blackmailing. But Ukraine is not an old maid who wants to marry at any price. It is a young but powerful and self-sufficient nation. Yes, we make mistakes, not everything goes on smoothly, but we do not want to mark time any longer.

I will say one maybe not very pleasant thing: when demanding implementation of various plans from Ukraine, those seeking our loyalty should start with themselves – especially considering the fact that Ukraine has already made its part of the way. Take, for instance, the issue of visa liberalisation. There had been too many promises of any kind. Ukraine allowed visa-free entry for nationals of the EU member states as far back as 2005. All these years, Ukraine's budget has been short of funds and our citizens have paid for visas; plus various "visa centres" have spawned around embassies making visas for Ukrainians even more expensive. Now we, once again, have to raise that issue in the Verkhovna Rada and hope that they, in Europe, will hear us.

Or take the issues of interaction within the WTO: if we compare the macroeconomic indices, we may come to a conclusion that Ukraine, over the last years, has been a losing side. For instance, a steady prevalence of imports over exports had been observed over the past six years. This is especially true for foreign trade in goods.



While in 2001-2004, Ukraine was in surplus, in 2005, imports exceeded exports by \$1.5 billion. According to official statistics, Ukraine finished the year of 2012 with a negative balance of trade in goods of \$15.8 billion.

To be sure, many factors did play a role here, but the fact that from 2006 we steadily have a negative balance of trade in goods has been partially attributed to Ukraine's accession to WTO, especially with regard to weaker protection of domestic market. Therefore, joining WTO in the end proved to be not that beneficial for Ukraine.

However, while Ukraine kept quite, nobody cared about that. But as soon as the Government, in line with the WTO requirements, reported its intention to correct the situation, everyone, including the European representatives, began to speak about the inadmissibility of revision, to demand compensations and so on. Does anybody believe that such an attitude toward Ukraine will promote its European integration? I, personally, do not. If Ukraine continues to be treated in Europe like a market and a source of cheap manpower, this will not add any optimism to its European integration perspective.

Russia does the same, however our dependence on energy supplies from the Customs Union makes us more attentive to demands from the east.

– Which integration path should Ukraine choose? What are the pros and cons of European or Eurasian integration?

I will start by answering the second part of the question. The drawbacks of any integration for Ukraine include partial loss of its national sovereignty, since joining the EU or EurAsEC alike requires partial concession of its sovereignty and assignment of some administrative powers to supranational bodies. From 1991, we have positioned ourselves as a sovereign and independent state, in line with the Declaration of State Sovereignty. Such a stand legislatively restricts chances of integration.

Another serious drawback, that I see, when it comes to choosing an integration path is in the fact that the Ukrainian public has been divided on that issue. For instance, according to the public opinion poll held by the Democratic Initiative Foundation and the Kyiv International Institute of Sociology in March, Ukraine's accession to the EU (at a hypothetical all-Ukrainian referendum) would be supported by 59% of citizens, while 41% would vote against it. If a question about joining the Customs Union was put ahead, 57.5% of voters would say "yes", 42.5% – "no". If a choice had to be made between the accession to the EU or the Customs Union, 51.9% of Ukrainians would support the European direction, 48.1% – the Eurasian one. Therefore, when taking into account the statistical error, a 50/50 split is being observed among Ukrainian citizens. In other words, having to choose, we should be ready that half of the population would disagree with the choice of the other half – and the country's integrity would be under threat.

As a citizen of Ukraine, I tend to adhere to the European model of development in its civilisational aspect, but I also realise that it is not all cloudless there. The EU is also facing many problems, and the developments in some European countries – Greece, Bulgaria, Italy, Spain, Portugal, Hungary – with mass

protests, frustrations and despair of the people, even public suicide, should somewhat cool down the "heated head" of European idealists. Clear thing, stronger actors – Germany, France, Britain – have been more confident, but will their safety margin last long? In no way I want to idealise the situation within the Customs Union. According to reports coming from the CU countries, Belarus and Kazakhstan are strongly dissatisfied with the results of the CU activity where Russia enjoys most of the benefits. They, in Kazakhstan, even try to initiate a referendum on the country's withdrawal from the CU.

Both integration unions would bring some economic disadvantages. Experts have said and written a lot about that, but I will only mention a few points. Should Ukraine, as a WTO member, join a union having other (rather than the previously agreed) customs and duties, it risks facing sanctions imposed by other countries. Are the EU countries or Russia ready to help us cover these costs? Russia has officially declared that, but the actual scope of those sanctions is yet unknown.

On the other hand, if we examine Ukraine's trade with the CU, the country imports mainly raw materials, and exports goods with higher value added. And if the gas price is reduced, we well may have a positive trade balance. With the EU countries, on the contrary – we mainly export raw materials, and import goods with higher value added. The balance is negative. A small surplus in foreign trade is observed only with former socialist countries.

So, in case of closure of the CU markets, Ukraine's losses will be, in my opinion, more painful, at least in the short run.

These are the practical drawbacks we face; the gains are unfortunately mainly notional. One side promises free travel across Europe, but so far, visa procedures remain rather tough. The other – talks of cheaper gas, but we risk losing pay for transit and customary fees. The list may be continued.

Now, going back to the first part of the question: it seems that it comes from dissatisfaction with the place we are at now, rather than from the real need for integration. As for me, it has something in common with the question Alice asks when talking to the Cheshire Cat in Lewis Carroll's tale "*Would you tell me, please, which way I ought to go from here?*". And the Cat's answer: "*That depends a good deal on where you want to get to*". So the real question is not where we ought to go but where we want to get to. I do not even mention the extent to which those sides persistently "inviting" us actually need us.

Are we satisfied with their vision? So far, those questions have been left with no clear answer, but if one tries going both ways at a time, he will stand still. Ukraine showily demonstrates this over the past 15-20 years.

Taking into account all our peculiarities, I believe that we should follow the way that will enable to protect our own interests, preserve our identity and let Ukraine become a country where no one will be ashamed to live. As a man, who had lived and worked abroad for a long time, I can impartially assess the advantage of living a way of life, which we have termed "European". But when you pay high taxes you, as you go to work, do not want to be irritated by roads conditions, polluted streets, public transport disruptions and so on. ■

**ONLY BY INTEGRATING IN THE EU,
CAN UKRAINE DEVELOP AS A MODERN,
STRONG AND DEMOCRATIC COUNTRY
WITH A COMPETITIVE MARKET ECONOMY**



Vitaliy KLYCHKO,
Head of the UDAR
political party faction in the
Verkhovna Rada of Ukraine

– What are the most critical internal factors affecting the EU-Ukraine relations?

All those factors have long been known.

First of all, they are the selective justice. Persecution of Yuliya Tymoshenko and Yuriy Lutsenko became the concerted manifestations of that disgraceful phenomenon, drawing attention of the European Union to imperfection of the judicial system in Ukraine.

The second – the non-democratic nature of elections, reluctance of the current authorities to ensure fair competition. Let us, for instance, recall the last parliamentary campaign: massive abuse of administrative resources, complete domination of leading media channels by current authorities, manipulations with membership in election commission and the apogee – the selective enforcement at polling stations in a number of single-member constituencies. And finally, it is the barefaced theft of victory from democratic candidates in five districts where the opposition won a clear majority. Unfortunately, instead of learning lessons from the parliamentary campaign, the authorities continue practicing vote falsifications. The latest local elections became a striking example, in particular, mayoral elections in the town of Vasylykiv. Observers recorded 18 different kinds of law violations, beginning from abuse of administrative resources and ending with manipulations with lists and attempts of dropping falsified ballots. All those facts were documented, but the court “did not see” any violations and ruled the elections valid. The motive for such a conduct on the part of the authorities and controlled courts is clear – the Party of Regions is unable to win elections in a fair and transparent way.

The third factor is an all-out corruption in the country. In recent years, Ukraine has been drowning to the bottom of all relevant international ratings and is now one the most corrupt countries in the world. Machinations by Ukrainian officials are covered by the media worldwide, violent takeover became not just spread but regular. One could hardly expect the present authorities to start a fight against themselves.

The fourth factor is the inability of the current authorities to implement consistent reforms so badly needed by the Ukrainian economy and society. Without that, we are doomed to stagnation and a growing lag behind the developed states.

The fifth – an open disregard of the opposition, growing pressure on it. The most recent unprecedented incident involves stripping Serhiy Vlasenko, the Member of Parliament, of his mandate. Regular pressure on the opposition proves that the authorities see the opposition not as a political opponent but as an enemy it seeks to destroy.

Finally, the *sixth factor* is the inconsistency of Ukraine’s foreign policy, secrecy of decision-making process vital for the state. The most recent surprise both for society and for our European partners was presented by the Memorandum on Deepening on Cooperation signed by the Eurasian Economic Commission and Ukraine. The document was drafted in secrecy, and its text contains ambiguities hardly compatible with Ukraine’s European integration strategy.

Unfortunately, Viktor Yanukovich have made no effort to reform Ukraine, draw it closer to European standards, but to enrich and establish his clan, create an authoritarian regime.

Only modernisation of the economy, fundamental improvement of the business environment, creation of equal opportunities for all citizens, effective establishment of the rule of law can save Ukraine, lead it out of a deep and all-encompassing crisis. However, those changes run contrary to the interests of the present regime, pose a deadly threat to it. In such conditions, the question whether the presidential team is ready to implement these changes becomes purely rhetoric.

– How would you assess external influences on Ukraine’s European integration?

I would divide them into two groups. On the one hand, there are positive, constructive signals Ukraine gets from the European community, including during the drafting of the Association Agreement. They appear as a kind of incentive to bring Ukraine up to the EU level in many sectors, to draw it closer to European economic and social standards, to have democratic values adopted by our society. The good example shown by our neighbours, that have already joined the EU, is very important in this respect.

At the same time, one cannot but notice attempts to “reverse” the vector of Ukraine’s strategic development. Before the NATO summit in Bucharest, we could also see that different scenarios had been employed (both within and beyond the country) to obstruct the MAP signing. The present situation before the Vilnius Summit of the Eastern Partnership, from which we all expect the signing of the Association Agreement, looks very much the same. In recent months, Ukraine has received invitations to join the Customs Union, based on traditional “energy” arguments as well as both overt and covert lobbyism aimed at reversing the country’s European development trajectory.

Beyond doubt, those external forces and agents of influence are trying to exploit the ambivalence of the current Ukrainian authorities. Having formally proclaimed, for tactical reasons, the trajectory of European integration, those authorities are not European in essence; key democratic values, civilised principles of organisation of economic and public life are alien to them. Unfortunately, their domestic and foreign policy initiatives do not show any care for Ukraine’s national interests but are guided by selfish business interests.

– Which integration path should Ukraine choose? What are the pros and cons of European or Eurasian integration?

Ukrainian society for long has been discussing the advantages of different integration models, with showy examples, economic calculations, and historic recurrences.

However, one should be aware that choosing one or another line of development, we should first of all set the end goal of that process. For Ukraine, the goal is to implement a deep modernisation programme, to close the gap now existing between the leading countries of the world and our country.

Proponents of Eurasian integration try to present reduced gas prices as one of its main advantages. However, they often forget to mention the negative impact of the so-called cheap gas on modernisation of the Ukrainian economy, and the striking concessions the Ukrainian state would have to make in exchange for that. Take a look at Belarus – in exchange for cheaper gas, it had to cede the control of the key sectors of its economy.

By contrast, we can see countries that joined the EU making substantial progress. Most of them managed to promptly implement economic and political reforms, enhance the wellbeing of their citizens, break the “backbone” of corruption, and take a decent place in the community of democratic states. Some of them (for instance, Poland) play an ever-greater role in the EU.

So over the past decade, Ukrainians have been able to see the pros and cons of both integration models with their own eyes. My associates and I are confident that there may be only one conclusion drawn from that comparison: if we set the goal of fundamentally modernising the country, implementing regular economic, social and political reforms, eliminating corruption, as a systemic phenomenon, and achieving technological breakthrough, then – we should join the EU. That is exactly what Ukraine's integration should be, and these are the prospects our state would get after signing the Association Agreement with the EU at the Eastern Partnership Summit in Vilnius in November 2013.

Only in that way can Ukraine be built as a modern, strong, democratic country with a competitive market economy.

For Ukraine, choosing the other way of development would mean preserving a bankrupt political system, worsening underdevelopment and even losing real sovereignty. ■



UKRAINE PURSUES ITS OWN, AMBITIOUS FOREIGN POLICY AIMED AT DEFENDING AND PROMOTING ITS NATIONAL INTERESTS



Leonid KOZHARA,
Minister of Foreign Affairs of Ukraine

– What are the most critical internal factors affecting the EU-Ukraine relations?

The main task faced by this country is to ensure its sustainable development. And the fact that domestic reforms have been prioritised in our dialogue with the EU attests to the synergy of these two processes – of domestic reforms and EU integration.

The essence of the process lies in fundamental modernisation of all sectors of public life to bring them in compliance with European standards. In particular, this refers to regular reforms in political, legal, social, economic and other sectors with the end goal of enhancing the wellbeing of Ukrainian citizens.

Together with the EU, we have identified “reference points” and agreed on the steps, which suppose to lead us to the signing of the Association Agreement this fall. In particular, it is planned to implement reforms in such sectors as improvement of the electoral legislation, reformation of the judicial system, implementation of the constitutional reform in line with international standards, implementation of reforms necessary to prepare for a deep and comprehensive free trade area, efficient anti-corruption measures, perfection of business and investment environment, i.e., achieving the priorities identified in the EU-Ukraine Association Agenda.

I would like to stress that the majority of political forces represented in the Verkhovna Rada support Ukraine's European trajectory. In fact, European aspirations of Ukraine have become a unifying factor in the Parliament. This was demonstrated by the Statement on Implementing Ukraine's European Integration Aspirations and the Conclusion of the Association Agreement between Ukraine and the European Union adopted on 22 February by the Parliament's constitutional majority, which received a positive response in the Joint Statement following the 16th EU-Ukraine Summit.

In this connection, I would like to underline critical role of joint effort on the part of the opposition and the authorities for the sake of building a European future for our state.

Efficient work of the Verkhovna Rada is indispensable for successful implementation of the European integration policy, in particular, when adopting necessary legislative acts.

Support from our citizens and partners in the EU makes us confident that we will achieve the set goals in our domestic reforms.

Today, our common task with European partners is to sign the Association Agreement between Ukraine and the EU during the Eastern Partnership Summit in Vilnius in November 2013.

To that end, all branches of government are working hard under the supervision of the Head of State, and these efforts have already brought some positive results.

In May, the European Commission passed a decision on completion of another stage of preparation for signing of the Association Agreement and recommended its member states to sign it. This fact, combined with the signals we receive from the capitals of the EU member states and our colleagues in the EU institutions, makes us optimistic about the expected results of the Vilnius Summit.

At the same time, we spare no effort to continue activities aimed at implementing the arrangements achieved during the 16th EU-Ukraine Summit. In the end of May, I attended a session of the European Parliament's Committee on Foreign Affairs and informed the European MPs in detail about the progress on reforms. I would like to stress that the general atmosphere of the meeting was rather optimistic for Ukraine. European MPs reiterated a general determination to sign the Association Agreement in Vilnius on the condition of further progress in the domains identified by the parties.

– How would you assess external influences on Ukraine's European integration?

Regarding the internal factors, there is a number of questions we try to answer. First of all, this refers to internal developments in the EU. We see that despite all the attractiveness of the European political and economic model, Europe today is undergoing hard times. The economic crisis, problems that became manifest in the result of the two latest waves of EU enlargement, institutional difficulties in functioning of the European machinery are only a few factors characteristic of the present stage of EU development that have an impact on Ukraine's road to a united Europe.

On our continent, new cooperation formats emerge all the time that may be of interest for Ukraine's national, first of all, economic interests. Seeking a better future in line with European standards, we should maximise opportunities that promote interests of Ukrainian society in the near future.

Ukraine's fate is in its role in the history of Europe and its unique geographic location that will always be a dominant factor in building relations with foreign partners. Ukraine is a natural attractive partner for both Europe and Asia. Despite our – I am absolutely positive – temporary economic difficulties and the long process of political maturity, both the EU and countries to the east of the Dnieper and the Don are interested in efficient cooperation with Ukraine.

– Which integration path should Ukraine choose? What are the pros and cons of European or Eurasian integration?

Ukraine's foreign policy presumes establishing mutually advantageous cooperation with all interested partners, avoiding dependence on separate states, groups of states or international structures. The Law "On Fundamentals of Domestic and Foreign Policy of Ukraine", adopted on 1 July 2010, prioritises Ukraine's integration in European political, economic, legal space with the purpose of gaining the EU membership in our foreign policy.

A serious step was made during the above-mentioned EU-Ukraine Summit last February. At that forum, the Ukrainian and EU leaders have confirmed their willingness to conclude the Association Agreement between Ukraine and the EU during the Vilnius Eastern Partnership Summit in November 2013 and agreed on further steps specified in the Joint Statement following the Summit.

The Summit and subsequent meetings with European leaders demonstrated the parties' readiness to further and deepen bilateral relations, and come to terms with all issues of the agenda.

Our dialogue with the EU is a dialogue of equal partners that show respect for each other's position.

The question of "pros" and "cons" deserves a separate deep academic research. We live in conditions of a global financial crisis. So, the main tasks for today include fighting unemployment, developing small and medium businesses, creating attractive investment opportunities. All this is possible only on the condition of economic growth. That is exactly why Ukraine's foreign policy is responsible for creating favourable external conditions in order to solve those problems.

We cooperate with all interested partners and proceed from the assumption that our interests lie both in the West and in the East. Our trade with the EU exceeds \$30 billion, with the Customs Union countries – \$60 billion. So, we are destined to have good relations with all our trade partners.

So proceeding from this axiom, we work hard to sign the Association Agreement with the EU this year, whilst at the same time searching for a mutually acceptable compromise formula of our cooperation with the Customs Union. I mean the recent signing of the Memorandum on Deepening of Cooperation between Ukraine and the Eurasian Economic Commission that effectively implemented the "3+1" formula proposed by Ukraine's President earlier.

Signing of the Memorandum was result of an effort to find a format of cooperation with members of the Customs Union, which does not hinder Ukraine's cooperation with other unions, meets our WTO commitments as well as future commitments under the Association Agreement with the EU.

To sum up, I would like to say that Ukraine pursues its own, ambitious foreign policy aimed at protecting and promoting its national interests. Of course, we have to take into account the position of our partners in the EU and in Russia. However, that position is always viewed through the prism of our own interests. ■

WE WANT UKRAINE TO BE NOT ONLY A PART OF EUROPE IN GEOGRAPHIC TERMS BUT TO BECOME AN IMPORTANT ACTOR IN EUROPEAN AND GLOBAL POLICYMAKING¹



Oleh TYAHNYBOK,
Head of All-Ukrainian Association "Svoboda" faction in the Verkhovna Rada of Ukraine

– Which internal factors the most critically influence the state of the Ukraine-EU relations?

One key element of a state-building process in Ukraine involves setting foreign policy goals. European integration is the main and invariable foreign policy priority for Ukraine.

At the same time, when analysing the present situation, one may see that the EU is cautious towards Ukraine's desire to sign the Association Agreement and to become a fully-fledged member of the EU in future – and does not hurry to make any further steps. Probably, in no small measure, the reason is that until recently the EU has seen and, probably, will continue to see Ukraine as a catalyst and even – a challenge to its internal security.

We should speak, first of all, about value-based differences within the Ukrainian political community and its isolation from society, since other factors are derivative. An outside observer may have an impression that the existing political forces, except CPU, publicly claim adherence to European integration and stand for deeper cooperation and contacts with the EU countries.

I wish to stress that major problems in the work of the Verkhovna Rada of Ukraine of the 6th convocation arise exactly from the split with respect to the European values. The Party of Regions and its Communist satellites readily show their disdain of the Constitution of Ukraine, neglect of laws and directed crackdown on political opponents using the obedient judicial branch and law-enforcement bodies, bare-faced manipulations with citizens' election rights.

In such a situation, the All-Ukrainian Association Svoboda and our partners from the other opposition factions fight for fundamental legal and political values of the European model.

The list of domestic negative factors is well known to all dealing with European integration. It is referred to in the December 2012 Conclusions of the EU Foreign Affairs Council and covers such domains as selective justice (first of all, the cases of Tymoshenko and Lutsenko), protraction of implementation of the EU-Ukraine Association Agenda objectives, and similar developments in the judicial reforms.

Apart from purely political factors, Europe is apparently endangered by some social phenomena – uncontrolled migration and organised crime.

Europe has long been facing the phenomenon of illegal migration, now coming to the forefront. This signifies to us the danger of illegal migrants staying in Ukraine. Having come to this country, they cannot leave it and at the same time cannot or do not want to come back to their homeland. Sometimes, this involves criminal acts.

So, efficient countering of illegal migration and related organised crime requires coordinated actions by Ukraine – completion of arrangement of the state border (delimitation and demarcation of the border, including maritime boundaries), enhancement of protection and equipment in line with the EU standards of the border with Belarus, Russia and Moldova; modernisation and guarantee of proper quality of customs controls; effective fight with criminal structures inside the country; efficient steps for detection and punishment of corrupt officials, etc. At the same time, it is high time to begin real, not declarative measures enabling Ukraine's integration in the European security structures: to clean the authorities and power structures of Moscow's agents; to frustrate subversive organisations funded by Russia; to extinguish hotbeds of separatism; to offset all territorial claims to Ukraine; to secure withdrawal of Russian military bases from Ukraine's soil; to urgently reform and develop the Ukrainian Army and Navy.

To sum up, I would like to stress that for Ukraine and the EU to launch a more active integration policy, Ukraine should more efficiently forestall and respond to present-day threats and challenges to the European security, in that way demonstrating that it as a European state, deserves to be a member of the European community.

– How would you assess external influences on Ukraine's European integration?

Indeed, there are attempts of external pressure. Ukraine's prospects of European integration are strongly affected by the state of Ukraine-Russia relations, since the Russian Federation presents the main source of destabilisation in the home policy. We can see that in the great-power chauvinistic statements of Russian leaders and diplomats, often signifying flagrant threats to our state. It is logical to assume that numerous organisations of the "Russian world" and an overwhelming majority of mass media are all actors of targeted external influence on the Ukrainian media. Factors of outside influence also include some experts and even agents of influence among Ukrainian politicians. However, that pressure has not become strong enough yet to fundamentally influence the political community and public opinion about the European integration.

This is the main problem that, alongside with the above-mentioned internal factors, affects the implementation of Ukraine's strategy of full membership in the European Union.

The state of suspense in the EU-Ukraine relations is fully used by the Russian Federation to restore its past influence on the international scene, and to confuse

¹ The author's style is preserved (Ed.)

those Ukrainian citizens who mentally stay in the Soviet occupational past and do not share Ukraine's European aspirations. However, such stereotypes are fully supported by the Russian leadership, influential Russian political, intellectual and business elite. They are not interested in Ukraine's integration in the European Union, since our accession to United Europe will disrupt the Kremlin's plans of another restoration of the Russian Empire.

As soon as Ukraine takes effective steps towards Europe or substantiates its claims to regional leadership, Russia immediately initiates engagement of our country into another integration project in the post-Soviet space. The deep reason for such reaction of Moscow is that the nature and trends of the geopolitical strategies of Ukraine and Russia are logically different.

The strategic goal of Russia in the post-Soviet space remains full reintegration of its former colonies in a new Muscovite empire – “Customs Union”, “Eurasian Union”, etc. – on the basis of the “Russian world” ideology. Meanwhile, Ukraine adheres to the principles of equal and good-neighbourly bilateral cooperation of independent states, and views integration only in its European aspect. Ukraine's strategic progress in European integration naturally entails a fundamental decrease in the Russian influence. Here lies the deepest contradiction in the Ukraine-Russia relations concerning the development of relations with the European community. That is why Russia tries to keep Ukraine within its sphere of influence at any cost, all the time inventing new integration projects in the post-Soviet space. Without Ukraine, there can be no Russian Empire.

However, in addition, there is a number of factors in domestic and foreign policy that cannot be termed other than anti-Ukrainian activity. This refers to instances of glaring defiance of the law, human rights, inconsiderate foreign policy statements made by the current authorities. The Ukrainian political class now has quite a few proponents of the Eurasian choice for Ukraine. They are Moscow's fifth column and do all they can to engage Ukraine in the Kremlin's sphere of influence.

Analysing the latest trends in Ukraine-Russia relations in general, it should be noted that Russia's reluctance to see our country among European states acquired signs of a target-minded geopolitical strategy. That strategy will be undermined by Ukraine's policy resting on national interests and European development.

– Which integration path should Ukraine choose? What are the pros and cons of European and Eurasian integration?

Ukraine should move towards deeper integration with European “civilisational” space, at the same time defending traditional fundamentals of Ukrainian society, including the national identity, alongside with our economic interests and political sovereignty.

Signing of the Association Agreement between Ukraine and the European Union is on the agenda now.

The Association Agreement is a vital document for both Ukraine and the EU. As we know, its signing may

be not less important than Ukraine's actual accession to the EU, but we realise that both issues are of paramount importance. The importance of the document is conditioned by its scope, including creation of a free trade area between Ukraine and the EU, as well as adaptation of the Ukrainian legal system to European standards. As we know, negotiations have long been underway, but there is hope that it may be signed promptly.

At the present stage of Ukraine's development, the European Union offers us a system of high-level reference points – and it would be illogical to give up harmonisation with most of its high standards. By that, I mean not only the economy but also fostering high political culture, public activity, abidance by the principles of the rule of law and respect for the statehood of every EU member state.

Beyond doubt, European integration will not bring benefit to Ukrainians unless they make enough efforts to build up their potential and raise their international importance. Nevertheless, we believe that European integration will effectively give a push to urgently needed reforms in the economy and, to a large extent, in politics, while integration in the Eurasian space will have no serious positive effect. On the contrary, the so-called “Eurasian integration” means loss of the Ukrainian identity and its future.

Having refused joining the Customs Union and the Single Economic Space, Ukraine will lose nothing, moreover that Kazakhstan already prepares a barred access to the Russian and Kazakh pipeline systems, Russian discrimination in the field of state procurements and trade wars, from which, membership in the Customs Union did not save Minsk.

Meanwhile, choosing the path of European integration as such in no way reduces the length of our common border with the Russian Federation and the huge volume of trade with it. So, we should build relations with Russia on the principle of equality, mutual respect and balance of interests.

For us, Ukraine's integration with Europe does not simply mean administrative and legal accession to the EU. We want to consider those issues more deeply: this is the only choice for Ukraine. We want Ukraine to be not only a part of Europe in geographic terms but to become an important actor in European and global policymaking.

The All-Ukrainian Association *Svoboda* considers no other option except Ukraine's integration and cooperation with other European countries. That said, for our political party the European choice means a “Europe of free nations”, where countries and nations preserve their uniqueness and identity, the right to self-determination in political, economic, cultural terms. We want our relations with all countries, including the EU, to be based on partnership and mutual respect.

Ukraine is a part of Europe: historically, geographically, mentally. So the main thing that we need now is self-awareness. As Taras Shevchenko put it: “Who are we, whose children...”.

■

BATKIVSHCHYNA SEES NO ALTERNATIVE TO UKRAINE'S ACCESSION TO THE EU

Arseniy YATSENIUK,
Head of All-Ukrainian Association
"Batkivshchyna" faction in the
Verkhovna Rada of Ukraine

– What are the most critical internal factors affecting the EU-Ukraine relations?

Today, signing of the Association Agreement between Ukraine and the EU fully depends on the Ukrainian authorities. Paradoxically, it is also one of the main internal factors negatively influencing prospects for signing of the Agreement and Ukraine's relations with the EU in general.

The current country's leadership, President Viktor Yanukovich especially, are primarily responsible for non-fulfilment of most of the conditions required for signing of the Agreement. This primarily refers to real anti-corruption measures, prosecution service reform, judiciary and justice system reform, amendment of the electoral legislation, adoption of the Electoral Code – which is very important in view of the 2015 presidential elections. Without significant shift in those domains, Ukraine will never be a truly European state.

Unfortunately, selective justice has not been removed yet. The release of Yuliya Tymoshenko is delayed. However, there have been some positive signals.

They, in the Bankova St., are well aware that releasing Yuliya Tymoshenko is the key condition of the EU, without which, the Agreement, quite possibly, will not be signed at the Vilnius summit. However, as time goes by, the opposition leader remains behind bars.

The authorities also refuse to end the political persecution of its opponents – a condition eagerly demanded by the EU. On contrary, pressure on members of the opposition and their families is growing. Blackmailing, forceful acquisition of businesses, unreasoned tax inspections at enterprises owned by relatives of oppositional politicians do not boost chances of establishing closer relations with the EU.

On its part, *Batkivshchyna's* faction is ready to support governmental bills on European integration and to vote for them. We have always done that.

At the same time, I wish to warn that any attempts of the authorities to push laws intended to solve someone's party or business interests under the pretext of European integration will see strong response from the opposition.

– How would you assess external influences on Ukraine's European integration?

Ukraine occupies an important place on the geopolitical map of the world for the fluctuations of its foreign policy course to remain unnoticed and not to cause proper reaction among other states. So, it is no wonder that some countries, realising that it is the high time for Ukraine's ultimate strategic choice, do not give up the attempts to influence it.

Of course, there are powerful actors on the international scene not interested in the success of Ukraine's European

integration. Acting through their representatives inside this country, including the Ukrainian authorities, and in Europe, they spare no efforts to derail our European plans. The thing is that Ukraine's escape from their influence will substantially undermine their foreign policy ambitions.

On the other hand, there are European states sincerely interested in Ukraine's rapprochement with the EU. They promote this process by all means, realising what mutual benefits our country and the EU will get. In my opinion, such countries as Poland, Lithuania, Sweden and some others have done much more for signing of the Association Agreement than all representatives of the current Ukrainian authorities taken together. Not least of all, thanks to efforts of its European friends, Ukraine has not lost hope for a positive decision at the Vilnius summit.

But despite all external influences, Ukraine's fate is to be decided only by its citizens. No one will do this for us. If Ukrainian people want to join European family, they will get their way: either under this government – or they will choose another one, able to meet their European aspirations.

– Which integration path should Ukraine choose? What are the pros and cons of European or Eurasian integration?

Our political party has successively stood for European integration as the only right way for Ukraine's modernisation. For us, this is the only option that is backed by effective legislation.

The uniting congress of *Batkivshchyna* approved the party's ideological platform – "A European Ukraine" Manifesto that clearly formulated our strategic goal: full membership of Ukraine in the EU and compliance of all sectors of public life with European standards. So, Ukraine's accession to the EU is not a remote dream but our today's ideology.

Our stand and the stand of the EU are clear: Ukraine's integration of Ukraine with the Customs Union is incompatible with European integration.

Proponents of the Customs Union emphasise quick financial gains. Some of them, such as cheap energy resources, may seem attractive, in a short run. However, for Belarus, bargain gas prices resulted in Russia gaining control over its GTS. And, for Belarus, this means losing part of its national sovereignty and economic independence. Similarly, the membership of Belarus in the Customs Union did not protect it from the economic crisis and devaluation of the national currency.

Economy-wise, Ukraine's accession to the EU is much more profitable, in a long run. It means gaining access to investments, credit funds, technologies and the market three times bigger than that of the Customs Union. Finally, the EU economy gives nearly 26% of the world GDP, while the Customs Union – only 2.6%.

To sum up: for us, choosing the integration path is not only a matter of money and customs barriers. This is, first of all, the civilisational choice of values and standards of the quality of life we want to see for us and for our children.

Who can say now that everything is okay with democracy in Belarus, Russia, Kazakhstan? That there is no authoritarianism and political prisoners but freedom of speech? That they fought the corruption and arbitrariness of officials? That their courts are independent and fair? Can the Customs Union countries boast average wages and pensions, the quality of education and public health to the level comparable with the EU? Honest answers to those questions are the main factors that should determine our integration choice.

That is why *Batkivshchyna* sees no alternative to Ukraine's accession to the EU. ■

ON UKRAINE'S EUROPEAN INTEGRATION*

NEW MARKET OPPORTUNITIES IN THE EU AND HIGHER PRODUCTION STANDARDS WILL SPUR INVESTMENT, STIMULATE MODERNISATION AND IMPROVE LABOUR CONDITIONS



Jan TOMBIŃSKI,
Head of
the EU Delegation to Ukraine

– What are the most critical internal factors affecting the EU-Ukraine relations?

On 10 December 2012 the Foreign Affairs Council in its Conclusions made absolutely clear not only the willingness and the determination of the EU member states to sign the Association Agreement (AA) with Ukraine, but also specified three areas where a progress needs to be achieved. The so-called politically motivated justice is the first of them. Second is to address all shortcomings in the election legislation, and third is to hold a number of the reforms of the Association Agenda. So these are the most critical internal factors.

Concerning those issues of politically motivated justice the recent pardoning of Yuriy Lutsenko represents a step forward, but it is clear that this must be followed by further steps in relation to the cases of other prominent opposition prisoners which give the impression of selective justice, including Yulia Tymoshenko's case. I would also like to underline that the Council decision also expects the authorities to take further steps to reform the judiciary to prevent any recurrence. In this context Ukraine needs systematic changes.

The EU-Ukraine Association Agenda contains a comprehensive reform programme that, if successfully implemented, would bring about substantial change on the situation of the Rule of Law in Ukraine. **An overall reform of the criminal justice sector** (including reform of the prosecutor's office and of the police) **would be an important move forward.**

Ukraine has already some results: the adoption of a new Code of Criminal Procedure in line with the recommendations of the Council of Europe is a major step, and its correct implementation would bring substantial improvements in the overall legal situation. A partial reform of the electoral legislation and organization of by-elections in five regions (recent proposals sent to the ODHIR and Venice Commission); the legislation on the Bar and the National Preventive Mechanism against Torture; introduction of changes to the Criminal Code and amendments regarding the High Council of Justice, the law on the Judicial

System and the Status of Judges; improvement of the legal framework on anti-corruption; continuation of the Public Finance Management Reform and reforming the Accounting Chamber. However, other pre-conditions, including a comprehensive solution of the problem of selective use of justice and the constitutional reform are still pending.

I would also like to stress the importance of a clearly expressed commitment by the Ukrainian authorities to an early implementation of all judgments of the European Court of Human Rights as well as the recommendations by the Council of Europe related to detention conditions and medical assistance to persons in detention.

Since corruption is one of the factors hindering substantial progress in Ukraine, it is critical that Ukraine takes steps forward in this area, notably through the proper implementation of GRECO and OECD recommendations, including the establishment of an independent body to fight against corruption, enhancement of independence of judiciary, modernisation and professionalization of public administration, and review of the systems of liabilities, public procurement and confiscation.

– How would you assess external influences on Ukraine's European integration?

Ukraine made a strategic choice in 2008 when it entered into negotiations for an AA/DCFTA with the EU – a choice for political association and economic integration with the EU, which is based on a large consensus between all main political forces.

This choice was made by the previous Ukrainian government, but has been fully endorsed by the current authorities. In fact, it is enshrined in Ukrainian law by passing the Law of Ukraine on the Foundations of Domestic and Foreign Policy by the Verkhovna Rada on 1 July 2010. Recently, the Ukrainian Ambassador to the EU, Kostyantyn Yeliseyev, in an article spoke even about a "civilization choice" which Ukraine is taking. The EU has recognised and welcomed this European choice in the preamble of the AA, and the AA/DCFTA is an instrument designed to realise this choice.

We also made it clear that this political, strategic choice – for political association and economic integration with the EU, for the modernisation of Ukraine based on the European Union model – is not compatible with joining the Eurasian Customs Union, whose members have the stated objective to move towards a Eurasian Economic Union within the next two years. Both membership in the Customs Union, and a DCFTA with the EU, are deep economic integration processes, requiring the alignment of the legal and regulatory framework for trade and related areas. The strategic choice made by Ukraine (and other countries, like Georgia, Moldova) to integrate with the EU economically would therefore not be compatible with membership in the Eurasian Customs Union or future Eurasian Economic Union – for legal and political reasons.

The EU does not make a judgement on the merits of the CU or the future Eurasian Economic Union. The EU has always welcomed regional economic integration schemes

* Interviews were conducted in March-June 2013.

as long as they fully comply with WTO rules, and do not create trade barriers and are open for countries to join as a result of an autonomous choice that responds better to the needs of the strategy of national development and modernization.

– How would you assess the prospects for signing the EU-Ukraine Association Agreement? How will Ukraine benefit from signing the Agreement?

Ukraine's performance will determine the concrete date. It will be assessed on the basis of progress in three areas I have already mentioned: the compliance of the 2012 parliamentary elections with international standards, as well as Ukraine's progress in addressing the issue of selective justice, and in implementing the reforms defined in the jointly agreed Association Agenda. At the December 2012 Foreign Affairs Council and the February 2013 EU-UA Summit, **the EU reaffirmed its commitment to the signing of the already initialled AA/DCFTA, as soon as the Ukrainian authorities demonstrate determined action and tangible progress in the three areas above**, possibly by the time of the Eastern Partnership Summit in Vilnius in November 2013.

The new Association Agreement will establish an "association" between the EU and Ukraine, moving on from the previous "partnership": this is expressed by the formula "political association and economic integration" (meaning full access to the EU internal market).

The signature and implementation of the DCFTA will completely revolutionise not only the economic, trade and investment relationship between Ukraine and the EU but the whole economic landscape of the country. **The DCFTA is the most ambitious bilateral agreement that the EU has ever negotiated with a trading partner.** With the exception of the EEA countries and candidate countries, the EU has never opened up the Internal Market to participation by a third country to such a degree. And it will not only open up our mutual markets by removing and reducing tariffs and quotas; it will also result in an extensive harmonisation of laws, norms and regulations across all economic sectors.

The DCFTA offers Ukraine a framework for economic modernisation and development that will positively affect many aspects of day-to-day economic life in the country both for all businesses and citizens. Let me give you some examples. The vast majority of custom duties on goods will be removed as soon as the Agreement enters into force. Overall, the EU will eliminate 98.1 percent of duties in trade value. Ukrainian agriculture will benefit most from cuts in duties: €30 million for agricultural products, and €3 million for processed agricultural products. New market opportunities in the EU and higher production standards will spur investment, stimulate modernization and improve labour conditions. In the long run, it has been estimated that the Ukraine EUFTA will result in an increase in welfare in Ukraine of 5% across the population.

In the field of services, the DCFTA will result in liberalisation and alignment of Ukrainian and EU practices. This should have a particularly positive impact in Ukraine on distribution services and the communication sector.

Freer capital movement will also enhance economic growth by allowing easier access to capital and allocation of capital to its most productive use. The financial sector in Ukraine should benefit greatly.

One of the most important problems that Ukrainian and European companies face today is the problem of different technical norms and standards, which makes cross-border

trading more difficult. The DCFTA foresees widespread alignment between Ukrainian and EU standards, both for industrial goods and agricultural products. Over time, this alignment will reduce costs for companies that currently have to comply with two different sets of norms and regulations and apply for different certificates. There will also be indirect positive effects for Ukrainian producers as the new regulations will provide incentives for businesses to modernise and improve their production processes and invest in new technologies. Beyond the EU's market of 500 million consumers, adoption of EU standards will demonstrate to third countries that exported goods are of an equivalent standard and quality to EU exports. This will open up further world markets to Ukrainian exporters.

Just to mention some other impacts briefly: alignment of rules on public procurement, competition policy, and intellectual property rights – all these changes will improve the business environment here by tackling corrupt practices, opening up new investment possibilities, and modernising the economy. ■

THERE IS ONE FACTOR THAT CAN GUARANTEE THE SUCCESS IN THE RAPPROCHEMENT OF UKRAINE TOWARD THE EU: POLITICAL CONSENSUS ON THE REFORMS NEEDED



Jose Rodriguez MOYANO,
Ambassador Extraordinary
and Plenipotentiary
of Spain to Ukraine

– What are the most critical internal factors affecting the EU-Ukraine relations?

Through the Association Agreement, the EU is offering Ukraine a comprehensive agreement. It goes beyond Foreign Policy: it is about broad reform and structural change. So, it is normal that the Association Agreement faces some difficulties, since its objective is really ambitious.

There is one factor that, if solved, can guarantee the success in the rapprochement of Ukraine towards the EU: political consensus on the reforms needed, and this also implies political will. Consensus – political and social – was crucial in the transition of Spain from a dictatorship in 1975 to a full EU member in 1986 and it helped to create the conditions to make reforms acceptable to everyone.

– How would you assess external influences on Ukraine's European integration?

Ukraine's European integration depends exclusively on its own political will. Ukraine is an important, independent country, with sufficient strength to have its own criteria on where it wants to go and to decide how far and when it wants to get closer to the EU.

If there is a genuine Ukrainian will of integrating with Europe, no external influence will be able to weaken it.

– How would you assess the prospects for signing the EU-Ukraine Association Agreement? How will Ukraine benefit from signing the Agreement?

The prospects for signing the Association Agreement depend on Ukraine fulfilling the three criteria mentioned

by the EU Foreign Affairs Council of 10 December 2012 and included in the EU-Ukraine Joint Statement following the bilateral Summit of 25 February 2013 and to be able to demonstrate it within the time laps accepted in that Statement (early May). Time is short, but it is still possible – it all depends on Ukrainian authorities. The EU is also interested in getting closer to Ukraine, so we are waiting to see the needed steps being taken.

Signing the Association Agreement will mean a lot to Ukraine: it will be an important step to get closer to Europe, politically and economically. The Agreement will help Ukraine in consolidating shared European values: this is a way of life, which involves protection from arbitrariness, stronger protection of citizens' and consumer rights and more open and reliable institutions. And, I am sure, these are the aspirations of the Ukrainian youths.

Ukrainian economy will have the opportunity to be part of a much larger, richer, predictable and safer market, which in its turn represents the best opportunity for Ukraine to have an open and competitive economy.

I can once again use the example of Spain. In 1985, some people in my country also feared joining the Single Market, and those were the same who did not trust our own capability of competing with the rest of Europe from the inside. Time and experience have demonstrated that getting closer to the EU market was the great opportunity for our businesses, especially for small and medium size enterprises to find new customers, to innovate and to get more competitive. And now, despite the crisis, Spain is the 4th economy in the Eurozone and the 10th largest foreign investor in the world. ■

The issues surrounding selective justice are best illustrated in the continuing imprisonment of former Prime Minister Yulia Tymoshenko. We hope that in the near future the European Parliament's monitoring mission headed by the former President of the European Parliament, Mr. Pat Cox, and the former President of Poland, Mr. Aleksander Kwasniewski, will be able to report considerable progress.

Secondly, electoral law reform is urgently required. Last autumn's parliamentary elections were a chance for Ukraine to show that it is on track towards European integration. Instead, the ODIHR/OSCE observation mission concluded that the organisation of the vote constituted a step backwards compared to the 2008 and 2010 elections. In future, the run-up to elections should offer equal chances to all candidates, inter alia by ensuring equal access to media. A strong legislative basis can also bolster trust in the system and strengthen Ukrainian citizens in the conviction that changes are possible.

Thirdly, closer economic integration between Ukraine and the EU through the DCFTA will be a powerful stimulant to Ukraine's growth. A decisive move of Ukraine towards adopting European norms and standards will be the method to create business opportunities in both the EU and Ukraine. **The establishment of a competitive economic environment will lead to higher standards of products, better services to citizens, and above all Ukraine's readiness to compete effectively in international markets.** Especially now, when the effects of the global crisis are felt throughout society, such a development can form a welcome opportunity for Ukraine to give its economy a new impulse.

Apart from these aspects, there are various other internal factors affecting EU-Ukraine relations, though in principle they can all be seen as derivatives of the three basic requirements. One of the most crucial factors preventing progress from being realized is the existence of widespread corruption, which remains a key problem for Ukraine. The division of certain key sectors of the economy by political and business elites continues to be an obstacle to exercising efficient governance and to creating a level playing field with competition. Also recent developments in the field of mass media increased the threat of monopolization. However, neutral and objective access to information decreases the possibilities for corruption by offering citizens more transparency, for example with regard to the way in which the officials they elected are delivering the desired services to society.

A further challenge is connected to the working of the Parliament. Since the Verkhovna Rada got together in new composition following the elections of October 2012, it has been blocked on and off due to frustrations about, among other things, abuse of voting rights. Whatever one might think of the reasons for the blockage, a fact is that it makes it impossible for any legislation, let alone reformatory, to pass through Ukraine's parliament. Finally, it is worth mentioning that there are also concerns about Ukraine's financial situation, as macroeconomic indicators demonstrate a high level of risk. Currently, the balance of payments is in deficit, threatening the exchange rate. The budget deficit adds to these concerns. The reduction of exports and the import of expensive Russian gas, together with a slowdown in foreign investments create a considerable foreign debt. To start remedying the situation, Ukraine will need to increase household tariffs for gas (probably accompanied by a social programme to mitigate the effects for the most vulnerable in the society), among other things, in order to secure a new IMF financial loan, which will contribute significantly to macroeconomic stability.

IT SHOULD BE CLEAR THAT A COMBINATION IN ANY WAY OF THE DCFTA AND THE CUSTOMS UNION IS INHERENTLY IMPOSSIBLE



Pieter Jan WOLTERS,
*Ambassador Extraordinary and
Plenipotentiary of the Kingdom of
the Netherlands to Ukraine*

– What are the most critical internal factors affecting the EU-Ukraine relations?

The most critical internal factors affecting the EU-Ukraine relations are reflected in the three most important requirements that the European Union has put forward for signing the Association Agreement (AA), including the Deep and Comprehensive Free Trade Area (DCFTA): an end to selective justice, electoral law reform, and implementation of the structural reforms, to begin with in the area of judicial reforms. The Association Agreement between Ukraine and the EU is the most progressive agreement ever created in its kind by the EU.

First of all, the rule of law with an independent judiciary is a critical element underpinning the Association Agreement. Already we welcomed the new Criminal Procedure Code, new legislation on the Bar, and the establishment of a National Preventive Mechanism against torture. However, more such reforms are required to bring Ukraine's legal system in line with European standards.

– *How would you assess external influences on Ukraine's European integration?*

The strongest external influences on Ukraine's European integration process are exercised, on the one hand, by the EU and its Member-States, mostly in tandem with the US, and, on the other hand, by Russia. Currently, Western countries are focussing their efforts, collectively and individually, on trying to persuade the Ukrainian authorities to demonstrate that they take serious their professed top priority, i.e. Ukraine's European integration, in particular by decisively moving now towards creating the conditions which would allow the signing of the Association Agreement at the Eastern Partnership Summit in Vilnius, in November this year. The EU is pointing to the considerable long-term advantages for Ukraine of becoming a truly free and democratic country, based on shared European values, where the rule of law is paramount and where fair competition in a transparent market will contribute to the arrival of investments from Europe, which will allow the Ukrainian population to raise its standard of living.

In contrast, **Russia seems to be actively working towards achieving a diametrically opposed outcome, namely to keep Ukraine away from Europe** by offering Kyiv the short-term advantages of membership in the Moscow-led Customs Union with Belarus and Kazakhstan. Moscow is underpinning its approach by reminding Ukraine of 300 years shared history in the same (but ever changing) state entities and of a shared religious and linguistic heritage; **Moscow likes to present Ukraine as primarily being part of the "Russian world"**, which, Moscow says, is a better place for Ukraine than Europe with which Ukraine's ties have not been as strong. Promises of cheaper gas prices, Russia's trump card, coupled with small trade wars to remind Kyiv of the importance of its Eastern markets, are used to convince Ukraine to opt for the Customs Union. Lately, this strategy apparently includes active propaganda against the Association Agreement by Russian media.

Kyiv, frequently declaring that it remains with its fundamental foreign policy course towards European integration, has nevertheless made counter-proposals for a light form of cooperation with the Customs Union (the so-called "3+1" formula, or as observer). While for some this is an illustration that Kyiv tries to avoid making definite choices, for others it demonstrates that the Ukrainian leadership actively uses the political opportunities this dilemma offers by playing out the parties against each other: **the President used negotiations with the EU as a bargaining chip to play against Russia, while similarly, Russia's "offers one cannot refuse" (cheaper gas) have been presented to Brussels as grounds to remain on the alert and show flexibility vis-à-vis Ukraine.** It should be clear, however, that a combination in any way of the DCFTA and the Customs Union is inherently impossible.

In addition to political aspects, also economic considerations have a strong influence on the Ukrainian leadership. In this context, the international crisis cannot be left out of consideration. The global slowdown in trade and investment has not missed its effect on any country in the world, neither therefore on Ukraine. It is evident however, that reductions in living standards will eventually also have a political impact, for citizens as much as for the government, and this applies even more in situations where a government came to power mainly on a ticket of creating stability and improving living standards. In this light Ukraine is re-evaluating its position in the international trade arena. Even though the country only became a member to the WTO in mid-2008, it is already attempting to renegotiate a large number of tariffs lines.

Among WTO members this move has prompted concerns over the lack of transparency, lack of information, and especially the unknown way in which Ukraine plans to compensate other Member States. Other trade related steps by Ukraine, such as the introduction of special import duties on new passenger cars, further unnecessarily hurt the relations between the EU and Ukraine.

– *How would you assess the prospects for signing the EU-Ukraine Association Agreement? How will Ukraine benefit from signing the Agreement?*

At the EU-Ukraine Summit in Brussels, on 25 February, Ukraine was given time until early May to show tangible progress in the three areas mentioned above, which had already been emphasized by the December 2012 Foreign Affairs Council of the EU: reverse troubling trends in democratic development, organize a transparent election process, and carry out consistent and far-reaching reforms. These priority tasks have been spelled out often, so that there cannot be any misunderstanding about the scope and substance of Ukraine's homework. The Association Agreement between Ukraine and the EU is the most progressive agreement ever created in its kind by the EU, and Ukraine now faces a unique window of opportunity to sign the agreement and make a decisive step in the direction of what it has repeatedly professed to be its main goal, Ukraine's European integration.

A failure, however, to implement the steps would most likely delay the agreement for years. In 2014, elections to the European Parliament will be held, and in 2015 presidential elections are scheduled in Ukraine, so this will not be the most favourable time to concentrate on the tasks ahead. As years go by, the text of the agreement that is now on the table, and of which the refinement and translation took many months, will become outdated and the process will have to be restarted almost from scratch. Again, Ukraine would lose valuable time, and this is neither necessary nor desirable.

Fortunately, it is not all bad news. Recently, a decree was issued by the President containing a plan of priority measures on European integration for 2013, explicitly presented in order to prepare for a successful Summit in Vilnius. Let us hope that actions will soon follow to allow the signing of the Association Agreement to be realized. ■

**I TRULY BELIEVE EUROPE
MUST BE BUILT "AT HOME"**



Jon Elvedal FREDRIKSEN,
*Ambassador Extraordinary
and Plenipotentiary
of Norway to Ukraine*

Perhaps the best way for me as a European non-EU ambassador to speak about European integration is to point out the Norwegian outlook to Europe and the EU, and how our experience could perhaps be of some use to Ukraine.

For Norway as a non-EU country the concept of European integration is a wider notion than just association with the EU, but our relationship with the EU is obviously in focus.

The question of integration has been debated for 40 years through two referendums, which in both cases ended with a “no” to EU-membership. 18 years after the last referendum in 1994, however, the question of membership is not high on the political agenda. Why? Basically, because Norway may consider itself a fully-fledged member of the European community (not union), adhering to the same values, international obligations and code of conduct as any other European country.

The basis for this stable situation is: 1) The EEA agreement making Norway, Iceland and Lichtenstein a part of the EUs inner market, all though at a cost; 2) Compliance with and support for the core values and tasks of the Council of Europe and OSCE; 3) Norway is a founding member of NATO.

To my mind this situation gives some unique experience to share with Ukraine if an Association Agreement and DCFTA with the EU should be signed. I truly believe **Europe must be built “at home”**. The European organisations, keeping the continent safe from the calamities of former conflicts, are not country clubs. You join to commit to something you believe in and to serve both your own and your partners’ interests. This goes for integration agreements such as the one Norway has with the EU, it goes for the COE and the OSCE.

Norway could, some say, join the EU at any given time, should the people decide to do so. If this is true, it is because we have chosen to follow our Nordic neighbors’ path away from cold war balancing acts into a European value based community, in which Norway can be one of EU’s closest European partners, and where neutral Sweden and Finland can be close European partners of NATO.

Our partnerships are not the result of simple political deals. They are the result of long-term, detailed sometimes controversial and cumbersome domestic processes and reforms, and of foreign policy decisions **based on democratic, mostly parliamentary, processes**. They are strategic, not tactical.

In our experience, there are no quick fixes. More than 3000 amendments to Norwegian legislation have been needed to stay in the inner market. More importantly, they have been implemented on the ground. Not without debate or controversy. It is tempting to borrow a term from the world of sports: no pain, no gain. In cases of conflict with our big partner, we have not been able to hide behind national legislation. There is a special court, the EEA court, to regulate and monitor the EEA agreement. A court in which mainly Norwegian nationals have handed down dozens of verdicts in favour of the EU.

So is it worth it? Well, that depends on who you ask. But at least shifting governments from different parties and coalitions have thought so to this day.

Norway is also a neighbour of Russia. The historical and cultural background for that is, of course, very different from the one experienced by Ukraine, and to compare relations would not be fair. But I believe that predictability, open and frank dialogue, strategy and will to compromise has made it possible for a small NATO country to establish a working partnership with a great power neighbour.

If our experience is anything to go by, Ukrainian perspective for European integration at large should look good, provided there is a will from all political forces to implement an even playing field for business and trade,

to make sure courts are and are perceived as impartial by population and foreign partners alike and to make strategic choices of values and politics and stick to them.

A Free Trade Agreement between the EFTA countries (Norway, Switzerland, Liechtenstein and Iceland) and Ukraine recently came into force. This is one side of European integration.

But no less important: Ukraine has recently completed a successful chairmanship in the Council of Europe and is making good progress as chairman of the OSCE, as far as the member-states allow. This shows real commitment. Even if such chairmanships are not about domestic politics they are, for any country, a perfect opportunity to demonstrate that the chairman has visions and goals for itself and the organisation, to live up to the common standards.

Norway is a major sponsor of the COE Action Plan for Ukraine, a good example of mutual commitments to be implemented on the ground. To me, this is as much about European integration as is any free trade agreement. ■

PROGRESS IN IMPLEMENTING REFORMS WILL BE THE BEST FACTOR TO DETERMINE THE LEVEL OF UKRAINE’S BILATERAL RELATIONS WITH THE EU



Cornel IONESCU,
*Ambassador Extraordinary
and Plenipotentiary
of Romania to Ukraine*

– What are the most critical internal factors affecting the EU-Ukraine relations?

The process of Ukraine’s European integration is at its turning point. Last year, the EU-Ukraine relations saw some tension caused by developments in your country. Nevertheless, the EU Foreign Affairs Council in December 2012, expressed the EU’s commitment to the signing of the Association Agreement (AA) together with Deep and Comprehensive Free Trade Area (DCFTA) between Ukraine and the EU, which might be timed to the Eastern Partnership Summit in Vilnius in November 2013. The same opinion was expressed on the occasion of the EU-Ukraine summit held on 25 February 2013.

Romania supported and continues to support Ukraine’s aspiration to complete the process of political association and economic integration with the EU. The same is demonstrated by Romanian Foreign Minister Titus Corlăţean attending the Friends of Ukraine group meeting in Brussels last January. For Romania, as well as for the EU in general, Ukraine is a key partner within the framework of the Eastern Partnership that pursues an ambitious goal of joining the EU. Therefore, progress in implementing reforms at home will be the best factor to determine the level of Ukraine’s bilateral relations with the EU.

The progress in implementing measures listed in the Conclusions of the December EU Foreign Affairs Council

will define the structure of the EU-Ukraine relations. They, in Brussels and capitals of the member states, expect resolute steps and concrete progress of the Ukrainian authorities in three areas of particular interest: (1) implementation of the ODIHR/OSCE Mission recommendations related with the latest parliamentary elections; (2) progress in addressing the issues of selective justice and preventing its recurrence, and (3) in implementing the reforms and fulfilling commitments defined in the EU-Ukraine Association Agenda. As far as the latter point is concerned, the Chapter "Political dialogue: democracy, rule of law, human rights and fundamental freedoms" remains critically important. Romania attaches particular importance to respect for fundamental human rights, including the rights of minorities.

– How would you assess external influences on Ukraine's European integration?

The purpose of signing two documents with the EU (AA and DCFTA) has envisaged both respect for a certain system of values and compliance with certain economic rules. It is well known that Ukraine pays special attention to preserving and developing economic relations with the CIS countries to which it has been connected by a complex set of ties. Its participation in the CIS Free Trade Area in such conditions is natural and cannot be restricted by anyone. Nevertheless, a positive response to external calls for joining a deeper integration project, involving the transfer of powers from the national to a supranational level in the sphere of tariff and trade policy-making, would prevent Ukraine from removing tariffs with the EU, as stipulated in the DCFTA provisions, or from raising the quality of products to the European standards so important for economic modernisation.

The most important precondition for independence and sovereignty of any state is to achieve the highest level of energy security. The European Union, which is also heavily dependent on external energy supplies, is well aware of the role energy plays in the socio-economic development and modernisation of Ukraine and highly appreciates efforts made in that domain. Therefore, modernisation of the Ukrainian gas transportation system has been an important issue of bilateral cooperation. The EU believes that adoption of the European legislation in that field and Ukraine's active role in the European Energy Community are of primary importance. The energy sector reform, diversification of energy supplies, development of renewable energy sources, tariff transparency, implementation of energy efficiency measures are all priority tasks of the EU-Ukraine cooperation.

Ukraine's OSCE Chairmanship this year places high responsibility on the country, since the OSCE member states expect that the presiding country will prove to be a model to follow and will motivate member states to respect their commitments and principles of the Organisation. Many of those commitments coincide with criteria set in the EU-Ukraine Association Agenda. At the same time, thanks to its consistent and constructive stance on resolving protracted conflicts, including Transnistria, Ukraine can boost the image of a responsible actor on the international scene.

– How would you assess the prospects for signing the EU-Ukraine Association Agreement? How will Ukraine benefit from signing the Agreement?

After more than two years of negotiations, the Association Agreement together with the Deep and

Comprehensive Free Trade Area – the most advanced agreement ever signed by the EU with third countries – have been finalised. The signing of the Agreement bears witness to a distinctive relationship and commitment assumed by the EU before the Ukrainian people and now entirely depends on the political will and joint effort of the Ukrainian political elite and the society in general.

Economic integration with the EU will create new business opportunities, open up the world's largest domestic market for Ukrainian goods and services, promote economic growth and create new jobs, increase the competitiveness of Ukrainian goods and mobility of Ukrainian citizens in Europe. However, the main achievement will be the commitment assumed by both signatories to respect European values i.e. democracy, respect for human rights and fundamental freedoms, the rule-of-law state, which will eventually make Ukraine to a great European family. ■

FOR THE POLICY OF THE EUROPEAN INTEGRATION TO BECOME SUCCESSFUL, UKRAINE HAS TO CARRY OUT A NUMBER OF REFORMS



Stefan GULLGREN,
Ambassador Extraordinary
and Plenipotentiary
of Sweden to Ukraine

– What are the most critical internal factors affecting the EU-Ukraine relations?

Since 2008, when the negotiations on the Association Agreement, including a Deep and Comprehensive Free Trade Area commenced, the EU and Ukraine have been in agreement on the framework and the preconditions for the way forward. **For the policy of the European integration to become successful, Ukraine has to carry out a number of reforms aimed at modernising the legislation, public institutions, the business and investment climate,** etc. The necessary reforms have been outlined in the Association Agenda, as well as in the Reform Programme of the President of Ukraine from 2010. The way ahead is for Ukraine to implement these programmes.

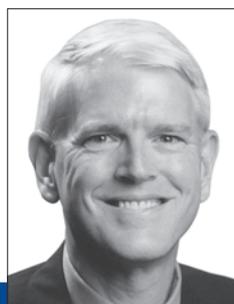
– How would you assess external influences on Ukraine's European integration?

Every country decides for itself as to what reforms it wants to undertake. The EU has been clear regarding what it deems necessary in order for the relation to move forward. The same applies to other countries interested in integrating with the EU.

– How would you assess the prospects for signing the EU-Ukraine Association Agreement? How will Ukraine benefit from signing the Agreement?

In December 2012, the Foreign Ministers of the EU Member States unanimously adopted the so-called Council Conclusion, which clearly outline a set of criteria for the process of moving forward with the signing of the Association Agreement. **There is still a possibility for Ukraine to show substantial progress in meeting these criteria, but time is running short.** ■

EXTERNAL INFLUENCES ON UKRAINE'S EUROPEAN INTEGRATION



Steven PIFER,
*Senior Fellow of the Center on the United States
and Europe at the Brookings Institution,
US Ambassador to Ukraine in 1998-2000*

Since taking his office at Bankova in March 2010, President Viktor Yanukovich has regularly insisted that his foreign policy attaches priority and importance to integrating Ukraine into Europe. He says that he wants Ukraine to draw closer to, and ultimately join, the European Union.

Ukraine's success with the European Union depends critically on choices and concrete actions taken by Kyiv, but it is also affected by the approaches and attitudes of external actors, first and foremost, the European Union and its member states. The views of Russia and, to a lesser extent, the United States also have an impact.

Kyiv must take these external actors and influences into account as it pursues its policy goals. Growing concern in the West about democratic regression in Ukraine combined with a hardening attitude in Moscow appear to impose narrowing constraints on the Ukrainian government's freedom of manoeuvre in pursuing its European policy course. Absent a genuine effort to address the concerns articulated by the European Union, it is not clear how Mr. Yanukovich will succeed in his declared European aspiration or how he will keep Ukraine out of a gray zone between Europe and Russia, something that Ukrainian foreign policy previously sought to avoid.

The European Union's Conditionality

Not surprisingly, the European Union is the most important external actor when it comes to Ukraine's ability to advance the European vector of its foreign policy. That is because Kyiv has made the European Union the primary mechanism for its integration into Europe, particularly after Mr. Yanukovich eschewed steps to draw closer to NATO.

The European Union has for some 20 years supported closer relations with Ukraine and the country's integration into Europe, though it unfortunately has declined to give Kyiv a clear membership perspective. EU reluctance to state that Ukraine could aspire to follow Poland, Hungary and others into EU membership ranks is a result of several factors. The first has been concern about the long reform path that Kyiv must travel in order to shape a political and economic system compatible with those of Europe.

Second, some EU member states believe the enlargement process that was launched in the 1990s and which culminated in the addition of 12 new members in 2004 and 2007 has proceeded too far, too fast. They do not want the European Union to create new membership perspectives, as it still needs time to fully integrate its most recent entrants.

Third, Ukraine is a large, populous country. Some EU member states worry that, if it joined, Ukraine would require significant EU development funds, absorbing funding that otherwise would go to other member states.

In explaining their hesitancy, EU officials sometimes cite the experience of Turkey, which has long had a membership perspective but remains years from realizing that goal. They say they do not want to create unrealistic expectations in Kyiv that might take years, if not decades, to realize.



Today, the primary vehicle for the EU-Ukraine relationship is the Association Agreement completed in 2011 and initialled in March 2012 after four long years of negotiation. It contains a Deep and Comprehensive Free Trade Area, which would harmonize Ukraine's trading regime with that of the European Union and open up large sectors of the European economy to Ukrainian exports (and vice-versa). The Yanukovich presidency deserves credit for making some tough decisions and bringing the negotiation to a conclusion.

The European Union, however, has placed signature of the Association Agreement on hold, due to concerns about internal developments within Ukraine, specifically the regression in democracy that has taken place over the past two years. These concerns have focused most publicly on – but by no means are limited to – the trials, convictions and imprisonment of former prime minister Yulia Tymoshenko and former interior minister Yuriy Lutsenko. The European Union regards these cases as blatant examples of selective prosecution.

When Mr. Yanukovich travelled to Brussels this past February for a summit meeting with European Commission President José Manuel Barroso and European Council President Herman Van Rompuy, the EU leaders made clear the importance they attach to partnership with Ukraine and the Association Agreement. EU officials have said that the association agreement could be signed in November in Vilnius during the EU's Eastern Partnership summit.

EU leaders have also made clear, however, that signature depends on Ukraine taking action on three areas of particular concern: electoral shortcomings, The selective justice and progress on the general reform agenda. Following their discussions with Mr. Yanukovich, both Mr. Van Rompuy and Mr. Barroso cited the importance of progress on these questions. EU officials have said that progress should be made by May in order for there to be a realistic chance of signing the Association Agreement in November. On 25 February, the summit's joint statement cited an expectation of "concrete progress by early May 2013".

EU Enlargement Commissioner Štefan Füle reiterated this in his 13 March speech to the European Parliament. While stressing EU interest in deepening relations with Ukraine, Mr. Füle made clear that domestic developments within Ukraine were a key factor. He said:

"If we want to sign the Association Agreement, and I am convinced we do, as it is in our shared interest, the way forward for the [Ukrainian] authorities is not through bringing more and more disturbing news. The time has come for sending some good news in dealing with selective justice. Unless the cases of Yulia Tymoshenko and Yuriy Lutsenko are properly addressed and there is sufficient confidence that there will be no more selective justice, we could hardly talk about conditions that are conducive for signing the Association Agreement".

Mr. Füle's statement could not have been clearer. He also cited concern about the case of Serhiy Vlasenko,

Tymoshenko's lawyer who was stripped of his mandate in the Rada after the EU-Ukraine summit took place.

EU member states reportedly differ over how high a bar to set for signature of the Association Agreement, that is, on how much progress Ukraine must make in order to meet the EU's conditions. Some countries, such as Poland and Lithuania, appear to favour signature even with modest progress, in part out of concern that Kyiv otherwise could drift back into Moscow's orbit. Others, such as the Netherlands and Germany, believe that Ukraine must make significant progress. Sweden, which traditionally has argued for a more forward-leaning engagement of Ukraine, apparently now belongs to the latter camp. Parliamentarians in some EU member states have threatened to block ratification of the Association Agreement if Ms. Tymoshenko remains in prison.

Should the November 2013 EU Eastern Partnership summit transpire without signature of the Association Agreement, neither Brussels nor Kyiv appears to have a Plan B. On 20 March, EU Ambassador to Ukraine Jan Tombinski said that, should the Association Agreement not be signed in November, the EU calendar in 2014 and Ukrainian presidential election in 2015 would likely mean that Ukraine and the Association Agreement would be put on the EU's backburner until the summer of 2015.

Little Give from Moscow

While Kyiv faces conditionality from the European Union, it has met an uncompromising position from Moscow, where President Vladimir Putin is intent on strengthening Russian influence in the post-Soviet space. For the Russians, Ukraine clearly is the principal prize in reestablishing a commanding position in the region.

Moscow's stance undoubtedly disappoints Mr. Yanukovich, who made restoring a better relationship with Russia his first foreign policy focus in 2010. In addition to dropping positions that irritated Russia – such as pursuing a NATO membership action plan and seeking to have the Holodomor recognized as genocide against the Ukrainian people – the Ukrainian president agreed in April 2010 to extend the presence of the Russian Black Sea Fleet in Crimea for 25 years. In return, the Russians agreed to give Ukraine a discount on the price of natural gas of \$100 per thousand cubic meters.

The value of the price discount subsequently declined as the cost of gas rose. Kyiv has made securing a cheaper price for gas the number one priority on its agenda with Moscow. The problem is that, while Ukrainian officials blame the price formula on Ms. Tymoshenko's 2009 gas contract and would like to undo the contract, Mr. Yanukovich in effect validated that formula with his April 2010 agreement. So far, the Russians have shown no give on the price or the contract's other terms. They argue that the contract is perfectly legitimate.

The saga took a new turn earlier in 2013. Over the past two years, while complaining about the price, *Naftohaz* has purchased less and less gas from



Gazprom, falling below the 41 billion cubic meters per year that the contract requires. The contract terms specify “take or pay,” i.e., *Naftohaz* has an obligation to pay for 41 billion cubic meters, even if it takes less. *Gazprom* reportedly has presented *Naftohaz* a bill for seven billion dollars for gas that it argues *Naftohaz* is obligated to pay for even if it did not take it.

Ukrainian officials have stated that they will not pay. This could end up in an international arbitration court, whose ruling would be binding on both parties. The fact that *Naftohaz* has thus far not tried to challenge the overall contract in an arbitration court suggests that Kyiv is not confident that it could prevail in such a process.

For the past two decades, Ukraine's dependence on gas from Russia was offset by Russia's dependence on Ukrainian pipelines to move Russian gas to Europe. Moscow is now working in a very determined manner to reduce its dependence on Ukraine for gas transit. *Gazprom* has usually transited about 100 billion cubic meters of gas each year, an estimated 80 to 85 percent of its gas exports to European countries such as Germany and Austria, via the Ukrainian pipeline network. That gave Kyiv substantial leverage with Russia, but that is now changing.

The first Nord Stream pipeline, which moves gas from Russia to Germany under the Baltic Sea, is in operation, with a second pipeline under construction. Those two pipelines will have a capacity of 55 billion cubic meters per year. And Moscow appears increasingly serious about building by 2016 pipelines under the Black Sea to circumvent Ukraine. They could allow *Gazprom* virtually to write Ukraine out of its future gas transit plans. That would remove significant leverage that Kyiv has had over *Gazprom*.

Ukraine has tried to interest Russia and the European Union in a consortium to manage its gas transit network. Interest from EU quarters appears to have ebbed, in part because of uncertain financial aspects of the arrangement. The Russians indicate interest but have suggested that Kyiv must first withdraw from the European Energy Community, something that the Ukrainian government says that it will not do.

Moscow's uncompromising line shows up on other questions as well. The Russians have expressed interest in bringing Ukraine into the Customs Union that currently comprises Russia, Belarus and Kazakhstan. Mr. Yanukovich has said that he would like Ukraine to have a relationship with the Customs Union. But membership in the Customs Union is incompatible with a deep and comprehensive free trade agreement with the European Union. As Mr. Barroso recently said, “One country cannot at the same time be a member of a customs union and be in a deep common free-trade area with the European Union. This is not possible.”

Mr. Yanukovich's government appears to understand this, as demonstrated by its proposals for forms of cooperation with the Customs Union short of membership. Foreign Minister Leonid Kozhara in late February reiterated earlier Ukrainian suggestions for



cooperation in a “three-plus-one” format which might, among other things, establish a free trade area among the four countries.

Russian officials, however, consistently dismiss the idea that a relationship short of membership is possible. Prime Minister Dmitry Medvedev in March stated that Ukraine faced an “everything or nothing” choice. Kyiv could not have a special relationship with the Customs Union; as an observer, it would remain an outsider and have no special privileges. Moreover, Russian officials suggest that, beginning in 2015, Russia will allow foreign labor to enter the country freely only from states that belong to the Customs Union. While the declining labor force in Russia may force reconsideration of this, it does raise questions about the future ability of Ukrainians to work in Russia.

Mr. Putin hosted Mr. Yanukovich for a meeting on 4 March, after a scheduled December meeting was cancelled at the last minute, apparently due to the absence of agreements to record. While the two reportedly discussed the full range of issues over the course of seven hours, it is not clear that the meeting produced significant movement toward compromise. By all appearances, the Russians calculate that, for the time being, their hard-line stance towards Kyiv makes sense for their foreign policy goals.

Declining Interest in the United States

As for Washington, interest in Ukraine and its European aspirations appears to have faded as Mr. Yanukovich has regressed on democracy. The Obama administration accepted the Ukrainian president's reversal of his predecessor's desire for a NATO membership action plan and ultimate membership in the Alliance. US officials recognized that closer integration with NATO lacked broad support among both the elite and the wider public in Ukraine.

It also turned out that Kyiv's decision not to proceed with a NATO membership action plan fit with the Obama administration's desire to “reset” relations with Russia. Mr. Yanukovich's turn away from NATO removed Ukraine's relationship with the Alliance as a major potential problem between Washington and Moscow. The US government was able to reiterate its support for a strong NATO-Ukraine relationship, knowing that



Kyiv would not push that relationship in a direction that would cause a major problem with Russia.

Washington thus threw its support behind the EU-Ukraine relationship as the primary vehicle for integrating Ukraine into Europe. That corresponded to Mr. Yanukovich's expressed preference and ran a smaller risk of alienating Moscow than deepening NATO-Ukraine ties.

In general terms, Ukraine has fallen significantly in importance on Washington's agenda. Part of the reason is the fact that the Obama administration does not see a geopolitical struggle with Russia for Ukraine. And part of the reason is relative: Ukraine received more attention from Washington in 2005-2008 than otherwise would have been the case due to the Orange Revolution and the election of Victor Yushchenko as president. Even when Mr. Yushchenko's shortcomings became apparent, the story of democracy in Ukraine appealed to the George W. Bush administration, which sought to make the advance of democracy an underlying foreign policy theme in its second term. Ukraine thus received considerably more attention, including visits by the president and vice president, than a medium-sized European state could normally expect.

Kyiv has lost that attractiveness with the reversal of democratic progress that has taken place under Mr. Yanukovich. The Obama administration initially expressed readiness to work with him, as the victor in a free and fair ballot in 2010. The US government took special interest in securing the removal of highly-enriched uranium from Ukraine. But as that was achieved, and as opposition leaders such as Ms. Tymoshenko and Mr. Lutsenko were bundled off to prison, the bilateral agenda has commanded less interest at senior levels in Washington.

Some Ukrainian officials apparently hope that energy cooperation, particularly the development of Ukraine's energy resources, including unconventional gas resources, can attract high-level US interest. The US government can provide assistance in this area and certainly desires that Chevron's investment will succeed, but that question likely will not become a priority for the White House. It certainly will not suffice to overcome concerns regarding selective prosecution and other democratic shortcomings in Ukraine.

Indeed, when Under Secretary of State Wendy Sherman traveled to Kyiv on 19-20 March, she reiterated the importance of Ukraine taking steps such as ending selective prosecution and improving the judicial system in order to improve the broader US-Ukraine relationship. While noting that the US government at this point does not favor sanctions on Ukraine, Ms. Sherman cautioned that Congress is discussing such measures.

Looking to the future, it is difficult to see how Ukraine, if it continues its current course, will be able to command greater interest in senior Washington circles. Ms. Sherman's visit could be the most senior executive branch visitor that Kyiv sees for some time.

Where Does This Leave Kyiv?

Given Ukraine's current situation and the preferences of the Ukrainian elite and public, the logical European integration course for Kyiv is to use the Association Agreement to deepen its links with the European Union while maintaining constructive relations with Russia and cooperative interaction – but not the pursuit of membership – with NATO. That appears to be the foreign policy course advocated by the Yanukovich government.

But the combination of increasing conditionality from the European Union, a continued hard line from Russia and declining interest from the United States narrows Kyiv's freedom of maneuver. Much of this problem for the Ukrainian government is self-inflicted: no factor has had greater negative influence on EU and US policy toward Ukraine over the past two years than Mr. Yanukovich's regression on democracy, including selective prosecution of opposition leaders. This badly hinders Ukraine's ability to carve out for itself an appropriate place in Europe.

Mr. Yanukovich has on occasion suggested that he understands the problem and will act to meet EU (and US) concerns. In February during a meeting with the Polish and Slovak presidents, he expressed understanding for the EU position regarding Ms. Tymoshenko and Mr. Lutsenko and said a compromise could be found. Subsequently, however, Mr. Vlasenko lost his mandate in the Rada – in what many saw as punishment for his service as Ms. Tymoshenko's defense lawyer – and the Prosecutor General continued proceedings seeking to link Ms. Tymoshenko to the 1996 murder of Yevhen Shcherban. Those actions do nothing to alleviate Western concerns about selective prosecution, and they undercut the president's words regarding finding a compromise.

For much of the period since the early 1990s, Ukrainian foreign policy has sought to ensure that the country had strong links with the West as well as a stable relationship with Russia. Senior Ukrainian officials have in the past set a maximum goal of fully integrating into European institutions and have said that, at a minimum, they wish to build a web of links to prevent Ukraine from being left in a gray zone of insecurity between Europe and Russia. Unfortunately, on its current course, it is difficult to see how Ukraine avoids getting stuck in such a grey zone. ■

UKRAINE AND EUROPE: FINAL DECISION?



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Since achieving independence in 1991, Ukraine has had almost as many defining moments as public holidays. The November 2013 Eastern Partnership summit possibly stands apart. It is then that the European Union will decide whether Ukraine has satisfied the conditions for signature of an EU-Ukraine Association Agreement and the establishment of a Deep and Comprehensive Free Trade Area (DCFTA). Officially, the EU's commitment to sign the agreement (of which the DCFTA is an organic part) has no deadline and depends only on "determined action and tangible progress" by Ukraine.¹ But publicly and privately, a number of EU officials and representatives of member states are presenting the Vilnius summit not only as a defining moment, but a final one. In essence, the EU will decide whether Ukraine at long last has made the "civilisational" choice that has confronted it since independence.

Such a dramatic and apparently apocalyptic stance requires explanation. Since the launch of the Eastern Partnership in May 2009, the EU has articulated a vision towards Ukraine that belies every established Ukrainian stereotype about its ethos and horizons. In the first place, as affirmed by EU Commissioner for Enlargement and European Neighbourhood Policy, Štefan Füle, the EU-Ukraine Association Agreement (including DCFTA) is one of the "most ambitious and complex agreements the European Union has ever negotiated with a third country".² They provide neither a membership perspective, nor a substitute for it. Instead, they offer tangible integration, consistent with the hope expressed by no less a figure than EU Commission President Barroso that membership will one day follow. Second, the agreements have been hammered out in the teeth of unprecedented economic pressures to do nothing of the kind. The Eurozone crisis has diluted vision as well as narrowed it, not only within the currency zone itself, but across the EU as a whole. Third, negotiations have been reinforced by an intensity of diplomatic activity and high-level engagement that should cast no doubt on the EU's seriousness. Yet this combination of factors is most unlikely to endure, and it is this apprehension that underpins today's "now or never" rhetoric.

The Vilnius summit is set to become another triumph of politics over strategy. Its finality will swiftly prove illusory whether the Association Agreement is signed or not. In either case, the outcome will not just end one story, but start a new one, and few European commissioners or member governments have begun to think about its character, dynamics and consequences.

In this post-Vilnius environment, three long-standing factors are likely to interact in a more active and unpredictable manner than hitherto. The first of these is a predatory and de-professionalised Ukrainian state that has disenfranchised entrepreneurship and talent; moreover, a state in which the liberal opposition seems sociologically incapable of building domestic constituencies, acting without a Western patron or exercising power. The second is the purposefulness of a Russian state determined to rebuild its hegemony, entrench its civilisational model and keep Ukraine out of the West's embrace. The third is a Euro-Atlantic community, increasingly intimidated by the state of the world, incapable of thinking beyond "engagement" with Russia and wearied by Ukraine's refusal to respond to any incentives or help itself. With or without an Association Agreement, Ukraine is likely to find itself in uncharted waters after November 2013.

¹ EU External Action Service http://eeas.europa.eu/ukraine/index_en.htm.

² Stefan Füle, 'Speech at the Meeting of the EU-Ukraine Parliamentary Cooperation Committee, June 2012', http://europa.eu/rapid/press-release_SPEECH-12-448_en.htm.

Sober Optimism

In December 2012 the European Council made signature of the Association Agreement (concluded but not signed in December 2011) contingent upon Ukraine fulfilling three conditions: complying with international standards of electoral practice, ending selective justice and “implementing the reforms defined in the jointly agreed Association Agenda”.³ The EU is not expecting a dramatic change in Ukraine’s condition but in its *direction*, and it is expected that this will also be true of national parliaments and the EU Parliament, upon whom ratification of the agreement depends. Yet privately, even some of the strongest advocates of signing it know that Ukraine’s current authorities are interested at most in implementing its measures *pro forma* and have no intention of implementing some of them at all. So why are they arguing for signature and ultimate ratification? Three positive arguments are put forward:

- In opting for Association, Ukraine is granting the EU unprecedented powers of scrutiny over the internal affairs of a non-EU state. By doing so, it has confirmed its European vocation in unmistakably tangible form. Association is not membership, and it would be unjust to hold Ukraine to the standards and conditionalities applied to states engaged in membership negotiations (e.g. Turkey);
- The provisions of the Association Agreement will bring Ukraine into closer conformity to EU standards whether the authorities in Kyiv desire this or not. The DCFTA goes well beyond a standard free trade agreement in its regulatory intrusiveness and enforcement provisions. On offer is nothing less than “a robust, legally binding framework for progressive integration”.⁴
- Upon the coming into force of the Association Agreement, Moscow will forfeit leverage, not to say control, over Ukraine’s economic development and integration prospects. EU Association will be the epitaph of a long and concerted effort to draw Ukraine into the Eurasian Customs Union and Single Economic Space. It will mean “game over” for Russia.

The optimists become pessimists when contemplating the EU’s failure to sign the agreement:

- The EU will forfeit the leverage that up to this point Ukraine has willingly conceded. The concerns and interests of Brussels regarding electoral malpractice, politicised justice and the criminalisation of economic life will fall on deaf ears. Lacking any incentive to change, Ukraine’s kleptocratic and reclusive authorities will do what they do best. Isolation will propel them into hard authoritarianism.
- Moscow will conclude that the EU has washed its hands of Ukraine. Pressure on Kyiv to submit

to Moscow’s Eurasian scheme of integration will prove irresistible, as will pressure to follow the Belarusian path and abandon its energy sovereignty. “Dizzy with success”, Russia will seek fresh opportunities and exploit vacillation and weakness elsewhere (e.g. Moldova, Latvia and Georgia).

- The Eastern Partnership will atrophy, the enlargement impulse, already attenuated, will dissipate, the EU will shift its focus to the non-European sources of illegal migrants and turn in upon itself. A new European frontier along the Prut, the Bug and the Narva will emerge, drawn by a combination of EU short-sightedness and Russian wilfulness.

Cogent as these arguments are, they are far from conclusive. The Association Agreement’s leverage might prove to be as ephemeral as that so recently anticipated when Ukraine joined the WTO (a “threshold” that has done nothing to arrest the dysfunctionality and lawlessness of Ukraine’s system of economic “management”). External conditionality and benchmarks support changes that state and society are resolved to undertake. They do not eliminate sovereignty. Twenty years of frustrated attempts to micro-manage recalcitrant regimes by such means should instil scepticism. The moral blackmail of Kyiv aside, Yanukovich’s refusal to countenance integration with Russia was never founded upon “perspectives” from the EU, but hardened regime interest. The structures of power and corruption that block Ukraine’s integration with Europe (and damage Ukraine) also defend it against integrationist pressures from Moscow. Moscow’s scheme of “merger” between *Ukrnaftohaz* and *Gazprom* – 5 percent and 95 percent ownership respectively – is an indicator of what Ukraine’s industry can expect to suffer in any wider package, and its custodians require few incentives from the EU to maintain their independence.

That Ukraine’s independence, economic and political, will come under renewed assault from Russia after a rebuff in Vilnius should not be doubted. Nor should one minimise the risk of worsening conditions inside Ukraine itself. These concerns are well founded. But they do not suggest that signature of the Association Agreement will put Ukraine on a trajectory to success. To the contrary, Association will confront Ukraine and the EU with different risks and dangers, and it is even possible that they will prove to be even more difficult to manage than those that will ensue if the EU denies Ukraine the reward it seeks.

Sober Pessimism

That the granting of Association status would be more damaging for Ukraine than its denial is a less intuitive case to make than the one just outlined. But it is not difficult to understand. If Association is conferred in present conditions, we could well find that:

- The EU’s credibility in Kyiv will be forfeit, and its leverage will suffer accordingly. Since

³ ‘Council Conclusions on Ukraine’, Brussels, 10 December 2012.

⁴ Rilka Dragneva and Kataryna Wolczuk, *Russia, the Eurasian Customs Union and the EU: Cooperation, Stagnation or Rivalry?* (Chatham House Briefing Paper BP 2012/01, August 2012), p 9.



the conclusion of the Association Agreement in December 2011, the EU has used every channel to affirm that it expects real change on the part of Ukraine. Over the same period, President Yanukovich's inner circle of confidants have assured him that limited and cosmetic changes will suffice. Having won one war of attrition, his *modus operandi* will only harden, and the EU will be hard put to prove that *this time*, they mean it.

- President Yanukovich will use Association as a political resource rather than a blueprint for change. He knows that full implementation would dismantle the patrimonial system he has constructed, and he will not allow this to happen. Instead, as with IMF conditionalities, there will be implementation à la carte, more likely to damage than benefit the constituencies that the EU seeks to help. An anti-EU backlash in Ukraine (to the advantage of the Party of Regions, the Communists and *Svoboda*) is entirely possible, as well as a fresh round of exasperation with Ukraine in Europe.
- It cannot be excluded that Yanukovich will use Ukraine's energy sector as a resource to compensate Russia for what it certainly will consider a hostile step. Changes to the management of the GTS cannot be ruled out, and Western exploration and production companies, already struggling with Ukraine's regulatory environment, might find that their framework agreements are far from tamper-proof. The multi-vector approach is not merely a policy, but an instinct of Ukraine's policy elites, and Association with the EU might provide more of an incentive to re-establish than overcome it. Those in Brussels who assume that Association will smooth the path to Ukraine's energy integration with Europe might find themselves surprised and disappointed.
- The image of the EU and Eastern Partnership as values-based projects will suffer, as will their moral authority. Having set aside their own benchmarks, Brussels could find its leverage over other Partnership countries much diminished. In the most direct manner possible, the EU will also vindicate the charge that Association and enlargement are blatantly anti-Russian projects "disguised in parables about democracy".⁵ While the Kremlin is likely to maintain these views irrespective of what the EU does, the EU will gain nothing by entrenching them amongst the wider Russian policy community, academics, artists, *intelligentiy*, the middle classes as well as small and medium entrepreneurs. By such means it will not only weaken its stance in Russia now but in future.
- Russia will treat Ukraine's new status as a threat to its primary interests. Association is more likely to be seen as the start of an accession process than a substitute for it. To Moscow, it is immaterial whether such a process unfolds *de jure* or *de facto*,

and Brussels's commentary about it is irrelevant. (Many NATO allies initially presented PFP as an alternative, rather than a prelude to membership for the states that joined the Alliance in 1999 and 2004.) What matters to Russia is loss of control over Ukraine's development model and the possibility of transforming the Customs Union and Eurasian Union into dynamic and sustainable projects. The Kremlin is scarcely unaware that a significant proportion of citizens believe that, in their present form, these projects operate to the disadvantage of Russia and ethnic Russians.⁶

Principle and Realism

The post-Cold War period had a unifying theme and narrative: the triumph of Western values. That period is well behind us. Today, there is less unity of aspiration and purpose in Europe than at any time since 1991, perhaps since 1985. Whilst military blocs still exist, the more potent dividing line in Europe is between normative systems, demarcating different traditions of statecraft and governance, law and business. Two models have emerged, the one essentially based on rights and rules; the other based on connections, clientelism and the subordination of law to power. Each of them are underpinned by institutions, networks and well-established interests. Yet within these normative worlds, new tensions and cleavages have arisen that make their respective trajectories uncertain. These conditions, which breed uncertainty, apprehension and tension, oblige the EU to think carefully about the consequences of its actions.

On matters of principle, there can be no deviation. Ukraine is as sovereign as any other state, and its future lies in its own hands. When Ukraine is serious about integrating with the EU, the EU should welcome it *de facto* and *de jure*. Association should be offered with clear conditions but without deadlines or "now or never" propositions. Russia has no 'special rights' in this process.

But Russia will play a role in the process. The significance of that role will depend in large part upon the strength of Ukraine: the competence of the state, the professionalism of its institutions and the ability of state and society, *pace* Kuchma, to "pull together at a crucial moment". It will also depend upon Ukraine's standing in Europe. At present, its standing is low, and its state is not fit for purpose. To the extent that Ukraine implements the reforms defined in the Association Agenda, both of these realities will change, and Russia's opportunities will diminish. Today they are considerable. Threats to the longevity of Russia's power only magnify Moscow's incentive to utilise the margins of advantage it enjoys today. After the Vilnius summit, we are less likely to find ourselves confronting the situation that existed after the Budapest summit of 1994, when Yeltsin threatened a "cold peace" and did nothing than after the Bucharest summit of 2008, when NATO promised Georgia and Ukraine what it had no means to deliver. We need the wisdom to avoid a repetition of that scenario and the vision to construct a system that will strengthen Ukraine and Europe. ■

⁵ Sergei Karaganov, 'The New Global Chaos', *Russia in Global Affairs Online*, 28 December 2011.

⁶ For a particularly cogent argument, see Kirill Rodionov, 'Between Empire and Nation State' [*Mezhdru imperiy i natsionalnyim gosudarstvom*] *Nezavisimaya Gazeta*, 24 June 2013.

UKRAINE: INTEGRATION PROBLEMS¹



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For a few years now, discussions are underway in Ukraine about its civilisational and integration choice. This country, unlike other post-socialist states, has been solving this problem in a special way. After the CIS was established (1991) and Ukraine became its associated member, in 1994 it signed the Agreement of Partnership and Cooperation with the EU. This dual move – “looking West but turning East” – has lasted for nearly 20 years now. The situation remains unclear even now. Today, Ukraine wants to sign the Association Agreement with the EU and, at the same time, conducts cooperation negotiations with the Customs Union.

Integration choice of any country has at least three dimensions: legal, economic and political. For Ukraine, which not so long ago has embarked on the centuries-dreamed endeavour of independence, these three dimensions are particularly important. The legal dimension means preserving its sovereignty and statehood; economic – development and prosperity of the country; political dimension – securing “civilisational” future for Ukrainian society.

Different political forces in and beyond Ukraine focus on specific aspects of integration. Some prioritise the European vector, others – the Eurasian. Some emphasise economic benefits of integration, others – the political. Some tend to underestimate legal aspects, others – the political, or economic aspects. Meanwhile, all try to appeal to and manipulate public opinion. Currently, in addition to conducting public opinion polls, this may also include employing legal mechanisms of a referendum. **As a result, Ukraine today has almost come close to a “redline” marking a split within the society.**

That is why a thorough analysis of all aspects of integration process is very important to avoid miscalculations when making Ukraine’s civilisational choice. These were the issues covered in a study by the Institute of Strategic Assessments under Leonid Kuchma Presidential Foundation “Ukraine”. This article briefly discusses economic aspects of Ukraine’s Eurasian integration.

1. UKRAINE AND THE CUSTOMS UNION Weakness of the CIS integration structure

World practice shows that any integration process rests on the principle of trade intensity. Most trade and economic unions in the world were formed on that basis. Trade intensity is measured in terms of the share of intra-bloc trade in bloc’s total trade. According to this indicator, the Customs Union (CU) ranks last among 10 main trade and economic unions of the world. The share of intra-bloc trade in the CU makes only 11%, which is six times lower than in the EU, five times – than in China-ASEAN, and four times – than in NAFTA.

Trade intensity index in the CIS, where the CU was formed, has long been declining. Over the past

16 years, the share of intra-bloc trade in the CIS has reduced by nearly half. And this is the choice of the business, not states or governments.

The thing is that according to the international division of labour, the CIS has long been positioned as an internally competitive body. The region unites mainly producers of raw materials: energy resources, agricultural, metallurgical and chemical raw materials and semi-finished products. The commodity structure of the CIS foreign trade is unbalanced: exports are dominated by extracting industry, and imports – by processing industry. Mineral fuels account for nearly 63% of CIS export. *For comparison:* the world trade structure shows that products of processing industries

¹ The material was released in *Dzerkalo Tyzhnya* weekly in two articles: “Ukraine and the Customs Union: integration problems” (March 22, 2013) and “Ukraine – EU: integration problems” (June 7, 2013). It is published in this journal with minor editorial changes.



constitute over 70%, while mineral fuels – 17% only. Unions comprising states with varied national economies are not free of inter-state conflicts. And, on the contrary, unions comprising states with complementary economies are functioning well.

Russia moves away from the CIS

Russia is the main reason for the weakness of the CIS integration structure. The geographic structure of its foreign economic activity shows a very weak integration potential for the Customs Union. For instance, the share of Russia’s commodity exports to the CU accounts only for 7.4%, while the share of commodity imports accounts for even less – 5.7%. Meanwhile, half of its foreign trade is with the EU, while almost as much is with other countries, China primarily. This is not the fault of Russia and its authorities. **Business interests are the main reason.**

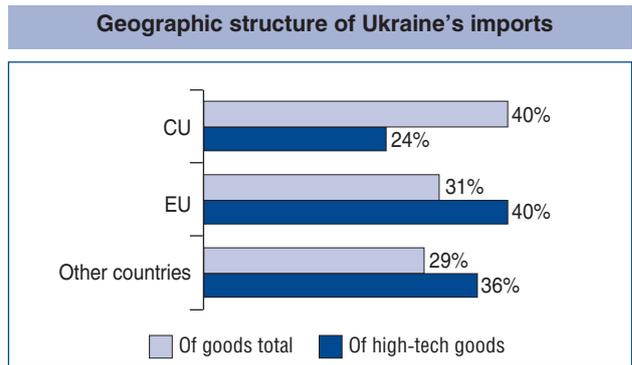
In fact, economic motives for Russia setting up the CU are very weak. In Russia’s foreign trade, EurAsEC countries on the average account for 8% of the turnover, while the WTO member countries – for 88%. Moreover, while in 2009 the turnover was 8.7%, within one year of the Customs Union’s activity it fell to 7.8%. Meanwhile, Russia has been active in developing trade relations with China. **Russian imports from China have already exceeded imports from the CIS.** Foreign trade in innovative products is even weaker with Russia importing only 3% of high-tech goods from the CIS countries, 35% – from the EU countries, and 62% – from other countries of the world. **In other words, Russian business is interested in integrating with the EU and China, not with the CIS.**

Ukraine and the CIS drifting apart

Not only Russia but also Ukraine is drifting away from the CIS. Over the last 18 years, its share of trade with CIS countries fell from 56% to 36%. Instead, the share of trade with the EU and other countries has increased. As well as it is the case with Russia, it is not the fault of Ukraine or its authorities; those are the interests of businesses and consumers. Over the past 14 years, despite free trade area within the CIS, Ukraine’s foreign trade has been reorienting toward the EU and other countries.

That is what one would call a “healthy” diversification of foreign trade, also inherent to the EU and other economic unions and to a great extent conditioned by

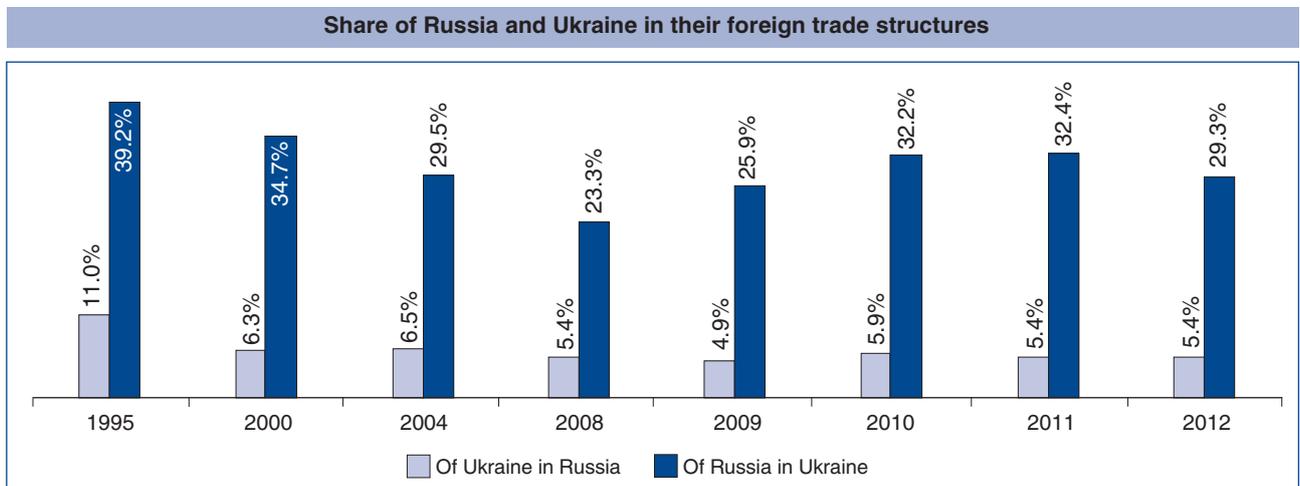
China’s growing economic influence. No sanctions or incentives can prevent these processes from happening. Business interests are always above any priority artificially invented by governmental institutions. That is explicitly evident in the geographic structure of high-tech imports to Ukraine, where the CU accounts for only 24%, while the main share is with the EU (40%) and other countries (36%). Overall, the share of Ukraine’s high-tech imports from the CU is nearly twice less than the CU’s share in Ukraine’s total imports. The contrary is true with regard to the share of high-tech imports from the EU and other countries, which is exceeding the share of Ukraine’s total imports. (Diagram “Geographic structure of Ukraine’s imports”).²



More than that, the CU countries are also not the main consumers of Ukrainian high-tech exports, almost two-thirds of which go to other countries, including 37% going to the EU. **Hence, the Ukrainian business is much more interested in integrating with the EU than with the CU.**

Russia and Ukraine drifting apart

The process of drifting apart has, first and foremost, affected the main CIS states: Russia and Ukraine. The share of Russia in Ukrainian trade in goods declined from 39.2% in 1995 to 29.3% in 2008; while the share of Ukraine in Russian trade in goods fell from 11% in 1995 to 4.9% in 2009. That is, after the USSR breakup, integration between Ukraine and Russia has declined nearly by half (Diagram “Share of Russia and Ukraine in their foreign trade structures”).³ Later, the countries’ shares in mutual trade have somewhat increased but never returned to pre-crisis level.



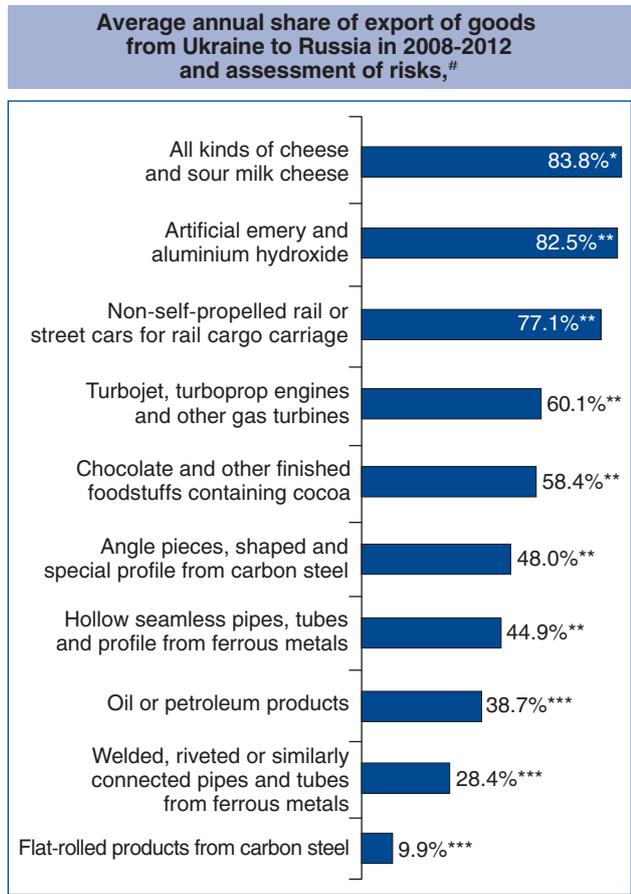
² Building on UN Comtrade, OECD, Institute for Economic Research and Policy Consulting (IER).

³ Building on Ukrainian and Russian statistics.

The structure of Russia-Ukraine trade has also deteriorated. The share of machine-building products fell by half. Exports of Ukrainian metal to Russia and imports of Russian energy resources to Ukraine had always been more or less balanced. Today, however, this balance is disturbed: exports of Ukrainian metal to Russia have been declining faster than imports of Russian energy resources to Ukraine.

To be certain, Russia remains an important trade partner for Ukraine. The importance of Ukraine in Russian foreign trade, on the other hand, has been steadily decreasing. Even when taking into account the supplies of energy resources, Ukraine's share in Russian foreign trade accounts for only 5%. **In other words, Russia is moving away from Ukraine much faster than Ukraine is from Russia.** Apparently, the thing is that in terms of trade Ukraine is six times less important to Russia (in structural terms) than Russia is to Ukraine.

With regard to exports of certain goods, Ukraine is firmly bound to Russia. The share of export of some Ukrainian goods to Russia accounts for more than 70%. However, most of them represent a high-risk group, since over 40% of these goods go to one country – Russia. That is why many of them have already faced problems. Ukraine, today, urgently needs to diversify exports of these goods (Diagram “Average annual share of export of goods from Ukraine to Russia...”).⁴



[#] Risk assessment: * - high; ** - moderate; *** - low.

⁴ Building on Ukrainian statistics.

⁵ Building on statistics of the CIS countries.

Imports from Russia consist of two major commodities, namely – gas and crude oil, accounting for 55-60% of imports from Russia, or 20% of Ukraine's total imports. Ukrainian exports to Russia are more diversified. For instance, while top 10 commodities exported to Russia account for 41% of Russia's total exports, top 10 commodities of Ukrainian imports comprise over 73% of total imports from Russia.

Large-scale reorientation to other foreign markets by Russia and Ukraine was largely caused by “trade wars” between the two countries, application of tariff and non-tariff restrictions, anti-dumping restrictive and compensatory tariffs, fees, special investigations, quotas, etc., targeting sensitive sectors of Ukrainian economy. Russia has restricted exports of Ukrainian products to the amount of \$1.2 billion, which accounts for 14% of total Ukrainian exports to Russia. Ukraine has similarly restricted Russian imports to the amount of \$124 million, which is, however, less than 1% of total imports from Russia. So, Russian restrictions imposed on Ukrainian exports are 10 times stronger in scope, and 15 times stronger in terms of their sensitivity. Russia and Ukraine have often used the practice of mutual exceptions to free trade. In particular, exports to Russia are subject to 115 exceptions, while exports to Ukraine – to only a few. The CU might save from such exceptions, however this practice is still possible even under free trade arrangements.

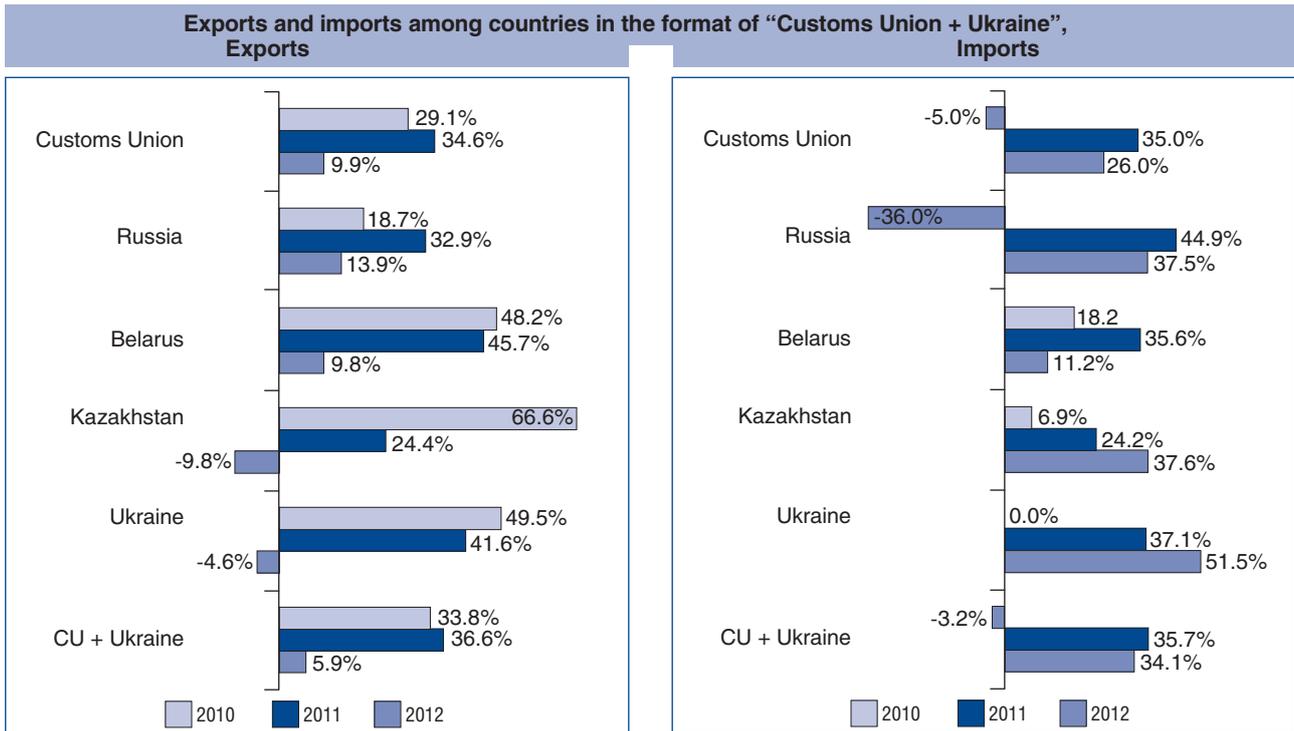
Integration problems of the Customs Union

Over a short period of the CU's activity, it has already encountered quite a few problems. Even the initial experience of its operation shows that in contrast to Russia, the situation for Belarus and Kazakhstan is rather unfavourable. For instance, in 2012, as compared to 2011, exports within the CU increased by almost 9.9%, and from Russia to Belarus and Kazakhstan – by 13.9%. Exports from Kazakhstan to Russia and Belarus, on the other hand, fell by 9.8%. Ukraine also saw a 4.6% decline in its exports to the CU countries.

Imports within the CU in 2012 declined by 5%, mainly due to significant reduction in imports to Russia from Belarus and Kazakhstan (36% decline). Meanwhile, imports from Russia to Belarus and Kazakhstan grew at a faster pace – by 18.2% and 6.9%, respectively. Imports from the CU to Ukraine declined by 3.2% (Diagram “Exports and imports among countries in the format of ‘Customs Union +Ukraine’”).⁵

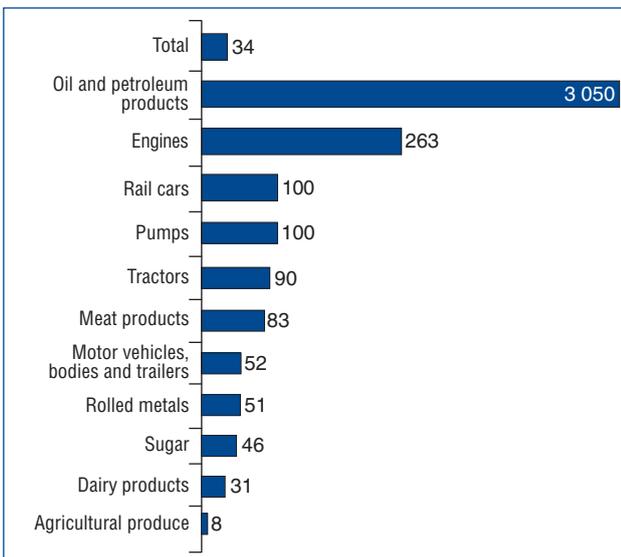
Had Ukraine joined the CU in 2012, it would probably experience seen the same downward trend.

The CU functioning over a short period of time has led to an increasing shadowisation of foreign trade. For instance, according to the Kazakh statistics, trade turnover between Belarus and Kazakhstan was \$483 million, and according to the Belarusian statistics – \$647 million, i.e., this difference constitutes \$164 million (or 34%). Differences in merchandise trade between Belarus and Kazakhstan are recorded for all the items. According to the Belarusian statistics, exports of agricultural machinery and equipment to Kazakhstan exceed the Kazakh official data on imports by ten times.



Substantial differences were found with regard to exports of Belarusian goods (Diagram “Differences in foreign...”).⁶

Differences in foreign trade statistics of Belarus and Kazakhstan, % of trade



There are substantial differences in numbers when it comes to official statistics on exports of goods from Kazakhstan to Belarus. Some serious discrepancy exists even with regard to capital transfers and payments.

The CU also seriously lags behind with regard to integration of trade in services, mutual direct investments and industrial cooperation. Who can name at least one example of an innovative project implemented internationally within the CU framework, especially in the machine-building sector, which is often used as an argument in favour of the CU?

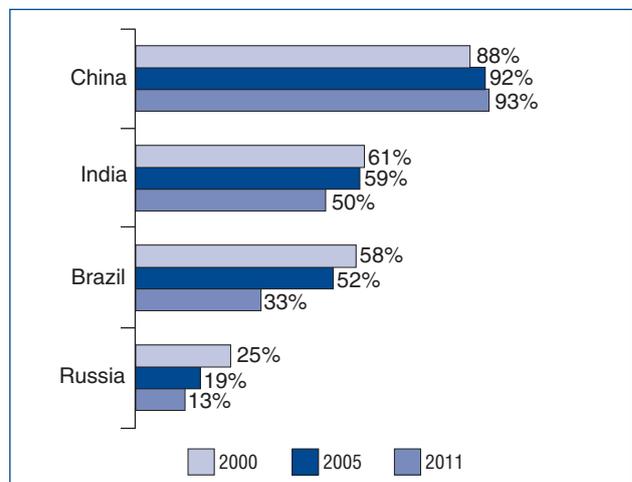
⁶ Building on statistics of Belarus and Kazakhstan

⁷ Building on UNCTAD.

Problems of Russia as the CU integration centre

Low integration potential of the CU is mainly due to the problems in Russia as its integration centre. The main problem lies in the fact that Russian economy is built on production and supply of raw materials and semi-finished goods. Among the BRIC countries, Russia has the lowest share of manufactured products in its export structure – only 13%. This is 5-7 times lower than in all other BRIC countries. More than that, in 2000-2011, that figure fell by half. *In comparison:* in China, the share of products of processing industries in exports was high in 2000, and grew even higher by 2011 (Diagram “Share of manufacturing industries in exports from BRIC countries”).⁷ **The raw-material nature of the Russian economy does not ensure its role as an innovative leader of the Eurasian integration.**

Share of manufacturing industries in exports from BRIC countries



In recent years, the Russian economy has seen too many negative and even risky trends undermining its integration attractiveness. Russia will face too many risks in the future due to a high dependence of its economy

on raw material (oil and gas) exports. For instance, the share of revenues from oil and gas in the federal budget over the past 13 years increased from 18% to 54%. At that, 78% of all revenues from oil and gas, including budget revenues, in that period were generated at the expense of the pricing factor. As the latest crisis showed, this is a very opportunistic and risky policy. It may collapse at any time, especially when a civilised world has been actively developing a low-carbon economy. Russia also experiences serious problems with regard to capital drain, offshore economy, foreign trade structure and the efficiency and innovation of its national economy.

Ukraine and the Customs Union: integration deficit

Today, Ukraine has a foreign trade deficit with the CU countries. The biggest deficit is in its trade with Russia. Meanwhile, the Russian import substitution policy does not let Ukraine change the situation for the better. That is why Ukraine's accession to the CU cannot solve the problems of its negative balance (deficit) in foreign trade and payments.

The structure of Ukraine's exports to and imports from the CU is traditionally sector-specific and can exist irrespective of its integration with the union. Exports include Ukrainian machine-building, metal and agricultural products (65% of total exports), demanded on the CU markets not because of absence of duties but due to their specific (non-innovative) range and lower costs. Imports include energy materials (gas and oil) (up to 70%), which Russia will sell to Ukraine even without its accession to the CU, as it sells them to the EU countries, China, Turkey, etc. That is, membership in the CU does not offer Ukrainian exporters additional competitive advantages or new product niches, and the existing barriers in trade with the CU countries may be removed within the framework of other forms of regional integration. Meanwhile, trade relations in the CU remain unbalanced. Two CU countries – Kazakhstan and Belarus – have no surplus in trade with other partners in the CU. However, Russia does receive surplus from trade with its partners. **So, the CU brings benefits, first of all, to Russia.**

The commodity structure of Ukraine's trade with the EU and CU are very different. Which one is better is a disputable issue, especially when discussions involve emotions rather than deep and unbiased analysis. Ukraine indeed sells machine-building products mainly to the CU rather than the EU. However, some 40% of exports of such products to the CU are rolling stock. For Ukraine, this export is very risky, since if it goes to one country and is not of high quality, it may be easily replaced by another country (i.e., Korea). Exports of Ukrainian products to the EU mainly consist of metals and metal products, along with iron ore, seeds and timber. This is also specific raw-material export that is rather risky.

There are differences in the structure of Ukrainian imports of goods from the EU and the CU. From the CU, Ukraine imports mainly mineral fuels (66%). Imports from the EU are more diversified, including machines and transport equipment, chemical products and other manufactured goods. In the foreign trade in services, the EU and CU shares are almost equal – 35% and 36%. However, the service structures are different. Exports of services from Ukraine are dominated by pipeline transport to the CU (45%), imports – by financial, professional and technical services from the EU (54%).

Tariff disproportions between Ukraine and the CU

The CU tariff policy was 92% formed on the basis of the Russian system of customs rates. So, today, serious disproportions exist between that system and the Ukrainian one, adapted five years ago with the WTO. Comparison of average import duties of the CU and average bound duties of Ukraine reveals serious differences in tariff protection. It is higher in the CU for 13 out of 16 sectors of economy.

The average customs duty rate in Ukraine is almost twice lower than the average duty of the CU. If Ukraine joins the CU and raises tariff rates, protection for some commodity groups will result in violation of obligations of binding tariff protection rates assumed at accession to the WTO. Higher import duties in the CU mean that Ukraine (if it joins the CU) will face higher cost of imports from third countries, growth of inflation and changes in regional trade flows in favour of Russia, Belarus and Kazakhstan.

Having joined the WTO, Ukraine assumed many obligations regarding non-tariff regulations of trade in goods (qualitative restrictions, technical, phytosanitary control, etc.), as well as in trade in services, protection of intellectual property rights, etc. So, in the sectors where regulation is to be agreed by all CU countries, questions arise about harmonisation of obligations within the framework of the WTO with the principles and norms effective in the CU.

The CU membership is in fact incompatible with Ukraine's commitments to the WTO, and also with creation of a deep and comprehensive free trade area with the EU, since the CU has its own body (Eurasian Economic Commission) tasked to formulate the CU integration and foreign trade policy. Given that the EU is the main supplier of investment goods and durables to Ukraine, more expensive imports from the EU (in the result of raising tariffs to the CU level) will retard modernisation and hinder long-term economic development of Ukraine.

Unlikely benefits for Ukraine from accession to the CU

Adherents of the CU argue that in case of Ukraine's accession, prices for energy resources may go down. However, firm long-term discounts for energy resources look very doubtful. Russia plans deregulation of its domestic market, so, domestic prices will go up. More than that, enhancement of energy efficiency and diversification of energy supplies present a more reasonable economic strategy than search of short-term discounts. Furthermore, the gas price is not agreed within the framework of the CU customs legislation and the FTA Agreement of the CIS countries. So, one should not hope for a change of Russian approaches to gas prices – unless Ukraine agrees to a merger, which in fact is a takeover of *Naftohaz* of Ukraine NJSC by *Gazprom*, which is synonymous to the loss of sovereignty in the energy sector.

The agro-industrial sector may see some growth of traditional exports of agricultural produce to the CU. However, its ability to boost export of frozen meat is limited by the presence of US and Brazilian producers on the CU market and the volumes of production in Ukraine, four times lower than the demand for imports to the CU countries.

Cancellation of customs controls may lead to a decrease of trade costs. However, the costs may be reduced even within the framework of the free trade area – while the costs related to accession to the CU may be quite high. Benefits from Ukraine’s participation in the CU will be rather limited, since Ukraine already enjoys free trade with the CIS countries, and the potential of its benefits has been largely exhausted, as witnessed by the downward trend of the foreign trade in the CIS.

So, the economic basis of the Eurasian option of Ukraine’s integration is very weak. Maybe, the basis is political? But here, one should carefully look who is to profit? And the answer to this question is evident.

Customs Union as Russian geopolitical project

After the USSR breakup, the Eurasian continent saw new geopolitical redivision. There are three main gravity centres seeking to form new politico-economic structures – the EU, Russia, and China. Among the three, Russia is the weakest by its economic potential. In this connection, it does its best to boost its potential at the expense of satellite countries, first of all, from the post-Soviet space.

Ukraine is one of a few big countries on the Eurasian continent staying off integration unions. That is why it increasingly turns into a battlefield of tough rivalry among those integration centres. The EU so far demonstrates a reserved policy of Ukraine’s European integration, unwilling to see it in the Customs Union though. At the present stage, the EU offers political association to Ukraine. China has not “reached” Ukraine seriously yet, although it is very active economically.

Meanwhile, in the recent years Russia has been making the strongest and the most insistent attempts to involve Ukraine into its integration structures – the Customs Union and EurAsEC. Apparently, Russia will benefit from it most of all. Its benefit is dual. *First*, barring Ukraine’s rapprochement with other integration structures, first of all, the EU, Russia checks growth of a rival. *Second*, having drawn Ukraine into its integration structures – the Customs Union and EurAsEC, Russia will strengthen its competitive position.

Whether Ukraine will benefit from integration with a country that has a weak economic potential and strong political ambitions, is a rhetoric question. However, it requires a well-reasoned answer. And that answer is generally clear.

In the legal dimension: Ukraine’s accession to the Customs Union and EurAsEC will lead to serious restriction of its sovereignty.

In the economic dimension: the integration attractiveness of the Customs Union and EurAsEC for Ukraine are very weak, the integration base (foreign trade, industrial cooperation, etc.) has largely been lost and cannot be restored.

In the political dimension: Ukraine’s accession to integration unions with Russia, first and foremost, benefits Russia, and furthermore, bars European prospects for Ukraine.

2. UKRAINE AND THE EUROPEAN UNION

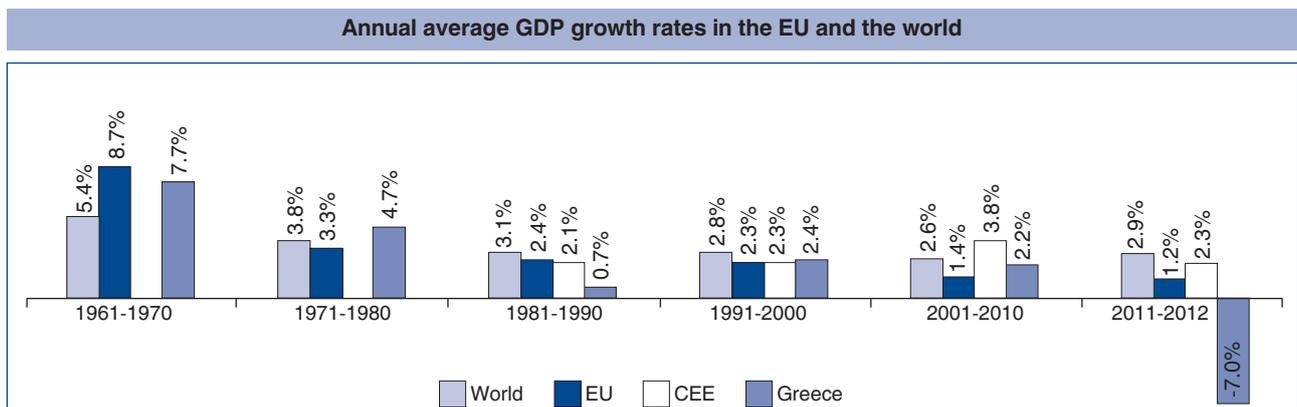
Integration problems of the EU

Ukraine badly needs sustainable economic growth and higher living standards – and hopes to achieve that goal on the road to the European integration. It appears, however, that achievements of the European integration are not too great, due to a number of integration problems in the EU.

Weakening potential of economic growth. In 1960s, the annual average GDP growth in the European community equalled 8.7% and was much higher than the world average. In 1970-90s, GDP growth substantially slowed down and became lower than the world average. Since the beginning of the 21st century, GDP growth fell to 1.4% – almost twice lower than in the world (Diagram “Annual average GDP growth rates in the EU and the world”).⁸

For Ukraine, the European integration experience of Central and East European countries (CEE) is of particular interest. Accession to the EU was expected to strongly influence their economic development. However, this did not happen. The annual average GDP growth rate in the CEE countries during their EU membership (2005-2012) appeared much lower than over the same period before joining the EU (1997-2004). The slowdown was especially great in the Baltic states, Slovenia and Hungary. In course of eight years before the accession to the EU those countries showed annual average GDP growth rate from 4% to 7%, after the accession – from 0.4% to 4%, that is, two or three times lower.

In some EU countries, problems proved even more serious. For instance, Greece during the 20 years before accession to the EU had annual average GDP growth even higher (6.8%) than then members of the European community. However, during the first 10 years



⁸ Building on UNCTAD.

after joining the EU, the Greek economy was hardly making ends meet: GDP growth in 1981-1990 equalled only 0.7% and was three times lower than in EU-15. Today, Greece sees even greater economic decline. **Hence, negative effects of accession to the EU may be both transient and long-standing.**

Deterioration of the dynamic of foreign trade and investments. After accession to the EU, the CEE countries saw no big changes in foreign trade. During the eight years after the accession, compared to the same period before the accession, the annual average growth rate in foreign trade in goods even decreased – while in the whole world, foreign trade substantially increased in that time-frame. The dynamic of foreign direct investments in the CEE countries during their membership in the EU (2005-2012), compared to the same period before that, also substantially deteriorated and was much worse than the world’s average. So, the investment phenomenon of European integration is rather controversial.

Debt crisis and shattered integration image. After 1990, the state debt to GDP ratio in the Eurozone rose 1.5 times. It was the highest growth rate among OECD countries. The situation with the state debt in the CEE countries also deteriorated: with the beginning of the crisis it rose from 38% to 49% of the GDP, in Hungary – to 80%, and has surpassed the Maastricht criteria. Noteworthy, the EU countries with a higher state debt to GDP ratio also had a higher state budget deficit. Hence, the debt crisis largely caused the budget crisis. Growth of state debts and slowdown of GDP growth in the EU witness “ageing” of the potential of economic development.

Non-observance of the Maastricht criteria. All the 20 years, the Maastricht criteria were introduced very slowly in the EU countries. In that period they were broken in almost half of the EU countries and a third of the Eurozone countries. After 2000, the Eurozone admitted countries where macroeconomic indices far surpassed the criteria. In 2001, Greece joined the Eurozone with the state budget deficit of 4.5% of the GDP, and in 2007 raised it to 6.5%. Actually all years of its stay in the Eurozone, the Greek indices surpassed the Maastricht criteria rather seriously. **There is an impression that nobody demanded that from Greece. And not only from Greece.**

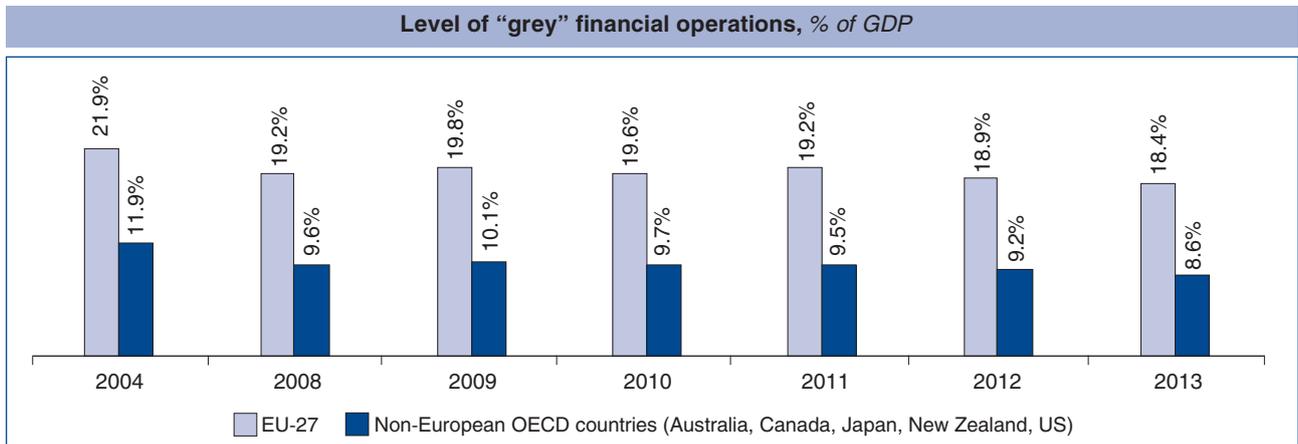
Offshores and “grey” capital operations. Surprisingly, the level of financial offshores and grey capital

operations in the EU is twice higher than in non-European OECD member countries (Diagram “Level of “grey” financial operations”).⁹ In the crisis years, the dynamic of capital movement in the Eurozone sharply reversed from a surplus (net inflow) to the amount of €181 billion in 2007 to a deficit (net outflow) to the amount of €313 billion in 2012. This “financial sickness” of the EU rapidly spread to its new members. In many CEE countries, capital drain already exceeds half of their foreign debt, in Hungary – its total amount. **Offshores and “grey” capital operations, along with growth of debt dependence in the EU, substantially undermine its integration attractiveness.**

Extreme social burden. The crisis of 2008 revealed serious disparities in the social sector of the EU countries and especially in the Eurozone. In the past 20 years, it was a result of outstripping growth of social development costs under the slowdown of economy growth. The main reason for the extreme social burden lies in overestimated manpower. By its ratio to the GDP, manpower is overestimated in most EU countries. In particular, in six EU countries widely employing the so-called “Swedish socialist model” (Belgium, Denmark, Italy, Finland, France, Sweden), manpower is **strongly overestimated**. In another 10 EU countries manpower is **just overestimated**. Only in CEE countries manpower is **underestimated**. In many EU countries expenditures on social security and social assistance make from a third to half of per capita GDP. Surprisingly, the leaders include countries with a heavy debt burden: Greece, Italy, Portugal, Ireland. Their national debt is greater than the GDP, while social expenditures make more than half of it.

Organisational and political problems. The European Commission President José Manuel Barroso, speaking in the European Parliament, recently called for creation of a “democratic federation of national states”. **However, that call seems too declarative, against the background of the growing crisis of trust in the EU policy.** The level of trust in the EU fell record low even in the states that traditionally stood for a common Europe. Now, this refers not only to Great Britain or Spain but also Germany and France (Diagram “Level of distrust in the EU among its leading countries”).¹⁰

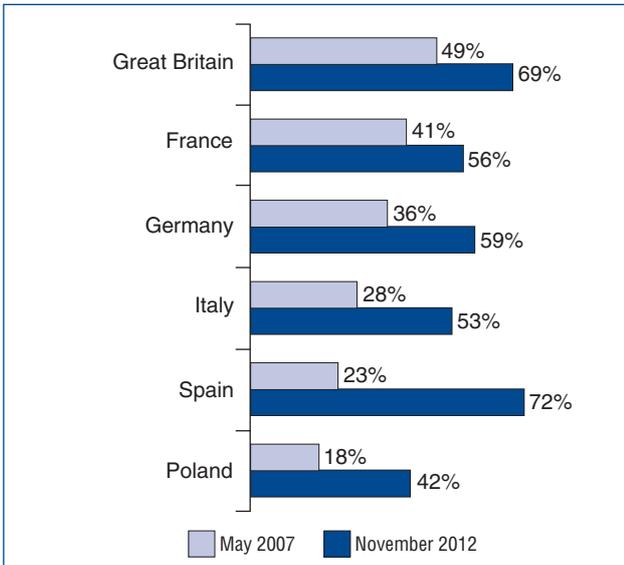
Countries that once were the drivers of the European integration now in fact turned its brake. Today, Berlin and Paris are polar as never before. In particular, Germany wants Brussels to control national budgets, which is opposed by France. Meanwhile, France stands for “communisation of the European debt”, strongly



⁹ Calculated after the *Department of Economics*.

¹⁰ Building on Eurobarometer.

Level of distrust in the EU among its leading countries, % of those polled



opposed by Germany. The latter believes that without supranational control of national budget policies, “communisation of the European debt” is utopian. **Those disputes seriously undermine the integration image of the EU.**

Integration attractiveness of the EU for Ukraine

Despite serious weakening of the EU integration potential in the past decades, it remains **very attractive for Ukraine**. The EU’s attractiveness is multifaceted: general economic, investment, innovative, modernisation, migration, social, civilisational, etc.

• **Overcoming economic backwardness**

Economic attractiveness of the EU for Ukraine lies, first of all, in the possibility to adopt the high culture of efficient market economy and raise the national economy to the same level. Europe is one of the biggest solvent and innovative markets, access to which is sought by many countries of the world, including the US, Japan, BRIC countries. **Innovation of production in the EU exceeds 75%**. Nobody can match with such potential of integration attractiveness. The EU is an area of highly efficient innovative economy. The average per capita GDP in the EU is almost eight times higher than in Ukraine, and 2.5 times – than in Russia. In the leading EU countries, the level of economic development is even higher.

Labour productivity is traditionally seen as the key indicator of economy efficiency. By this indicator the EU, especially its leading countries, are among the world leaders. Labour productivity in the Eurozone is 2.5 times higher than in Russia, and four times – than in Ukraine.

The average **level of energy efficiency** of economy in the EU is three times higher than in Russia, and four times – than in Ukraine. The leading EU countries have even better indices. Today, the EU is the world leader in the development of so-called “green energy” and produces over 40% of renewable energy in the world.

¹¹ Building on Open Europe Briefing Note.

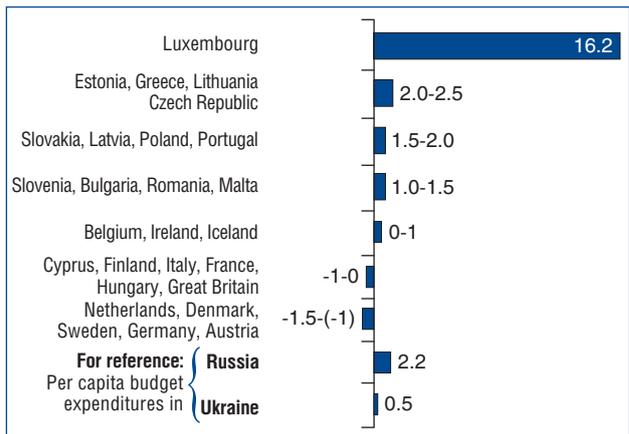
¹² Building on the State Statistic Committee of Ukraine.

Hence, the EU economic model and its efficiency produce a standard highly motivating for Ukraine, and offer valuable experience for its development.

• **Equalisation and support for development**

The EU has a very efficient tool of equalisation of development of different countries in the form of a common Union budget. The EU annual budget of nearly €1 billion is made up of each country’s contributions in the amount of 1% of their GDP. The EU budget is spent and distributed with account of the equalisation policy, i.e., countries with a lower level of development get much more funds from the EU budget than they contribute. This refers to Poland (3 times more), Romania, Greece, the Czech Republic and Portugal (2-2.5 times). Most CEE countries get from €1 500 to €2 500 per capita. *For comparison:* this is as much as per capita budget funds in Russia. Even Bulgaria and Romania get from the EU budget over €1 000 per capita, which is twice more than per capita budget funds in Ukraine (Diagram “Net per capita revenues or expenditures...”).¹¹

Net per capita revenues or expenditures in relations with the EU budget (2007-2013 average), € thou.



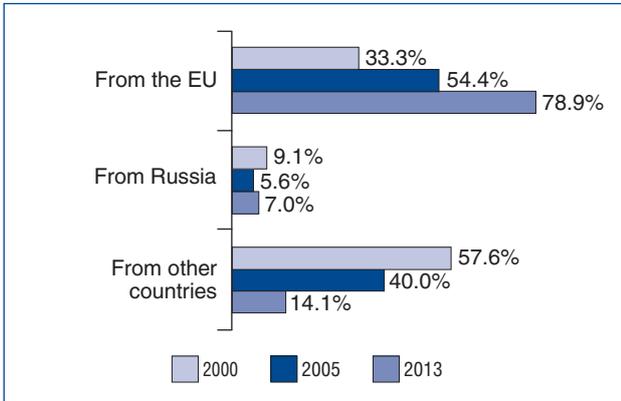
• **Raising investments**

The investment potential of EU-15 is ten times, EU-27 – six times higher than the investment potential of Russia. That potential already works in Ukraine. The EU has long become the leader in foreign direct investments (FDI) in Ukraine. Just 12 years ago, the EU accounted for only a third of investments in Ukraine, in 2012 – as much as three-quarters. Even if the one-third of investments coming from the EU offshore areas (where investments may be of the Ukrainian or Russia origin) is deducted, a very weighty portion of truly foreign investments remains (Diagram “Inflow of foreign direct investments...”).¹² Furthermore, the dynamic of FDI from the EU in Ukraine has long been up, while from other countries – down.

• **Promoting innovative development**

European integration is attractive for Ukraine due to the high potential of the EU innovative development. In some of its countries, the relevant indices are on a par with the leaders of innovation – the US and Japan. According to the UN data, the top-10 “innovative” countries have much higher per capita GDP than the top-10 “raw-material” countries. This conclusion is

Inflow of foreign direct investments to Ukraine as of the year beginning, % of total



very important for comparison of Ukraine’s integration options: either the EU as an “innovative” union, or the Customs Union as a “raw-material” one?

In the real sector, innovation of economy development is best of all characterised by the share of enterprises implementing innovations, and the share of innovative products in sales. Those indices in the EU, especially in the Eurozone countries, are five-eight times higher than in Russia or Ukraine.

High innovative potential of the EU is one of the strongest motivators of Ukraine’s choice of European integration. This is proven with the success of the CEE countries, in particular, the Baltic states. Say, Estonia by the level of innovative development has reached average indices of the Eurozone, the Netherlands, Austria and surpassed indices of Denmark and France. Who could believe that just 10 years ago?

• **Implementation of reforms and modernisation**

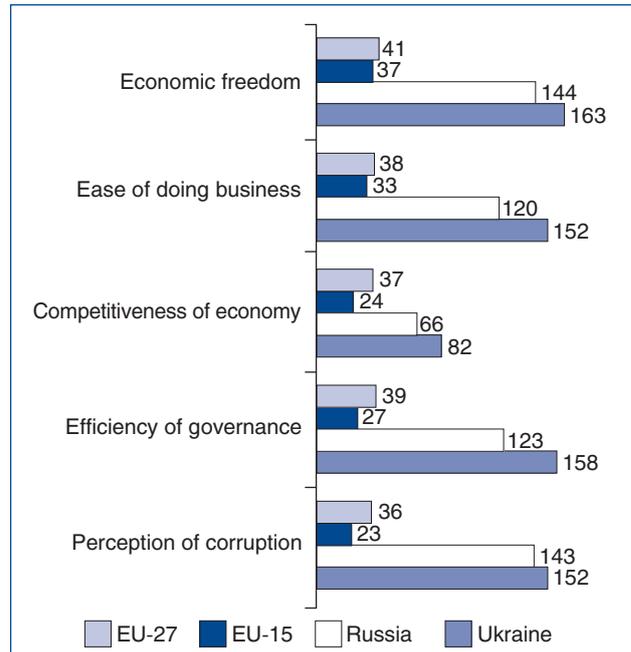
Finally, very important for Ukraine is such aspect of the European integration as real progress in *implementation of reforms and modernisation*, harmonisation of the business environment with European standards. That potential was successfully employed by Slovenia, Poland, Slovakia and the Baltic states, especially in small and medium business, in the tax, investment, financial, budget, judicial and administrative sectors.

By and large, indices of reforms and modernisation of society in the EU are among the world’s highest. In the ratings of economic freedom, ease of doing business, competitiveness of the economy, efficiency of government, perception of corruption, Ukraine, along with Russia, lags far behind the EU countries (both “old” and “new”), sometimes – by almost 100 rankings among 170-180 countries of the world covered by the review (Diagram “*Ratings of modernisation and reforms*”).¹³ **So, for Ukraine, the environment that can keep it afloat is very important.**

• **Legalisation of labour migration**

According to the Ukrainian Centre of Social Studies of the Ethnology Institute of the National Academy of Sciences of Ukraine, the number of Ukrainian labour migrants is close to 4.5-5 million. Some calculations give the figure of 5.5-7 million. Unofficially, most of

Ratings of modernisation and reforms, (the lower – the better)



all Ukrainians work in Russia, but officially, on the contrary, three times more of them work in the EU. Those willing to work in the EU are even more – 63%. **Hence, Ukrainian labour migrants see the primary and, the main thing, more legal labour market in the EU.**

The situation with money transfers of migrants is even more impressive: labour migrants annually send from the EU countries to Ukraine nearly €15 billion, or three times more than from Russia. According to the International Organization for Migration, Ukrainian migrants annually earn nearly \$35.3 billion, of which, they annually transfer to Ukraine \$20-25 billion, making some 10-12% of its GDP (Diagram “*Number of Ukrainian labour migrants...*”).¹⁴

Proceeding from Ukraine’s practical capabilities to secure employment and incomes of the population, such a high migrant status for Ukrainians in the EU is certainly good. It is up to ordinary people to choose and use those possibilities. **This is the choice of the right to work, higher wages, better life and wellbeing, being the main civilisational value for the people. Their choice is clear – European.**

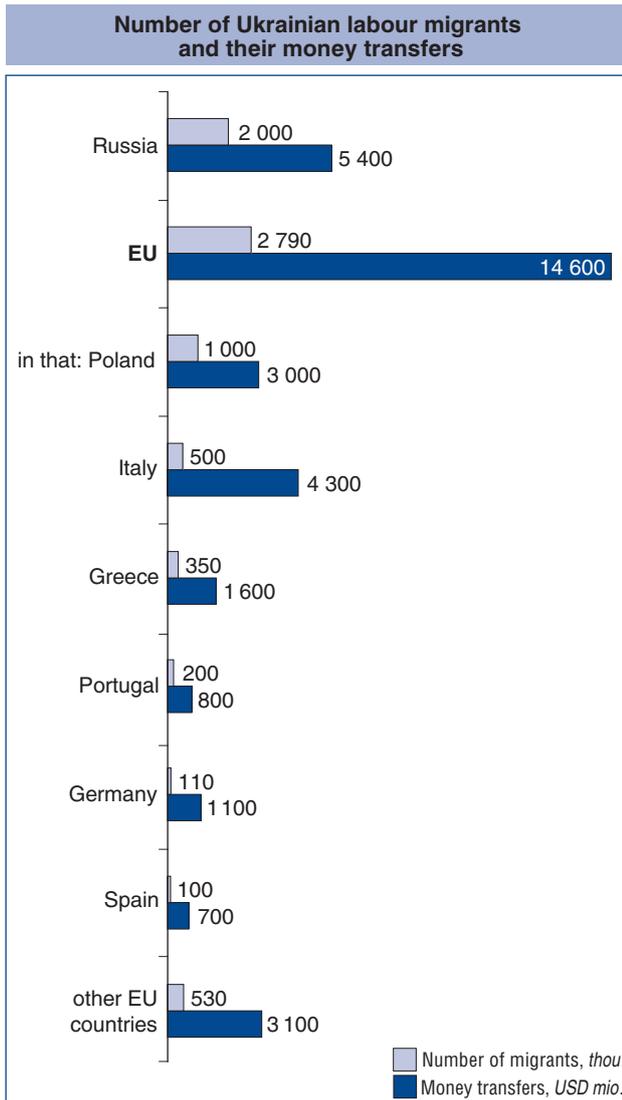
Achieving social standards

Social attractiveness of the European integration for Ukraine lies in the possibility to achieve high social standards. Monthly average wages in the EU today are almost nine times higher than in Ukraine, and four times higher than in Russia. In the Eurozone and some EU countries wages are even higher. The same refers to pensions. The European pension system has long been formed as a market three-tier system. It is closely bound to individual incomes and is not criticised for inadequate distribution of pension funds. This is very important for the Ukrainian pension system, so far too loosely bound to individual incomes and more dependent on the age and length of service, which arouses discontent among pensioners and social problems.

Adoption of European standards of manpower evaluation is of fundamental importance for Ukraine. Today, manpower **in Ukraine is underestimated:**

¹³ Building on Humanitarian Technology Centre, 2011-2012.

¹⁴ Building on Eurostat, 2012.



compared to the EU and Eurozone average – two-fold, compared to Belgium, France, Sweden – four-fold.

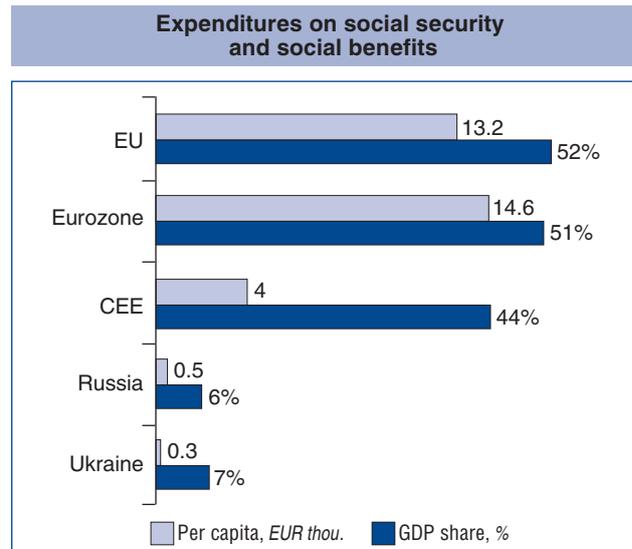
Adoption of other social standards of the EU countries, where the lag is even greater, looks even more promising for Ukraine. This refers to expenditures on social security and social assistance. By those indices, the lag of Ukraine (and Russia) behind the EU and Eurozone is striking – dozens of times (Diagram “Expenditures on social security...”).¹⁵

High social standards in the EU countries enabled their citizens to make significant savings. By the relevant indicators, Ukraine and Russia also lag behind the EU and Eurozone countries dozens of times. Meanwhile, the per capita financial assets to GDP ratio in Ukraine and Russia is much lower than in the EU countries and the Eurozone.

Therefore, even given the extreme social burden lying on the economies of the EU countries, Ukraine, as well as Russia, strongly lags behind basic European social standards.

Problems of Ukraine’s integration in the EU

Weakness of the integration potential of Ukraine’s trade with the EU. The world experience proves that economic integration among countries is usually



conditioned by intense foreign trade. However, in Ukraine, foreign trade has not created real preconditions for integration yet. Over the past 16 years it has been developing in different directions and showed no steady trend towards a certain integration union. In early 1990s, Ukraine traded mainly with the CIS countries. However, in course of 16 years, the share of CU countries in Ukraine’s foreign trade in goods decreased from 49.3% to 36.7%. Such reduction was only partially offset by the growth of Ukraine’s trade in goods with the EU, and was mainly offset by the growth of trade in goods with other countries of the world.

Hence, Ukraine still has no clear disposition to integration in foreign trade. **Ukraine substantially departed from the CIS, including the CU countries, but little approached the EU and mainly diversified its foreign trade with other countries.**

Meanwhile, the efficiency of Ukraine’s foreign trade with countries – potential integrators steadily goes down. For instance, over the past 16 years, the deficit of its foreign trade with the EU rose eight-fold (from -\$1.2 billion to -\$9.2 billion), while trade in goods rose only 5.4 times. Over the same period, the deficit of Ukraine’s foreign trade with the CU also rose almost four-fold (from -\$3 billion to -\$11.7 billion), while trade in goods rose only 3.6 times. At the same time, the balance of Ukraine’s trade with other countries of the world in that period was positive and rose from \$1 billion to \$5.1 billion, or five-fold, while trade in goods rose 6.5 times.

At that, Ukraine’s foreign trade structure shows that it has no alternatives and is not competitive. Partial coincidence of the structures of Ukrainian exports of machines, equipment and materials to the EU and CU is observed only in specific groups but not commodity items. Partial coincidence of the structures of Ukrainian imports from the EU and CU for machines and equipment, materials, manufactured articles is also observed only in specific groups but not commodity items. **Hence, by the geographic structure of foreign trade, the EU and the CU are not competitors, for Ukraine.** So, irrespective of the choice of the integration

¹⁵ Building on Eurostat, 2010.

trajectory (the CU or the EU), Ukraine is strongly interested in other, non-integrational markets for foreign trade.

Inadequacy of provisions of the FTA Agreement between the EU and Ukraine. Among the key provisions of the Agreement, the following deserve mentioning: (1) duty-free export of manufactured articles from Ukraine to the EU from the Agreement effective date; (2) preservation of quotas on duty-free exports of most agricultural produce from Ukraine to the EU; (3) duty-free imports of most kinds of agricultural produce to Ukraine from the EU; (4) special modes of imports of motor vehicles and second-hand clothes from the EU to Ukraine; (5) cancellation of subsidies in the EU on exports of agricultural produce to Ukraine; (6) gradual cancellation of export duties in Ukraine on export of sunflower seed, non-ferrous scrap metals and hides; (7) transitional periods for liberalisation of import duties and trade in services in Ukraine; (8) adoption of standards and certificates harmonised with the EU.

Furthermore, the draft Agreement envisages serious adjustment of regulatory practices in Ukraine, in particular, in the fields of competition, state assistance, state procurements, sanitary and phytosanitary measures, technical regulation, protection of intellectual property rights, provision of sustainable development (environmental, labour and social issues), etc., as well as the EU obligation to provide technical assistance to Ukraine to promote the required changes.

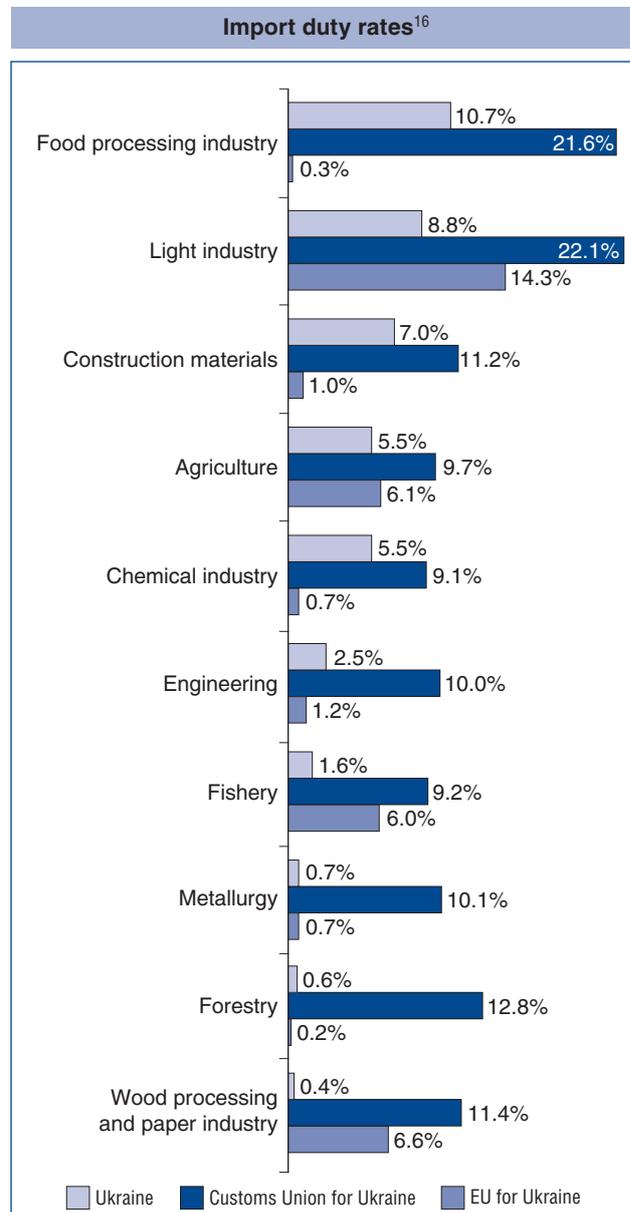
According to estimates by pro-European experts, in the result of the FTA Agreement between the EU and Ukraine, **the latter may get significant benefits, in particular, from:** (1) growth of Ukrainian exports to the EU; (2) wider access to markets of third countries thanks to harmonisation of standards with the EU; (3) a better investment climate thanks to adaptation of the national legislation to the EU norms and rules; (4) cancellation of subsidies for export of agricultural produce from the EU to Ukraine; (5) a gradual increase of quotas on exports of some agricultural products from Ukraine to the EU.

However, deep analysis of the key provisions of the Agreement shows that **they may also cause serious losses, in particular, due to:**

- **toughening of competition on the domestic market**, especially in the short run, due to removal of tariff and reduction of non-tariff barriers;
- **restriction of access of Ukrainian goods to European markets** under the pretext of their non-compliance with European standards and certificates. (Ukraine will not be able to take adequate measures, since having joined the WTO, it agreed to accept certificates of the countries of origin);
- **zeroing (up to 95%) export duties on Ukrainian goods** and tough tariff quotas on other goods – key items of Ukrainian exports;
- **exception** of almost 400 commodity items, mainly agricultural and food products, where liberalisation of export to the EU markets would be especially beneficial for Ukraine, **from free trade procedures;**
- **introduction in the EU of a discriminatory system** of very low tariff quotas **for Ukraine.**

For most products, those quotas make less than 6% of the EU market of such products (grain, meat, etc.);

- **cancellation of the export duty** on sunflower seed, which may leave domestic oil mills without raw materials. Now, such mills export nearly 80% of sunflower seed oil produced in Ukraine and earn nearly \$2 billion a year in hard currency;
- **preservation of the system of multibillion subsidies for the agricultural sector in the EU**, which makes Ukrainian exports of foodstuffs to the EU and third countries uncompetitive. The amount of budget support for agriculture in the EU makes 45% of the sector gross output value, in Ukraine – only 6%. Even in the future Ukraine will not be able to afford support and ensure adequate competitiveness of its produce on the EU market;
- **reduction of the level of tariff protection of manufactured articles**, now usually higher in Ukraine than in the EU, first of all, in the automotive industry, and liberalisation of car imports.



¹⁶ Building on Ukraine's Customs Tariff, RAKURS, Market Access Map.



One should also keep in mind that benefits from duty-free exports of Ukrainian manufactured articles to the EU will not cover losses from restrictions on exports of agricultural produce. Furthermore, there are strong competitive and certification barriers. Exports of Ukrainian manufactured articles with a high added value to the EU will be regimented by its technical regulations. This will hinder technological modernisation of the Ukrainian industry, conserve its status of an exporter of raw-materials and semi-finished goods.

The situation with import duty rates is uneasy. After the Agreement effectiveness, high import duty rates in the CU for Ukraine will cause significant losses. This is seen from the big difference in import duty rates. Easing of customs tariffs for Ukrainian exports to the EU may be not enough to offset those losses, as other barriers for Ukrainian exports to the EU persist, in particular, tariff quotas and technical regulations on Ukraine's main exports, alongside with the competitive barrier. So, low EU import duty rates for Ukraine on products of food processing, wood processing and paper industries, fishery and construction materials will be very effectively "offset" by high technical regulation standards.

There is an impression that, just as in case with the WTO, Ukraine began talks about the FTA with the EU **without a clear idea what it wants to achieve**. Ukraine had no experience of such difficult talks, except accession to the WTO, where it in fact also miscalculated. Meanwhile, the EU as an experienced negotiator (it has FTAs with a good dozen of countries of the world) set for itself the following goal: it tried to secure automatic access to the Ukrainian market for its business, refusing to apply the same principles to Ukraine.

CONCLUSIONS

So far, Ukraine's foreign trade with the EU is **not a decisive factor for European integration, since its efficiency is rather low and unbalanced**. Inadequacy of provisions of the FTA Agreement between the EU and Ukraine may lead to an even greater disparity in foreign trade and growth of Ukraine's trade deficit. Introduction of higher import duty rates for Ukraine in the Customs Union will not be offset by partial liberalisation of trade with the EU, which may boost Ukraine's total losses in foreign trade.

Taking into account the conclusions from the study of problems of Ukraine's integration in the Customs Union, it may be argued that **economic preconditions for both lines of Ukraine's integration (European and Eurasian) are very weak**. In both of them, the decisions of integration involve civilisational priorities. **Meanwhile, in the European direction, civilisational values have a much higher precedence over economic for Ukraine than in the Eurasian.**

Critical analysis of the EU integration potential and problems of Ukraine's European integration **give no grounds whatsoever to view Eurasian integration as an alternative of its choice**. For Ukraine, Europe and

Eurasia are the poles of the civilisational choice. Even in economic terms, those options are incomparable. **In civilisational terms, the Eurasian choice may be as tragic for Ukraine as the socialist choice of 1917 was for Russia.**

The EU should be viewed not as a "mutual benefit society" but as a school of efficient innovative economy, high social standards, developed democracy and efficient management of social development. **European integration is the heading to implementation of the European winning formula on the Ukrainian soil**. Europe, despite all its current problems, remains a model of success for countries of the world. Ukraine's policy of European integration should remain a priority but become more earthly and pragmatic. **The European integration policy should be a strong driver of modernisation of Ukraine.**

The Agreement of Association and Free Trade Area is an important stage of self concept, choice and progress. This is a test of "self-maturing" to European standards in all the key parameters – economic, social, legal, humanitarian, political, social. **If Ukraine does not pass that thorny road of "self-maturing", the European integration, even granted on a silver platter, may become its Pandora's box, as it actually happened to Greece.**

Economic capabilities of Ukraine's European integration are not ultimately clear and impartially assessed yet. Europe now needs merger of technological resources in the West and energy resources in the East. The Association and FTA let Europe see Ukraine as a reliable partner and an outpost of European integration without formal membership but with large-scale involvement in some European integration mechanisms. **The key idea of that process is Ukraine's convergence with the EU norms, standards and policy. Both Ukraine and the EU would benefit from it.**

Today, the EU keeps on changing. Formation of a "democratic federation" is the mainstream of this change. On the one hand, it may promote the recovery of the economy, financial and social sectors of the European community. On the other – it may cause centrifugal, national-egoistic processes. In such situation Ukraine should probably not sacrifice its economy for the sake of purely political decisions with uncertain results. **Ukraine should have a policy and a strategy of steady movement to the European values.**

It seems that this is now realised not only in Ukraine but also in Europe. Recent words by the respected European politician, former European Commission President Romano Prodi are worth mentioning here. He is sure: **"Ukraine is important for Europe as a source of economic growth and energy security. Its human, technical and engineering potential will help to transform Ukraine into a world leading centre"**. Let us hope that such unbiased assessment by a high-ranking European politician will be heard not only in Ukraine but also in Europe. ■

ECONOMIC EFFECTS OF CONCLUDING THE EU-UKRAINE ASSOCIATION AGREEMENT AND RUSSIA'S POSSIBLE REACTION



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Fast progress to regional integration observed in the past two decades all over the world has given rise to a new situation where many countries now are faced with alternatives when it comes to participating in different regional alliances. Choosing one of them requires impartial analysis and clear understanding of possible results and impact of one or another integration option.

Ukraine, wavering between the European and Eurasian integration models, represents one of the showiest examples of difficulties that may arise when making the right choice. These difficulties include analysing the potential effects of choosing European vector of development whilst taking into account possible reaction of its counterpart – the Eurasian Union, with its mightiest representative – Russia.

Studies on the impact of the EU-Ukraine trade liberalisation: a brief overview

There is quite a long list of studies on the economic effects of trade liberalisation between the EU and Ukraine. They differ in research methodology, assumed depth of integration processes, dynamics and structure of economic ties. Hence, their results not only differ but also often run counter to each other.¹

Furthermore, one should keep in mind that the existing models for estimating the effects of international integration (of different forms) focus mainly on removal of customs duties and do not fully take into account changes in the elasticity of demand and supply taking place after market opening; the question of correlation of different factors of economic growth remains open; the statistical error is sometimes comparable with the effects' value, etc.

On the other hand, developed forms of international integration (starting from deep and comprehensive free trade areas and customs unions) should be viewed as an element of regional model of socio-economic and political development in general. Hence, **a decision to participate in developed forms of international integration cannot be confined only to comparing the effects of economic liberalisation.**

One of the first studies on the impact of a free trade area between Ukraine and the EU (2000) assumed that domestic agriculture would obtain the best trade effects: growth of Ukrainian agricultural exports to the EU may hit 50%, of industrial – 15%.²

Another analysis resting on a gravity model showed that had Ukraine joined the EU in 2004, the share of the country's industrial exports would have doubled in 2007.

¹ The same applies to assessments of economic effects of Ukraine's possible accession to the Customs Union. See, e.g.: De Souza L.V. An Initial Estimation of the Economic Effects of the Creation of the EurAsEC Customs Union on its members/Economic Premise/The World Bank.-2011; Viktor Ivanter, Valery Geets, Vladimir Yasinskiy, Alexander Shirov, and Andrey Anisimov – The Economic Effects of the Creation of the Single Economic Space and potential Accession of Ukraine. – Journal of Eurasian Economic Integration, 2012, No.1.

² Brenton P. Trade policies in the EU and Ukraine: Implications for a free trade agreement/ Prepared under EES Project UK 26: Study on the economic feasibility, general economic impact and implications of a free trade agreement between the European Union and Ukraine according to the Partnership and Cooperation Agreement. – Brussels, 2000.



This conclusion was related to the process of trade deviation, since some new EU member states had been directly competing with Ukrainian exports to the EU.³

The study of 2006 revealed no serious positive effects for Ukraine from a “classic” free trade deal but showed substantial gains from a deep integration – up to an additional increase in the economic growth rate by 1.5% a year. At that, the growth of wealth was estimated at 4-7% only with account of static effects, and with account of dynamic effects the growth rate was 2-3 times higher.⁴

Another study demonstrated direct dependence of Ukraine’s GDP growth (up to 5.3%) on the extent and depth of a free trade area with the EU.⁵

Yet another study reported a negative impact on the wealth of the CIS states both from a simple and a deep free trade area with the EU. It argued that establishing a deep free trade area might lead to 0.4% drop in wealth due to deteriorating trade conditions and, therefore, offset the positive impact of removing non-tariff barriers to trade.⁶

However, **most of the research in the field has shown that the advantages of economic harmonisation with the EU and corresponding economic reforms in Ukraine are so immense that they will by far exceed possible losses.** For instance, one study, which in case of a simple free trade area assumed a drop in consumption by some households in Ukraine, reported of much greater positive effects from a deep free trade area.⁷ Another study of 2011 estimated 5.8% growth in wealth in the long run merely due to removal of non-tariff barriers.⁸ Yet another analysis of 2011, predicted 4.3% increase in wealth in Ukraine due to static effects and 11.8% increase due to long-term effects (“*steady state*”).⁹

Basic scenarios for liberalisation of the EU-Ukraine economic relations

One of the most recent studies on the economic effects of different forms of integration between Ukraine and the EU (which involved also the Ukrainian experts) was conducted by Oxford Economics.¹⁰ Three main scenarios for liberalisation of economic relations with the EU were considered: 1) a “classic” narrow free trade area (NFTA); 2) a deep free trade area (DFTA); 3) a Customs Union. All three options promise to bring some serious positive effects to Ukraine’s economy (Table “*Effects of different forms of integration...*”).¹¹

Among the currently used forms of integration with the EU (NFTA or DFTA), the latter seems more attractive, since in comparison to NFTA, it provides more benefits to the Ukrainian economy. On the other hand, the authors

Effects of different forms of integration between Ukraine and the EU (changes compared to the basic period, %)				
Narrow Free Trade Area (NFTA)				
Year	Consumption level	Real income level	Real profit level	Employment
2013	0.23	0.29	0.16	0.12
2015	0.58	0.65	0.20	0.47
2017	0.71	0.93	0.28	0.78
2025	1.83	1.74	0.55	1.39
Deep and Comprehensive Free Trade Area (DFTA)				
Year	Consumption level	Real income level	Real profit level	Employment
2013	0.24	0.31	0.16	0.13
2015	0.79	0.92	0.27	0.65
2017	1.59	2.00	0.59	1.46
2025	5.67	6.56	2.21	4.58
Customs Union (CU) with EU				
Year	Consumption level	Real income level	Real profit level	Employment
2013	0.41	0.25	0.06	0.15
2015	1.19	0.75	-0.11	0.79
2017	2.18	1.90	0.06	1.83
2025	7.82	7.40	1.51	6.14

stress that those effects are achievable only on the condition of efficient economic reforms and harmonisation with the EU regulatory requirements. In other words, **the DFTA agreement will be an important driver of reformation of the Ukrainian economy, and association with the EU will have substantial positive effects for Ukraine only in presence of an active and efficient economic policy.**¹² Slow and superficial economic reforms will substantially reduce positive effects of DFTA. By the way, governments’ poor and inefficient preventive measures, as well as the slow adaptation of the financial and real economic sectors to new conditions of regional and global competition are thought to be among the main factors behind the recent financial crisis in Southern European countries.

DFTA does not have the same impact on different sectors of Ukraine’s economy (Table “*DFTA impact...*”).¹³

Light and food processing industries, construction, agriculture, trade will obtain substantial benefits. However, extraction of natural resources, metal ores, ferrous metallurgy and the chemical industry will benefit to a much lesser extent.

Russia’s possible reaction and its impact

This survey is one of the first to consider separately what economic effects a possible Russian reaction to Kyiv’s signing of the Association Agreement with the

³ Oleksandr Shepotylo, A Gravity Model of Net Benefits of EU Membership: The Case of Ukraine, Journal of Economic Integration, 25(4), December, 676-702, 2010.
⁴ Emerson M. et al. The Prospects of Deep Free Trade between the European Union and Ukraine. Center for European Policy Studies: Brussels, 2006. Hereinafter, “wealth” means the value-based (pecuniary) estimate of the level of consumption of material and intangible benefits (goods, services) with account of the level of monetary incomes and prices. – Ed.
⁵ ECORYS. Trade Sustainability Impact Assessment for the FTA between the EU and Ukraine within the Enhanced Agreement. ECORYS Nederland BV: Rotterdam, Netherlands, 2010.
⁶ Francois J. & Manchin M. Economic Impact of a Potential Free Trade Arrangement (FTA) between the European Union and the Commonwealth of the Independent States, 2009. CASE Network Reports, No.84.
⁷ Frey M., Olekseyuk – Viber Z. Effects of Trade Liberalization between the EU and Ukraine in a Computable General Equilibrium (CGE) Model, Working Paper, (n.d.)
⁸ Maliszewska M., Orlova I. & Taran S., Deep Integration with the EU: Impact on Selected ENP Countries and Russia, in: Dabrowski M. & Maliszewska M. (eds.): EU Eastern Neighbourhood: Economic Potential and Future Development, Springer, 2011.
⁹ Movchan V. and Shportyuk V., Between two unions: optimal regional integration strategy for Ukraine. Paper prepared for the Thirteenth Annual Conference of the European Trade Study Group (ETSG), September 8 – 10, Copenhagen, Denmark, 2011; Ukraine’s trade policy choice: pros and cons of different regional integration options. Analytical Report. – Institute for Economic Research and Policy Consulting, Kyiv, 2011.
 In this survey, “static effects” mean effects generated over a mid-term (5-year) period. – Ed.
¹⁰ Economic Impact of a Deep and Comprehensive FTA between Ukraine and the EU. Oxford Economics. 2012.
¹¹ Compiled after: The Impact of an FTA between Ukraine and the EU. Oxford Economics. 2012. p. 89, 94, 102.
¹² As of the beginning of 2013, the draft Agreement of Association provided for implementation of over 500 regulatory acts of the EU in the Ukrainian regulatory framework.
¹³ Source: The Impact of an FTA between Ukraine and the EU. Oxford Economics. 2012. p.92.

DFTA impact on sectoral development of the Ukrainian economy			
Sector of economy	Difference with the basic level 2012, (%)*	Complex** annual index of growth in the sector	Share of growth
Light industry	49.4	8.1	0.1
Foodstuffs	15.9	7.1	0.3
Construction	8.7	6.1	0.1
Agriculture	7.0	3.5	0.3
Trade	6.5	5.7	0.7
Business services	5.6	6.1	0.6
Financial mediation	5.5	6.8	0.3
Financial services	5.5	6.8	0.3
Utility services	4.8	5.8	0.2
Power engineering	4.5	6.1	0.0
Other services	3.7	5.3	0.6
Transport and communications	1.7	4.1	0.2
Other industries	1.0	5.9	0.2
Public sector	0.6	1.1	0.0
Machine building	0.5	1.0	0.0
Public health	0.0	5.7	0.1
Education	-0.7	5.7	0.2
Chemical industry	-1.5	4.5	0.2
Iron and steel	-4.3	5.4	0.0
Extraction of mineral resources	3.9	4.5	0.6
Basic metals	2.1	5.5	0.2
Total	4.3	5.1	5.1

* Negative values mean not decline of production but only slower growth compared to the basic level.

** Including compound interests.

EU would have for Ukraine. Here, the Russian concern is mainly and primarily of a political origin. Although the measures in response to the Agreement may have a comprehensive (“all-out”) format, we will focus only on economic ones.

Russia’s concern about possible negative effects of the Association Agreement between Ukraine and the EU for the Russian economy rests on the assumption of increased competition for Russian companies on the Ukrainian, Russian and EU markets, changes in the flow of Ukrainian exports, and regional movement of capital.

The survey shows that increased competition would touch only 230 categories of goods out of approximately 4 700 imported by Ukraine, which would influence only 5% of the Russian exports to Ukraine. Assuming the Association Agreement is signed, competition between Ukrainian and Russian exporters on the EU markets would increase only for ferrous metal products, since the structures of the two countries’ exports to the EU differ substantially. Finally, a partial redirection of Ukrainian exports may potentially touch agriculture and the food processing industry, but the EU retains serious (although

loosened) restrictions on imports of Ukrainian agricultural produce. In such conditions, Ukraine would be able to meet demand on both markets (furthermore, production of such produce in Russia is growing at a rapid pace).

So, although for Russian companies competition would increase on the Ukrainian domestic market and on the EU market, such an increase would be small and would not bring serious negative effects for the Russian economy as a whole. Moreover, wider access to the EU market would have a positive effect for Russian companies whose production facilities are situated in Ukraine.

Russian trade measures may include the imposition of antidumping tariffs, curtailing food imports through the use of sanitary and phytosanitary standards, reduced use of pipeline transport within Ukraine, limitations on labour migration, etc. Annex 6 to the Treaty of the Free Trade Area of the CIS States (2011) reads: if as a result of some countries’ participation in free trade areas or customs unions imports grow in volumes that inflict harm or may inflict harm on the industry of the Customs Union countries, the latter may restore the most favoured nation status. Although the content of that Annex, as well as of Article 18 of the Treaty, meets WTO rules, their incorporation in the Treaty in that context may be seen as a clear warning for Ukraine not to sign the Agreement of Association. Meanwhile, employment of the WTO mechanism of trade dispute settlement by Ukraine is rather questionable, since, *first*, some of the CIS and Customs Union countries are not WTO members, and *second*, such procedures in the WTO sometimes take up to 20 years.

On the other hand, while implementing trade restrictions against Ukrainian products, Russia also should take note of the possible negative effects of those measures for its domestic market (limitation of the product range, price increases, reduction of consumption, additional expenses on the replacement of imports, etc.).

This scenario rests on the assumption that as a result of different forms of trade restrictions, the efficient Russian import duty rate on Ukrainian foodstuffs would be 40%, on metal products – 20%, on machinery and equipment – 15%, and the gas price would rise by 20%. In the short to middle run, this would lead to serious negative effects for Ukraine’s economy (during 4-5 years) – and only with time would the country be able to overcome them (Diagrams “DFTA impact on investments and consumption level”). So the positive effects of the DFTA with the EU on Ukraine’s economic development would be much weaker (Table “DFTA impact on public wealth...”).¹⁴

DFTA impact on investment flows and Consumption level with account of the Russian reaction



¹⁴ Source: Ibid., p.120-121.



DFTA impact on public wealth in the long run (with account of the Russian reaction),
(Changes compared to the basic period, %)

Year	Consumption level		Real income level		Consumption level		Real income level	
	FTA+	FTA+ and Russia						
2013	0.24	-0.12	0.31	-0.16	0.16	-0.04	0.13	-0.09
2015	0.79	-0.28	0.92	-0.31	0.27	-0.16	0.65	-0.11
2017	1.59	0.30	2.00	0.37	0.59	-0.01	1.46	0.34
2025	5.67	3.06	6.56	3.28	2.21	0.78	4.58	2.58

Russian trade measures may also change the sectoral structure of economic effects from a deep free trade area with the EU (Table “DFTA impact on sectoral development...”).¹⁵ Greater negative effects would be experienced by the metal ore extraction sector, other extracting industries, and machine building – although in the long run, the latter would grow. Resources would be drained from those industries and reverted to, first of all, the textile and food processing industries, whose share in Ukraine’s GDP structure would grow. Finally, sectors dependent on investment and private domestic consumption (construction, metallurgy, trade, services, agriculture) would demonstrate comparatively steady growth rates.

DFTA impact on sectoral development of the Ukrainian economy (with account of the Russian reaction)

Sector of economy	Difference with the basic level, (%) [*]	Complex** annual index of growth in the sector	Share of growth
Light industry	54.9	8.4	0.1
Foodstuffs	29.3	7.9	0.4
Construction	10.2	6.2	0.1
Trade	9.3	5.9	0.7
Business services	8.5	6.3	0.6
Iron and steel	8.2	6.4	0.3
Financial mediation	8.0	7.0	0.3
Financial services	8.0	7.0	0.3
Utility services	7.0	5.9	0.2
Transport and communications	6.3	5.6	0.5
Agriculture	5.9	3.4	0.2
Power engineering	4.8	6.1	0.0
Chemical industry	3.9	6.0	0.1
Public sector	2.7	4.2	0.2
Public health	1.1	1.1	0.0
Education	0.9	1.1	0.0
Extraction of other mineral resources	0.1	4.6	0.2
Extraction of energy resources	-0.7	1.4	0.0
Metal products	-18.4	4.0	0.0
Basic metals	-23.3	3.8	0.0
Other services	5.7	4.5	0.5
Other industries	-3.6	5.1	0.2
Total	3.3	5.0	5.0

^{*} Negative values mean not decline of production but only slower growth, compared to the basic level.

^{**} Including compound interests..

CONCLUSIONS

Hence, in the case of signing the Association Agreement with the EU, Russia has possibilities to strongly influence Ukraine’s economic development – which may slow down Ukraine’s economy, or even cause some elements of economic crisis. Positive effects from the DFTA with the EU would, under the above assumptions, not fully offset the losses for the Ukrainian economy inflicted by Russian trade restrictions within the first 3-4 years of the Agreement being in effect. The balance of positive and negative effects from the DFTA with the EU and the associated Russian trade restrictions would depend on the depth of integration with the EU, the form Russia’s reaction would take, and on how efficiently Ukraine’s economy adapts to the new trade conditions with its key partners. So an arrangement with Russia not to deteriorate the current trade procedures effectively becomes an important factor to be considered in signing the Association Agreement between Ukraine and the EU.

The gas price plays a key role within the system of possible negative factors Russia’s influence may have on Ukraine’s economic development. Partially or fully neutralising the effect of that factor would seriously reduce the negative effects from other possible Russian trade restrictions in the short and middle term. If that problem remains unresolved, the signing of the Association Agreement, set for 2013, may be postponed.

In such conditions, economic growth may be resumed following rapid and efficient regulatory harmonisation with the EU and a stabilisation of demand for Ukrainian goods and services in the EU and on third countries’ markets. However, in such a case the question of how efficiently Ukrainian manufacturers and consumers would adapt to EU requirements (the ratio of costs and effects of adaptation) remains open.

In the present conditions, the optimal model (“first best”) for Ukraine’s participation in international integration involves wider access, in the form of free trade areas, to two capacious regional markets – the EU’s and the CIS’ – while minimising Russia’s possible negative trade reaction to the Association Agreement between Ukraine and the EU. There may also be other models for Ukraine’s regional integration, without the Association Agreement (“second best”), but they will involve restructuring and modernising the country’s economy, especially in the middle and long run, thus preserving the marginal nature of the national economy. ■

¹⁵ Source: Ibid., p.92.

RUSSIA, THE EURASIAN CUSTOMS UNION AND THE EU: COOPERATION, STAGNATION OR RIVALRY?¹



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Ever since the break-up of the Soviet Union, various initiatives seeking to (re)integrate the newly independent republics have been launched. These have generated high volumes of international agreements and top-level political meetings but failed to make much impact. The repeated bold but short-lived restarts of post-Soviet integration have bred a sense of fatigue and scepticism among external observers.

Against this background the European Union stepped up its engagement in the post-Soviet countries the mid-2000s and has come to be seen by them as the primary source of modernization and improved governance in the region. The EU made alignment with its regulatory regime a key precondition for closer relations in the context of the European Neighbourhood Policy (ENP) and the Eastern Partnership. While promoting a rule-based, future-orientated regime modelled on the European governance model, the EU appeared not to be engaging in rivalry with Russia within this domain.

The formation of the Eurasian Customs Union (ECU), however, changes this situation. Notwithstanding its weak economic rationale, the grouping has a more robust institutional structure than any of its predecessors, and despite a range of transitional problems, it is actually being implemented. Moreover, the ECU is clearly seen by Russia as a vehicle for reintegrating the post-Soviet space, including the countries that fall within the sphere of the EU's eastern neighbourhood.

The emergence of the ECU means that the EU is not the "only game in town" and presents a normative challenge to its strategy in the "common neighbourhood". (i.e. the Soviet successor states covered by the ENP and the Eastern Partnership – Armenia, Azerbaijan, Belarus, Georgia, Moldova, and Ukraine). This is particularly visible in Ukraine, where Russia has been actively promoting the ECU as an alternative to the EU integration mechanism, i.e. the Association Agreement.

The Eurasian Customs Union: integration with a difference?

The ECU is not the first customs or economic union that has been announced in the post-Soviet space. Nonetheless, this latest project differs in significant ways from its predecessors. This is not just in terms of the political will, which seems to be driving it forward, but also, crucially, in terms of its effectiveness, which contrasts with earlier poorly institutionalized regimes with little or no impact on the behaviour of state or private actors. In other words, **unlike previous**

initiatives, the ECU has a growing effect on state and economic actors in its member states and beyond.

While a degree of healthy scepticism should be retained about the future of the ECU as it transitions to the Eurasian Economic Union (see below), it can be argued that developments so far signal a pivotal change in integration patterns. Importantly, the ECU offers a future-orientated, rule-based integration model in an institutional setting that is clearly improved both in terms of the design and its domestic effect.

¹ This is a shortened version of the paper first published by Chatham House in August 2012 (REP BP 2012/01). http://www.chathamhouse.org/sites/default/files/public/Research/Russia%20and%20Eurasia/0812bp_dragnevawolczuk.pdf.

Russia's governance in the post-Soviet countries is researched by both authors in a research project entitled 'Russia and the EU in the Common Neighbourhood: Export of Governance and Legal (In) Compatibility' during 2013-15 [funded by the Economic and Social Research Council, UK].

² Dragneva, R. (2004), 'Is "Soft" Beautiful? Another Perspective on Law, Institutions, and Integration in the CIS', *Review of Central and East European Law*, Vol. 29, No. 3.

³ Owing to its rapid formation and ambitious plans, the very name of the initiative is difficult to pin down. While the plans are to create the Eurasian Economic Union by 2015, what has actually been accomplished so far is the customs union (the full name of which is the Customs Union of the Eurasian Economic Community). This paper adopts an abbreviated name of the Eurasian Customs Union (ECU).

⁴ There are few independent studies of the Customs Union deploying robust methodology. In an early study, Vinhas de Souza argues that the ECU would be 'a GDP-reducing framework in which the negative trade-diversion effects surpass positive trade-creation ones', Vinhas de Souza, L. (2011), 'An Initial Estimation of the Economic Effects of the Creation of the EurAsEc Customs Union on Its Member States', *The World Bank Economic Premise* No.47, (2011), p.1.



This applies, in particular, to the following legal and institutional basis of the ECU as well as to some real and on-going efforts aimed at addressing key problems:

- The treaty basis of the ECU has been more carefully defined; a decision was made to begin the codification of the legal regime;
- ECU international agreements and decisions are to comply with WTO regime;
- The decisions of the bodies of the ECU (the Eurasian Economic Commission) have been given legally binding status and defined as directly applicable;
- The Eurasian Economic Commission has been organized as a developed international bureaucracy with significant staff and adequate budgetary resources;
- A new Statute of the EEC Court was adopted, defining the rulings of the Court as “binding” on the parties (including the provision that private parties, i.e. businesses, can bring an action before the EEC Court and appeal against acts of the bodies of the ECU);
- An ECU Customs Code, providing the bulk of the common customs regime, was adopted.⁵

As described, previous regional groupings were very asymmetric, allowing Russia to use its superior bargaining power and to avoid being bound by potentially costly decisions. Yet, there are indications that Russia may be prepared to move towards greater multilateralism. This is evidenced in the arrangements regarding the new Eurasian Economic Commission, which replaces the CU Commission. The College, which is the executive body of the commission, consists of three country representatives with one vote each. Thus, at least in theory, with regard to certain decisions, Russia can be outvoted.

It is conceivable that the decision on the equality of votes in the Eurasian Economic Commission has as much to do with Kazakh and Belarusian pressure as with appeasing potential sovereignty sensitivities in a planned expansion to Ukraine.⁶ The approach to Ukraine illustrates most clearly the shift in Russia’s policy as it uses the ECU as a “governance-based” vehicle in direct competition to the EU.

Russia’s export of governance in the “shared neighbourhood”

The ECU is the vehicle through which Russia increasingly engages in “normative rivalry” with the EU in the so-called “common neighbourhood”. As pointed above, this neighbourhood denotes the Soviet successor states covered by the ENP and the Eastern Partnership – Ukraine, Belarus, Moldova, Azerbaijan, Georgia and Armenia. This means that Russia relies not only on ‘soft’ power, energy conditionality and military strength, but also on an institutional, rule-based regime for asserting its position in the post-Soviet space. Russia has begun to compete in a domain where the EU has exercised a monopoly until now.

Through the ECU in particular, Russia offers a concerted response to the EU’s export of governance through the ENP and the EaP. These initiatives are aimed at accelerating integration of the countries in the “shared neighbourhood” with the EU, where integration means an

offer of Association Agreements, Deep and Comprehensive Free Trade Areas, Visa Facilitation Agreements and full visa liberalization in the long term – but not membership. As widely noted, the EU’s approach projects the internal “European order”, combining norms and values related to democracy, human rights and the rule of law, as well as the economic model of governance, to the countries concerned.

While the aim may be commendable, the actual content of the EU’s relations with its eastern neighbours is not necessarily easy to grasp, owing to the profoundly political and technocratic nature of these relations. **The most ambitious mechanism for the export of EU governance to the post-Soviet countries is the Association Agreement.** This is a new-generation agreement in terms of scope, detail and comprehensiveness; the so-called Deep and Comprehensive Free Trade Agreement (DCFTA) is an integral part of it. The DCFTA goes beyond a “standard” free trade agreement, entailing a profound impact on the regulatory framework of the country associated with the EU in a wide range of areas, such as the complex regulation of competition and sanitary and phyto-sanitary standards. Of all the developments in EU relations with the post-Soviet countries in recent years, these agreements are undoubtedly the most important, carrying the promise of a robust, legally binding framework for far-reaching economic integration with the EU.

The launch of the Eastern Partnership in the spring of 2009 provoked immediate concerns in Moscow.⁷ This was the first time that the Russian leadership had objected so vehemently to an EU initiative within the post-Soviet space (previously its protests had been reserved for NATO’s engagement there). While Russia’s stance seems to have softened over time, the launch of the EaP provided a strong impetus for a rethink of its strategy in the “near abroad”. This is evident not only in the formation of the ECU but also in Russia’s opposition to the Association Agreements. This has also manifested itself in a normative competition over Ukraine, which had been until 2011 a regional frontrunner in terms of integration with the EU. Russia has been campaigning to persuade Ukraine to join the ECU while simultaneously dissuading it from concluding an Association Agreement with the EU (negotiations of which were completed in 2011). Russia’s position is worth examining in more detail to illustrate the unfolding rivalry and its potential implications for the EU.

The functional cost-benefits argument

Russia’s reaction to the EU-Ukraine Association Agreement has been uniformly negative, a stance that was communicated to Ukraine rather than the EU. The main Russian criticisms have been framed in terms of a pragmatic, economic cost-benefit analysis with the disadvantages of the DCFTA for Ukraine contrasted with the benefits of joining the ECU. This argumentation has been put forward despite the questionable economic rationale of the ECU for Russia and other member states.⁸ Moreover, given the expected limited economic impact of DCFTA on Russia, Russia’s opposition to it does not seem to be premised on economic grounds. Yet, while the justification might be questionable, a forceful economic argument is put across to Ukraine. The progress already made with the ECU and its enhanced institutional viability only add to the force of the argument.

⁵ The Customs Union Code has been criticized for the high number of referrals to national law it contains. Nevertheless the existence of debate is positive, and the revision of the code is under way.

⁶ Kyrgyzstan is one of the countries where accession to the ECU is high on the political agenda. But, as argued in next section, the most important country for the ECU and Russia is Ukraine.

⁷ See Averre, D. (2009), ‘Competing Rationalities: Russia, the EU and the “Shared Neighbourhood”’, *Europe-Asia Studies*, Vol.61, No.10.

⁸ With few independent studies of the Customs Union deploying robust methodology, its economic impact on the member states and key trading partners is yet to be examined. An earlier study of Vinhas de Souza (2011) concluded that, unlike the member states and the key trading partners, Ukraine was one of the countries that would actually benefit from the formation of ECU as long as it remains *outside* the grouping.



Joining the ECU would apparently benefit Ukraine to the extent of \$219 billion of increased GDP between 2011 and 2030 (i.e. \$12.2 billion per annum at 2010 prices).⁹ The ECU would allow Ukraine to maintain access to the Russian market, particularly for agricultural products. Russia emphasizes that some of the Ukrainian agricultural products would be subjected to quotas even under the DCFTA, while the ECU offers wider market access. As Putin put it, “Nobody is letting Ukraine in; we are”.¹⁰ Participation in the ECU would also enable Ukraine to accrue the benefits of the re-creation of a technological research and development complex, which would be modernized and made more competitive.¹¹ Russian officials and commentators highlight the prospects for equalization of technological levels, industrial cooperation and a common strategy of development. Therefore, according to this argument, joining forces in the ECU would bring a competitive advantage to Ukraine.¹² **Thus, in contrast to previous initiatives in the post-Soviet space, it is a future-oriented, economic project with an emphasis on improving the performance of the Ukrainian economy (thereby mirroring the arguments of the EU).**

At the same time, in this Russian perspective the DCFTA is depicted as a largely loss-making initiative for Ukraine, which has already been affected by the international financial crisis. In contrast to the projections by EU experts, Russian estimates of the impact of the DCFTA on Ukraine are widely circulated in the Ukrainian media. According to these, EU imports to Ukraine will increase by 10%, leading to a 5% deterioration in the trade balance and meaning that “Ukraine stands to lose up to 1.5% of its GDP base volume”.¹³ These estimates emphasize Ukraine’s weak position *vis-à-vis* the EU, the financial and economic costs of convergence with the EU, and the apparent loss of sovereignty that comes with signing up to the Association Agreement. Russia’s arguments emphasize the protectionist stance of the EU during negotiations on the DCFTA and the uncompetitiveness of Ukrainian goods on the EU market. More broadly, Ukraine would be required to align itself with EU rules without having any say in setting them, whereas the ECU would provide Ukraine with full membership rights, including in a voting system that favours multilateralism.

It is worth pointing out that the EU has not been responding in any concerted way and appears rather laid back about the anti-DCFTA campaign in Ukraine. It is no doubt relying on its “power of attraction” and Ukraine’s long-standing “European choice”. Yet the negotiations on the Association Agreement have been highly technocratic, conducted in narrow official circles, with little effort to win over the general public or inform business of the implications and benefits. In the negotiations themselves, a fair degree of EU protectionism has been evident, especially with regard to agricultural products. This is not new: the EU tends to approach any trade negotiations with so-called third countries in terms of what the single market can absorb rather than focusing on the interests and needs of the negotiating party to make the cost-benefit

analysis more favourable. Negotiations with Ukraine (nor Georgia and Moldova) have not been different in that respect. The EU put forward its own positions with little acknowledgment of the importance of its economic ties with Russia and the CIS, thereby ignoring the particular economic (let alone political) costs of moving away from Russia.¹⁴ It was this bargaining and protectionism that gained considerable attention in the Ukrainian media, with few members of the public in Ukraine fully understanding the overall significance of the DCFTA for Ukraine’s long-term development. Perhaps because of its own crises and recurring fatigue and disillusionment with Ukraine, the EU has largely failed to promote this flagship and pioneering agreement effectively in Ukraine.

Raising the stakes for Ukraine: possible rewards and sanctions

Instead of relying only on listing the broad long-term developmental benefits and immediate economic gains for Ukraine, Russia uses instead a more traditional “carrot-and-stick” approach. The additional incentive comes in the form of a reduced gas price, benefiting Ukraine by up to \$8 billion per annum. One of the most important obstacles to joining the ECU is that Ukraine would have to raise its WTO-agreed tariffs to the ECU level, triggering demands for compensation from WTO members. Putin has promised to cover these costs, although the actual extent and credibility of this pledge is uncertain. The punishment, in turn, would consist of economic sanctions against Ukraine, which would be primarily justified in terms of the negative implications of the EU-Ukraine DCFTA for Russia.

Russia’s specific objections relate to the prospect of being flooded by Ukrainian products that have been displaced from the domestic markets by more competitive EU imports as a result of the DCFTA. Yet there is no sound basis for such economic predictions. The DCFTA is unlikely to have a significant impact on Russia in terms of impeded trade flows with Ukraine, and is therefore unlikely to affect the Russian economy.¹⁵ If anything, the DCFTA will open new business possibilities for numerous Russian-owned companies in Ukraine, especially in the light of Russia’s own adoption of international and EU norms. Predicting that the Russian market would be flooded by goods from Ukraine, Putin warned: “I am confident that [...] both Kazakhstan and Belarus will immediately demand that Russia closes its customs border”.¹⁶ This type of rhetoric indicates that Russia is considering deploying a range of mechanisms to “persuade” Ukraine of the “benefits” of the ECU. **This strategy reinforces the perception of the ECU as a vehicle for projecting Russia’s power, especially as Russia tries hard to make it difficult to resist the “invitation”.**

How far can Russia go in “punishing” Ukraine? Russia’s membership of the WTO precludes it from using certain punitive trade measures, and Ukraine, as an existing member, could resort to institutional mechanisms to address politically motivated trade sanctions. However,

⁹ See Eurasian Development Bank, ‘Ukraine and the Customs Union’, Centre for Integration Studies, Report 1 (2012).

¹⁰ See ‘Putin: Ukraina Prodast Evrope 2 Litra Moloka, A Tamozhenny Soyuz Dast Ey 9 Mil V God’, *Zerkalo Nedeli*, 6 October 2011, http://news.zn.ua/POLITICS/putin_ukraina_prodast_evrope_2_litra_moloka_a_tamozhenny_soyuz_dast_ey_9_mlrd_v_god_-89118.html.

¹¹ See the resolution of the conference entitled ‘Perspectives of the Eurasian Integration of Ukraine’ which took place in Kyiv in December 2011, http://smi.liga.net/articles/2011-12-28/3693731-kuda_j_s_kem.htm.

¹² See ‘Putin: Ukraina Prodast Evrope 2 Litra Moloka’.

¹³ See Eurasian Development Bank Ukraine and the Customs Union, p.29.

¹⁴ Many officials from the EU and its member states seem confident that Ukrainian oligarchs are too afraid of Russia’s economic domination to opt for an advanced form of integration with Russia.

¹⁵ Very few analysts outside Russia consider the implications for Ukrainian-Russian economic relations, so no reliable, independent studies exist to verify various claims put forward by Russian officials. We are grateful to Veronika Movchan, from the Institute for Economic Research and Policy Consulting in Kyiv, for providing a preliminary analysis which indicates a relatively limited impact of the DCFTA on Russia in economic terms.

¹⁶ Putin, V. (2011), ‘New integration project for Eurasia: A future which is being born today’, *Izvestiya*, 3 October.



Russia may take extra-legal measures in contradiction of WTO rules. Ultimately, it is difficult for Ukraine to make a choice based on a prediction of Russia's propensity to violate the norms of the organization it has recently joined. Russia's campaign in Ukraine in Ukraine has highlighted a sense of uncertainty and confusion among various political and, especially, economic players in Ukraine, given the importance of the Russian market for Ukrainian industrial goods and food produce.

Is the ECU a vehicle for European integration?

The ECU is being presented by Russia as an optimal economic choice for Ukraine.¹⁷ At the same time, it is argued that membership of the ECU will bring other benefits. In particular, it is presented as a scheme that in the long term would facilitate Ukraine's integration with the EU by reducing essential asymmetries. As Putin put it: "Soon the Customs Union, and later the Eurasian Union, will join the dialogue with the EU. As a result, apart from bringing direct economic benefits, accession to the Eurasian Union will also help countries integrate into Europe sooner and from a stronger position".¹⁸

In essence, the argument is that Ukraine could "join" Europe faster and on better terms if it does so "together with Russia". However, the prospect for concluding a comprehensive agreement between Russia/ECU and the EU are remote.

Nevertheless, the campaign complicates Ukraine's already difficult relations with the EU, especially with regard to democratic standards. It is worth stressing that the ECU is free of democratic conditionality for the current and prospective member states. **Ukraine is offered membership with no political conditions attached: all post-Soviet countries, regardless of their political regime, are welcome in the ECU.** Russia's offer to Ukraine comes at a highly sensitive moment in Ukrainian-EU relations and thereby counteracts the EU's democratic conditionality.

The campaign to persuade Ukraine to abandon the DCFTA could be seen as a short-lived attempt to attract the country at a time when the authorities have declared their interest in concluding the Association Agreement rather than opting for the ECU. No doubt, the pull of the ECU is weakened by the prospect of paying compensation in the process of renegotiating the tariffs agreed when Ukraine joined the WTO. However, this is not just a matter of a short-term choice but also a longer-term contestation.

Even if the Association Agreement is signed and ratified, its implementation will be prolonged, costly and highly sensitive in political and economic terms. There are different preferences and stakes among Ukraine's domestic political and business players, many of whom have a strong interest in securing access to the ECU market. At the same time, Ukraine has a track record of signing international agreements but not implementing them.¹⁹ Andriy Kluyev, an oligarch and Ukraine's chief negotiator on the Association Agreement, said in the spring of 2011 that "Ukraine would participate in such economic unions from which it may benefit, such as cooperating on certain trade positions, while it would be more beneficial to be part of a free trade area with the EU on some other issues".²⁰ These statements demonstrate the continuing preference for a

selective and flexible approach to economic integration that Ukraine has demonstrated over the last 20 years.

Such a context provides plenty of opportunities for Russia to offer incentives and disincentives to various domestic Ukrainian players to slow down or jeopardize the implementation of the Association Agreement and other commitments *vis-à-vis* the EU (such as those related to Ukraine's membership in the European Energy Community). Integration with the EU is certainly premised on the lengthening of the time horizons of Ukraine's political class. These longer time horizons are needed to embark on political and economic reforms that would generate benefits in the medium to long term (5-10 years). Russia is well positioned to offer cross-conditionality to alter the stakes and shorten the horizons.

Conclusion

As widely noted, the notion of global competition – economic, military and normative – resonates strongly among the Russian political elites. A corollary of Russia's aspirations to "great powerness" is its claim to hegemony in the "near abroad". Much doubt has been cast on its status as a rising power. To dispel these doubts, Russia has shifted its focus to a legal, rule-based domain of integration. This has no doubt been inspired by the EU's increased presence in the "shared neighbourhood" and facilitated by Russia's accession to the WTO.

While EU–Russian relations have remained static since mid-2000s, the same cannot be said about their respective relations with the countries in the "common neighbourhood". To prevent its loss of influence across the post-Soviet space, Russia has opted for reviewing its approach to regional integration by putting a premium on rule-based economic integration with robust institutional regimes. It is highly uncertain whether this rapid pace can be maintained to keep up with the declarations on the creation of the Eurasian Economic Union by 2015. Much of the progress so far has undoubtedly been dependent on the personalities of the leaders in the three countries, making the union vulnerable to any leadership changes. Thus, expansion, especially to Ukraine, would significantly strengthen the union politically and economically (while the accession of Kyrgyzstan and Tajikistan would have mainly symbolic political value).

The already proven viability of the ECU means that the EU is no longer the only source of effective governance in the region and Russia has moved into a domain in which the EU so far has not been challenged. This shift has multiple and far-reaching implications, not least because Russia explicitly presents the ECU as an alternative to EU-led economic integration, capitalizing on the EU's political and economic crisis.

The most immediate threat stems from competition over Ukraine. This rivalry between Russia and the EU is unlikely to cease even if and when Ukraine actually concludes the Association Agreement. Its implementation will be a costly and prolonged process with ample opportunities for delays and, not least given the unfavourable domestic context in Ukraine. Ukraine's dependence on the Russian market means that the country will have to adapt simultaneously to two competitive integration regimes, the EU and the ECU. ■

¹⁷ Overall, in the short term, there would indeed be higher initial costs for Ukraine associated with joining the DCFTA in contrast to the ECU. In the longer term, however, the DCFTA is expected to significantly boost Ukraine's trade and economic development while reducing dependence on Russia.

¹⁸ Putin, V. (2011).

¹⁹ On agreements with the EU, see Langbein, J. and Wolczuk, K. (2012) 'Convergence without Membership? The Impact of the European Union in the Neighbourhood: Evidence from Ukraine', *Journal of European Public Policy*, Vol.19, No.6.

²⁰ Korduban, P. (2011) 'Ukraine Sends Mixed Signals on Free Trade with The EU, Russia' *Eurasia Daily Monitor*, Vol.8, No.62, March 30, Category: Eurasia Daily Monitor, Home Page, Europe, Ukraine, Foreign Policy, Economics.

HOW CITIZENS SEE UKRAINE'S INTEGRATION IN THE EU OR THE CUSTOMS UNION: FOCUS GROUP RESULTS

As part of the project, on 22-28 February 2013, the Razumkov Centre's Sociological Service organised six focus group discussions of Ukraine's European or Eurasian integration problems (in Kyiv, Donetsk, Zhytomyr, Lviv, Simferopol, Kharkiv). The participants (total of 55 persons) were men and women in the age of 25-60 years old, not indifferent to the political and socio-economic life of the country, and representing different groups of the population: employees of the public sector and private companies (including big enterprises), small and medium businessmen, military servants, people of different educational levels and incomes.

Focus groups, in contrast to representative polls, cannot reveal the spread of ideas and opinions expressed by their participants in Ukrainian society as a whole. However, this method enables to analyse the stereotypes present in the society, and to reveal personal reasoning of one or another stand and social behaviour.¹

Ukraine's European integration: topicality of the subject

As focus group participants put it, the subject of Ukraine's integration is important, since it immediately deals with people's lives and the country's future.

- *Our further life will depend on it (Simferopol)*
- *We are in despair now. What are the prospects of development? Whom should we work together with to stop it? (Kyiv)*
- *It has to do with the economic situation in the country (Donetsk)*

Knowledge about integration problems

According to the focus group participants, the subject the EU/Customs Union receives extensive media coverage and is much spoken about – so, even those not caring about the issue unwittingly come across different reports and opinions. Meanwhile, the focus group discussions demonstrated poor knowledge of their participants with regard to the EU and the Customs Union, their member states, ties and interaction with other international organisations (including the military-political unions).

- *England refused to join the EU immediately (Zhytomyr)*
- *Albania was admitted [to the EU], despite its corruption (Kharkiv)*
- *Portugal is not an EU member (Kyiv)*
- *Moderator: What countries are going to join the Customs Union in the near future?*
- *Kyrgyzstan. China, in future.*
- *I heard that even Australia has filed an application.*
- *Sudan, Abkhazia (Kharkiv)*
- *[The Customs Union involves] Uzbekistan and Kyrgyzstan. Tajiks. And former Asian republics of the USSR. All countries except the Baltic states (Simferopol)*
- *IMF is the financial body of the European Union. For sure (Zhytomyr)*
- *IMF is the main organisation in the EU (Kyiv)*
- *Well, the EU has nothing to do with military bases, it is more of NATO's task.*
- *And what do you think NATO is? What's the difference? (Kharkiv)*

The discussion participants also demonstrated poor knowledge of advantages and risks of Ukraine's integration with one or another union. Participants themselves explained that the mass media tend to provide general benefits of one or another integration choice, rather than a more detailed information directed at certain social groups. The real picture has often been romanticised with little said about the risks of different lines of Ukraine's integration.

- *They sweeten up the reality in the European Union (Lviv)*
- *I want to know what I will get both after joining the Customs Union and the European Union. All pros and cons. I am missing out on the concrete things (Simferopol)*

Meanwhile, the circumstances that condition a generally poor awareness of citizens about Ukraine's integration may also include the unclear and controversial integration policy of the Ukrainian leadership and, respectively, absence of a coherent integration policy in this respect. In particular, **the discussion participants did not share the same idea as to where the authorities lead Ukraine now.** Quite a few participants see no integration movement at all.

- *If we take the last 5-7 years, we are certainly moving towards Europe (Simferopol)*
- *[The authorities] are more willing to push us closer to the Customs Union (Lviv)*
- *We are not moving anywhere, we sit in a swamp (Kyiv)*

That said, most focus group participants see no benefits from the current situation of Ukraine's "non-accession" neither to the EU nor the Customs Union.

In their opinion, this uncertainty cannot last long, since it will lead to a further decline of the economy and living standards. Ukraine cannot develop independently; the country lacks its own energy and financial resources, as well as the ability to ensure its national security.

- *The country is not independent at all. It can do nothing on its own.*
- *We have problems with gas, we are bound to Russia.*
- *We have no energy resources.*
- *It cannot even defend itself, it even gave up nuclear weapons (Kharkiv)*
- *We are marking time – this is stagnation.*
- *Everything is so globalised now that no country can develop independently (Simferopol)*
- *We must integrate somewhere (Kyiv)*

Focus group participants also named the **domestic problems that hamper Ukraine's progress:**

- **corrupt, unpopular government, politicians and officials defend interests of oligarchic capital, which leads to the embezzlement of natural wealth and budget funds:**

- *They had stolen and robbed all they could (Donetsk)*
- *Corruption, embezzlement of the country, laws written for all but followed only by ordinary people, not the higher "caste" (Kharkiv)*

¹ Editor's comments are given in square brackets. The full report of the focus group studies is published on the Razumkov Centre web site.

- **absence of any responsible political elite, professionals in the government, patriots of their country:**

- *The economy is weak because the government is weak (Zhytomyr)*

- **poor legislation that hinders economic development:**

- *We have no laws promoting production in Ukraine (Zhytomyr)*

- **passive civil society, most of the society has no civic stance:**

- *The retirement age was raised, but no one took to the street. Now, utility rates will be raised – all will remain silent, too. Fear. Or is it just the mentality? (Simferopol)*

Few focus group participants mentioned **advantages of Ukraine’s transit status:**

- **preservation of an independent status**, the ability to defend its national interests, to solve problems on its own, to show its political and economic capability, to build an attractive international image

- *At least, we are not torn apart yet. We have managed to save face. To a certain degree, we are independent. (Simferopol)*

- *Ukraine still has a chance to prove to everyone that it is a successful country (Donetsk)*

- **the ability, by using a wait-and-see position, to secure better conditions for participation in one or another union** or “balance” between the two unions, while receiving preferences and assistance from both:

- *Ukraine is of interest to both parties. It will be offered preferential terms as well as able to get some assistance here and there (Zhytomyr)*

- *Now, it is more convenient for Ukraine to be neither here nor there, because if it intergrate in some union, it will have to meet certain conditions (Kyiv)*

- *I guess that we should move in both directions: they do not contradict each other (Kyiv)*

Focus groups also mentioned that the current authorities are disinterested in Ukraine’s integration in any union, since they are willing to preserve the conditions for their own enrichment in the country. Meanwhile, according to the participants, the authorities are forced to conduct negotiations on the signing of the Association Agreement, since they are unable to cope without the financial assistance from the EU and IMF (associated by some participants with the EU):

- *They want to have it both ways. They want to take money from all (Simferopol)*

- *They will make Ukraine integrate somewhere, only when there is nothing left to rob in this country (Kyiv)*

- *Yanukovich wants the EU to recognise and legitimise all they have stolen [first] (Donetsk)*

- *We go to Europe because we owe them money (Zhytomyr)*

Awareness of the Association Agreement between the EU and Ukraine

Focus group participants mainly view the signing of the Association Agreement between Ukraine and the EU as a step towards accession to the EU (that is why, in particular, they found it difficult to distinguish between the effects of signing the Agreement and Ukraine’s accession to the EU). That said, they expect a long accession process after the Agreement is initialled.

- *It is a political agreement, it bears no meaning, no commitments whatsoever. For that reason, one may stay an associate member for 5, 10, or 25 years. For instance, Turkey is still an associate member (Kharkiv)*

- *Association, as I see it, is not membership but a way towards it, it is a step forward (Simferopol)*

Focus group participants suggest that the Association Agreement first of all means a list of requirements made to Ukraine for its accession to the EU. However, most participants could not describe those requirements:

- *Association with the EU is a long detailed list of conditions on many pages that in order to be understood requires some legal and economic knowledge. An ordinary person cannot grasp it (Zhytomyr)*

- *We do not know what the Agreement is about, and what requirements it contains (Kyiv)*

The participants, who reported their knowledge of the EU requirements, also named some factors, which were never raised by the EU. For instance, while mentioning such requirements as bringing the judiciary in compliance with European norms and ending the political repressions of oppositional politicians, they also talked about raising the retirement age and utility rates.

- *The retirement age was raised for women – it was a requirement of the European Union (Kyiv)*

- *Why do they raise rates? To get an IMF credit. And the debts will be paid not by us but by the next generation (Kyiv)*

Perceptions of the EU and the Customs Union: the good and the bad

European Union. The following **positive sides of the EU were mentioned:**

- high standards of living, income and social security of citizens; high quality of medical services, free or pre-paid medical care; easier (as compared with Ukraine) access to education (low education costs, students’ ability to earn and pay for their education);

- developed democracy; low level of corruption;

- high level of science and technology development;

- the existence of several factors promoting the EU development: a socially-oriented policy aimed at enhancing living standards; perfect legislation; significant financial resources.

- *There [in Europe], even those people who do not work can live better and are better protected than here (Lviv)*

- *After all, the main goal of the European Union is to improve the life of an individual (Zhytomyr)*

- *The best thing is that people may work a lot but also get a lot of money for that (Zhytomyr)*

- *Medical care is better (Donetsk)*

- *My niece [in Germany] fell ill, and doctors did everything for free (Kharkiv)*

- *Laws are followed there, corruption is lower.*

- *They have much stronger democracy (Zhytomyr)*

- *One term (for a student) costs 500-600 euros. It is easy to earn this sum in the EU within a month in summer (Lviv)*

- *They have social security there (Simferopol)*

- *Their laws are adequate and logical, comprehensible for the people (Kyiv)*

- *Everything promotes economic development, protection of the population, their legislation has a slightly different trend. Their laws are made more for the people (Lviv)*

- *All rich Ukrainians want to move their businesses there, because they have good laws (Simferopol)*

- *The EU can give money, financial assistance. Assistance at any time. Look how they helped Greece (Kharkiv)*

- *In the EU, laws are followed. If we join the EU, I would like our laws to be followed, too (Donetsk)*

It is noteworthy that focus group participants mentioned the human factor as a strong advantage of the EU: civil activity of the EU citizens, strong sense of their own dignity, law-abidance, rich cultural level.

- *They strike, they take to the streets! They are ready to express their discontent (Simferopol)*

- *There is an order, cleanness, beauty there. Their culture is significantly richer (Simferopol)*

- *The EU knows the notion of values (Zhytomyr)*

Among the negative sides of the EU, the participants mentioned:

- shortage of raw materials necessary for economic development;

- unstable economic situation, the crisis that hit some countries of the Union (Greece, Spain, Portugal);

- uneven economic development in the EU member states (some participants suspected that economically stronger countries of the EU “make hay” of economically weaker



ones; others believe that economically weaker states of the EU “hamper” the development of the Union as a whole);

- **significant differences in mentality, culture, values, attitude to labour in different EU countries.**

They also (although more rarely) mentioned the inefficient immigration policy of the EU, i.e. uncontrolled number of illegal migrants posing risks to the indigenous population.

- *The EU is short of natural resources. That is why they invite us (Zhytomyr)*
- *Absolutely everything is taken by stronger countries from those weaker ones (Kharkiv)*
- *Some countries are forced to help other member states, to drag them by the ear. The economy and population in those developed countries suffers from that (Kharkiv)*
- *It is more difficult for them to find a common language, to come to terms (Kyiv)*
- *In the result of the problems with immigration experienced in the EU, the indigenous population will simply cease to exist (Simferopol)*

Customs Union. Noteworthy, when describing the Customs Union, the discussion participants actually referred mostly to Russia, sometimes – to Belarus, very rarely – to Kazakhstan. Some spoke of the Customs Union as an entity, others identified it with Russia. At that, some discussion participants simply said that “Everything that has to do with Russia must be better (Simferopol)”.

Speaking of **good sides of the Customs Union**, the discussion participants usually mentioned:

- presence of raw materials and energy resources, roughly the same level of development of the CU countries, integrity of their economies (including the economy of Ukraine);
- interest of the CU member states in common economic development;
- a stable and predictable situation in society creating favourable conditions for economic development;
- common mentality that facilitates agreement on strategic issues. This factor, according to focus group participants, may prompt Ukraine’s accession to the Customs Union rather than the EU.

- *Resources [in the Customs Union] are much greater. Oil, gas (Kharkiv)*
- *Economic ties, that is, plants and everything built in the [Soviet] Union make a single system (Kharkiv)*
- *In the Customs Union we will be on equal terms, and in the EU – as a boarder (Kyiv)*
- *The positive factor of the Customs Union is all the participants are interested in economic growth of each constituent part of that Union (Kharkiv)*
- *People have stability and confidence in their future (Kharkiv)*
- *Mentality is the same, because it is the former USSR (Kyiv)*
- *The Customs Union goes better with our mentality. That is for sure (Kyiv)*

When discussing the negative sides of the Customs Union, the following points were mentioned:

- lack of democracy, corruption, restrictions on political freedoms, inability of citizens to influence decisions of the authorities, violation of human rights, political imprisonment. The Customs Union was often identified with the return to the Soviet times;
- unfavourable conditions for doing business;
- economy does not meet the needs of the population (but serves the national defence capabilities), as a result, GDP growth is not accompanied by the growth of income, or improved living standards;
- lack of attention paid to the development of technology-intensive industries, science;
- there is an opportunity for troublesome countries, i.e. former Soviet republics to join the Customs Union, which, given their serious economic problems and unstable political situation, might hinder the development of other member states.

- *The Customs Union is “sovoc”, meaning, USSR (Kyiv)*
- *The main task of Russia is to establish totalitarianism (Zhytomyr)*
- *Their economic situation is better, but the political is worse (Kyiv)*
- *Russia has the same level of corruption as Ukraine (Kharkiv)*
- *The business environment is certainly worse (Simferopol)*
- *Their political ambitions are being prioritised at the expense of the economy (Zhytomyr)*
- *In Russia, the scientists are not provided with much money for development. They all leave for America or the EU (Kyiv)*
- *Countries like Kyrgyzstan, with three coups within 5 years, will also be admitted and dragged by all means, for political reasons (Simferopol)*

Many respondents said that the living standards in the Customs Union countries might be lower than in the EU but still higher than in Ukraine. Others believe that the living standards in the Customs Union do not substantially differ from the Ukrainian:

- *Income of the population in Russia is higher.*
- *It depends on the region.*
- *In Moscow – yes. But only in Moscow.*
- *Average wages in Russia are high.*
- *Oh, really? And prices, too.*
- *Roughly the same as here (Kharkiv)*

Summing up, quite many of those polled stated that “everything there is like here”: What is the situation in the Customs Union like? Look into the window – and you will see it! (Zhytomyr)

Interest of the EU and the Customs Union in Ukraine

The discussion participants noted similar interest in Ukraine on the part of the EU and Russia in the following domains:

(1) geopolitical interest in Ukraine. Those two actors, according to the participants, want to free Ukraine from the influence of the other party, and Russia – also to regain control of its lost territories. Furthermore, both the EU and Russia view Ukraine as a territory where military bases can be located (here, the discussion participants consciously or unconsciously identified the EU with NATO).

- *The European Union wants us only politically, not economically. To counterbalance Russia (Donetsk)*
- *The Cold War is not over yet (Donetsk)*
- *They [Russia] want to regain the former political power (Donetsk)*
- *The main thing for them is to boost their ego. That Russia is vast again! (Zhytomyr)*
- *Russia still wants to have Sevastopol and the Crimea (Donetsk)*
- *To rule out any potential possibility that the EU will ever allow Ukraine to join (Simferopol)*
- *The Russian Navy will be stationed here without problems (Simferopol)*
- *Zero chances for NATO TMD systems to be placed here (Kharkiv)*
- *Now they [the EU] are trying to station their firing ranges in Staryi Krym, Al-Petri and Dolgorukovskaya. They are in the ready position now, to allocate their bases here (Simferopol)*

(2) interest in having access to Ukrainian market:

- *For them [the EU], we are a market, in the first place. They will sell all their goods here (Donetsk)*
- *Say, aircraft, our high-tech industry, is not needed anywhere in Europe. They are the monsters of their own aircraft building industry (Simferopol)*
- *For Russia, Ukraine is a 40-million strong market (Zhytomyr)*
- *Our aircraft is not wanted there [in the Customs Union] (Donetsk)*

(3) interest in having access to Ukrainian natural and labour resources:

- *Coal, metal, gas, oil – the EU wants natural resources available in Ukraine (Donetsk)*
- *They [the EU] will simply take away our black soil (Donetsk)*
- *Large oil and gas deposits were found near the Zmiynyi island in Ukraine, and they [the EU] can give us investments to develop them (Lviv)*
- *We now have a lot of unused fertile land (Zhytomyr)*
- *Land, black soil, climate. It [Ukraine] has always been a piece of cake [for the West] (Kharkiv)*
- *The Customs Union is interested in Ukrainian labour and land resources. Iron ore, Kryvyi Rih, Kryvorizky basin. Coal. Manganese. Uranium (Donetsk)*

Particular interests of the EU. Among these interests, the discussion participants noted the EU's interest in cheap manpower, imports of cheap electricity from Ukraine. Quite often the participants said that the EU's interest was in the use of Ukrainian territory for stationing of environmentally hazardous enterprises, and burying radioactive and toxic waste.

- Cheap manpower. We are not protected – so, we may be paid less (Kharkiv)
- We have the cheapest electricity, many nuclear and hydropower plants (Zhytomyr)
- They will place polluting enterprises, hazardous factories (Zhytomyr)
- They will move their heavy industry here (Donetsk)
- We will be Europe's rubbish-dump (Zhytomyr)

Meanwhile, according to many participants of a focus group, **the EU will promote democracy development and market reforms in Ukraine** in order to make the Ukrainian market more civilised and to protect their investments.

- Certainly, the EU will promote market reforms in Ukraine to establish common standards of doing business (Zhytomyr)

Particular interests of the Customs Union. The discussion participants named the use of Ukraine's transit potential, in particular, for oil and gas delivery across its territory.

- For Russia, we are a transit territory, in the first place. In case of accession, the transit fee will be cancelled (Kharkiv)

At the same time, some focus group participants spoke of the Customs Union's interest in import of Ukrainian products.

- Moderator: What Ukrainian products may the Customs Union consume, or import?
- First of all, agricultural produce.
- Metallurgy.
- Space industry. Aircraft building (Kharkiv)

Incentives for choosing Ukraine's integration trajectory

Ukraine's integration in the EU or the Customs Union was often seen as a civilisational choice, a choice between the European and Eastern (Eurasian) civilisations.

- Choice between the Western civilisation and the Eastern model. Between democracy, and full absence of democracy in the East (Simferopol)

On the one hand, some of the discussion participants noted that Ukraine's civilisational choice is not an argument for a multinational country whose regions have different civilisational roots, past and historic memory:

- Our people, both Russian and Ukrainian, are so mixed, some with Tatars, some with Rzeczpospolita for 200 years. There were so many different civilisations here that everyone will find and choose something for himself (Kharkiv)

Also noteworthy, some participants also mentioned personal motives in favour of joining the EU and the Customs Union alike:

- The soul wants to join the Customs Union, but the mind wants to enter the EU (Donetsk)

Incentives for joining the EU. The focus group discussions about the motives for accession to the EU and the Customs Union correspond to the results of the national public opinion poll.²

In particular, when favouring the EU, the focus group participants, as well as the poll respondents, were mainly guided by possible economic benefits, social development, and liberalisation of travel to the EU countries for Ukrainian citizens.

Economic benefits were associated with the possibility to obtain new technologies, loans, modernisation, access to the European market for Ukrainian manufacturers, increased living standards.

With respect to prospects of social development, the participants highlighted the social policy of the EU countries

and expressed hope that integration in the EU would encourage the development of Ukraine's social policy in line with European standards, promote democracy, rule of law and respect for human rights, and help overcoming corruption.

Incentives for joining the Customs Union. Similar to respondents of the public opinion poll, the participants of the focus group often referred to a cultural and mental kinship (cultural kinship, unity of people, similar mentality, common history). When speaking about economic benefits the emphasis was not so much on the economic development but on the growth of markets, cheaper energy resources, reduced or cancelled customs duties; creation of new working places, increase in living standards to an average level of the Customs Union).

When discussing the incentives for joining the Customs Union, none of the participants mentioned development of democracy, rule of law and respect for human rights.

Conditions and prospects for implementing the Association Agreement and effects of its signing

The participants were rather pessimistic when assessing the chances of meeting the terms and conditions of the Agreement. Quite often they said that the association with the EU did not offer Ukraine any economic benefits but, on the contrary, called for fulfilment of the conditions aimed at long-term solutions of social problems.

At that, the participants said, the Ukrainian elite (i.e., politicians, oligarchs, officials) would by all means obstruct the reforms necessary for Ukraine's integration with the EU, since their implementation might substantially restrict their powers:

- Politicians will sign the Agreement but do nothing [to implement it] (Kyiv, Simferopol)

On the other hand, some discussion participants **stressed that the EU was not interested in Ukraine's integration and, therefore, had put forward tough conditions for signing the Association Agreement.** Europe does not want to bring Ukraine – a country with complex social and economic problems – any closer, to open borders for millions of potential migrants:

- Europe does not want us. I agree that we are a heavy burden for them. Do you understand? They will have to help us solve our problems (Lviv)
- There was a public opinion poll saying that 67% of the population wants to leave Ukraine for permanent residence. They all will leave for Europe (Lviv)
- Ukraine, with its corruption, is like a carcinoma for Europe, difficult to get rid of later (Zhytomyr)

Overall effects of signing the Association Agreement. The participants view signing of the Association Agreement as the first step towards Ukraine's integration with the EU, and they often found it difficult to distinguish between the effects of signing of the Association Agreement and Ukraine's accession to the EU.

Among the advantages of signing the Agreement, they mentioned:

- development of democracy, improvement of the situation with human rights;
- improvement of the legislation;
- assistance with fight against corruption;
- possibility of a visa-free travel to the EU countries;
- creation of favourable conditions for development of the national economy: legislation that promotes enterprise development, credits for enterprise development, access to EU markets;
- growth of social standards (social security, high level of medical services)

² For more detail see the material "Customs Union or Europe? The public opinion", published in this journal.



- *New working places would appear.*
- *Corruption would be reduced.*
- *There will be more democracy.*
- *We will travel without visas.*
- *It will be easier to get credits.*
- *A market.*
- *Ukraine will get European laws.*
- *There will be more democracy (Zhytomyr)*
- *The document speaks of human rights guarantees in Ukraine, that is, anti-corruption measures, fulfilment of some duties of the authorities to citizens, deals with the social sector (Lviv)*
- *As far as I know, it envisages visa-free procedures. Some simplification (Lviv)*

They also noted the negative sides of signing the Association Agreement. According to many participants, signing of the Association Agreement and integration with the EU involves risks that Ukraine, given the Polish and Baltic experience of accession to the EU, may not avoid. Most of the participants noted that the transitional period would take place in unfavourable political conditions and, in the first place, it will be a test for ordinary Ukrainians: all the burden of integration will rest on the society, the ordinary people. In particular, the following risks were mentioned:

- deterioration of the economic situation in the near future; termination of non-competitive, loss-making, obsolete enterprises; a decline in GDP; sharp production decline;
- limited access to the European market for Ukrainian goods due to their non-competitiveness, noncompliance with quality standards and sanitary norms;
- drop in income of the population; growing prices for consumer goods; rising unemployment;
- increase in migration from Ukraine to the EU, “brain drain”;
- increase in rates for utility services (to the European level) and preservation of the currently low wages, pensions and social allowances;
- growing dependence on the EU, some limitations of sovereignty; political and economic decisions, legislation would have to be approved by the EU leadership; Ukraine’s growing financial dependence on the EU;
- some EU countries would “exploit” Ukraine;
- deterioration of environmental situation due to location of some hazardous enterprises on Ukraine’s territory;
- loss of national identity and values characteristic of this country;
- deterioration of relations with Russia.

- *Since imports will exceed exports – decline in domestic production, closure of many enterprises, rise of unemployment (Kharkiv)*
- *Their business will come here, our business will ultimately collapse (Lviv)*
- *Loss of labour resources. Too many people will leave, especially young people (Lviv)*
- *Increase in utility service rates (Kharkiv)*
- *An increase in the retirement age (Simferopol)*
- *We will “feed” the Greeks. Ukraine will become the “workhorse” for the EU. Ukraine will work for others. (Simferopol)*
- *No chance for an independent decision-making in this country (Kharkiv)*
- *Replacement of national sacred values with European ones (Simferopol)*
- *National identity may be lost (Lviv)*
- *Relations with Russia will be even more strained. They [Europe] will get military bases at the Russian border. We will be a bridgehead, that is all (Kharkiv)*

Effects of signing the Association Agreement for some social groups. Some participants were certain that integration with the EU would have no effect on their personal prosperity and wellbeing of their families. Even if life gets better, it will get better for next generations, i.e., improved living standards so eagerly expected after getting closer to the EU is a matter of distant future.

- *Whatever Ukraine joins, nothing will change for me (Kyiv)*
- *The opinion of the people who joined the European Union is not too good. They come here and tell us about it (Kyiv)*
- *There will be an effect but not an immediate one, not the next day. Anyway, years must pass for something to change (Lviv)*

The assessments of changes regarding the conditions for certain social groups were rather controversial. Pessimistic expectations were mainly expressed for those involved in agriculture. At the same time, the European integration was perceived as disadvantageous for corrupt elites, and for those involved in shadow economy.

- *Moderator: What social groups will benefit from association with the European Union?*
- *Pensioners, thanks to the rise in social standards. Pensions will be higher.*
- *Half of the population will die not seeing their pensions, and those who managed to survive will get higher pensions (Simferopol)*
- *Small and medium business will benefit, because taxes will be harmonised with Europe (Simferopol)*
- *Small and medium business will lose because goods will be brought from the EU, and they will not be able to compete (Zhytomyr)*
- *Big Ukrainian corporations will have even more problems, because capital assets of big enterprises are worn out. They will have to scrap everything and to build something new. Small and medium business is more flexible (Zhytomyr)*
- *Will agro-industrial workers win?*
- *No. They will be deprived of land (Donetsk)*
- *I have watched a broadcast saying that all our cows will have to be killed, because Polish meat will be cheaper than ours (Donetsk)*
- *Corrupt officials will lose [from integration with the EU], because their powers will be limited. And the public sector employees will benefit, if less money is stolen (Zhytomyr)*
- *Offshore accounts may be closed. Everything will be transparent (Donetsk)*

Conditions, prospects and effects of Ukraine’s accession to the Customs Union

According to the focus group participants, joining the Customs Union would not require meeting any criteria. The Customs Union is not interested in democratic reforms in Ukraine and, therefore, makes no requirements in this respect. The participants expressed some doubts as to the fairness of future cooperation between Ukraine and the Customs Union’s countries.

- *Mere formality: sign and join (Simferopol)*
- *They do not care much about democracy (Kyiv)*
- *They are ready to admit Ukraine in any state (Zhytomyr)*
- *It is easier to join, but fair cooperation is doubtful. We can join the Customs Union here and now, but withdrawing from it will be difficult (Kyiv)*

Positive effects of accession to the Customs Union.

The focus group participants view the economic development as the main advantage of accession to Customs Union, first of all – due to reduced or removed customs duties, restoration of economic ties and Ukraine’s access to cheaper natural resources (first of all – gas, although there is no shared opinion that the price for it will be reduced). An important advantage is also seen in the “prompt effect” of accession.

- *There are huge benefits from free trade in the Customs Union. We will finally begin to produce and sell something that is ours (Lviv)*
- *Economic growth, reduced level of unemployment, production development, thanks to cheaper gas.*
- *Gas prices will drop for a while, unless Gazprom directors take another decision. They will revise the customs duty rates, agreements with the EU – and the price will rise (Simferopol)*
- *Restoration of old economic ties (Kharkiv)*
- *The Customs Union will have a much faster effect for us. Almost immediate (Kharkiv).*

Drawbacks and risks of accession. For many discussion participants, accession to the Customs Union means a return to soviet times, no future for Ukrainians. The participants were also aware that in the Customs Union, Ukraine would not solve its key problems (first of all – corruption),

which had been successfully resolved by the neighbouring countries during their process of integration with the EU. Other risks may be divided into two groups.

(1) Political – according to many focus group participants, Ukraine’s accession to the Customs Union will result in loss of national sovereignty – the main political and strategic economic decisions will be taken in Moscow, Ukraine’s relations with the EU will deteriorate.

- *Political dependence on Russia (Zhytomyr)*
- *Tension with Europe. Russia will be able to place its TMD systems at the Polish border, which is an EU member (Kharkiv)*
- *They have a dictator, and we will have the same (Donetsk)*
- *They still wage a war there, with Chechnya... I do not want it... (Donetsk)*
- *When the Russians come, the Russian language will be treated as the main one (Lviv)*

At the same time, it should be noted that adherents of accession to the Customs Union admit the existence of threats to the national sovereignty and democracy, but express no interest in preserving sovereignty or strengthening democracy in the country:

- *Ukraine has never been politically independent. Every busybody used to sell it.*
- *How can one lose something nonexistent? It [sovereignty] is absent anyway (Simferopol)*
- *Loss of sovereignty is not bad (Donetsk)*
- *Democracy is nothing but a fiction, what are you talking about? It is all rubbish.*
- *Maybe if there is a bit less freedom of speech but a bit more bread and butter, people will not feel worse (Kharkiv)*
- *Does anyone need democracy? In Russia, nobody complains. In Belarus, nobody complains, too. Despite the totalitarian system. (Simferopol)*

(2) Economic: increasing economic dependence on Russia; reduction of the Ukrainian state budget and the Pension Fund revenues (i.e., the curtailment of social programmes) due to the redistribution of customs proceeds. Some participants expressed fears that some industries and competitive enterprises, not wanted by Russia, might be curtailed:

- *Customs duties collected on the border are distributed not quite fairly there. As far as I remember, 70% goes to Russia, 20% – to Belarus and 10% – to Kazakhstan. The figures are incomparable. (Kharkiv)*
- *They will suck more blood from Ukraine than it gets (Zhytomyr)*
- *Everything will be stocked with Russian produce (Donetsk)*
- *Maybe a few more plants will be closed (Donetsk)*

Effects of accession for some social groups. Similar to discussions about the effects of joining the EU, many participants expected no personal benefit from accession to the Customs Union:

- *Nothing will change for ordinary people. Everything will stay the way it is (Kyiv)*
- *Nothing will change unless the system is changed here (Simferopol)*
- *After joining the Customs Union we will see no change whatsoever (Zhytomyr)*

However, the participants of focus groups which were more inclined to join the Customs Union (e.g., Simferopol) expected a better life for most of the population. The Simferopol focus group also discussed the possible effect of the EU/CU on their lives by looking at the Crimean tourism related activities and expressed hopes that investments from the Customs Union and Russia, in particular, would contribute to the development of tourism business.

- *Moderator: if, say, Ukraine joins the Customs Union, what social groups will win from that, in the first place?*
- *The middle class.*
- *Probably, the state servants.*
- *Public servants, teachers, physicians will benefit.*
- *Pensions will go up, because they are higher in Russia (Simferopol)*
- *Business, say, medium and small (Kharkiv).*
- *I guess that those [companies] that were engaged [in cooperation] with Russia will win. The rest will win nothing (Zhytomyr)*

- *Maybe we will have a lower unemployment rate among the youths, if we join the Customs Union and find new markets (Lviv)*
- *Representatives of agriculture will benefit from joining the Customs Union (Kyiv)*
- *Russian investments will help the tourism business improve [prices will go down and services will improve]. They [Russian businessmen] already own land, assets and hotels, but they are not allowed to develop all that (Simferopol)*

Regional specifics

Focus group discussions in different regions revealed differences in positions of residents of different regions. The participants themselves had reported of those differences, noting regional specifics of foreign policy preferences of Ukrainian citizens.

The participants said that none of the integration options would remove that problem and unite the country. On the contrary, they suggested that choosing one option could aggravate the existing differences. Also, a lot will depend on the conduct by Ukrainian leadership and politicians: they can either mitigate or aggravate regional differences.

- *West Ukraine will always be against Ukraine's accession to the Customs Union.*
- *And we will always be against the EU.*
- *Anyway, differences among regions will grow.*
- *However, the majority will accept any choice calmly. Our people will not revolt. Everyone will agree (Simferopol)*

CONCLUSIONS

The discussions showed that economic incentives play a major role in reasoning the need for joining the EU and the Customs Union alike. Meanwhile, adherents of an integration with the EU tend to associate economic efficiency of the EU mainly with innovative development, while adherents of the Customs Union – with the idea of “restoring what had been lost”: economic ties among former Soviet republics, a return to low prices for energy resources.

While the proponents of the EU integration stress the importance of high democratic standards in Ukraine, to the adherents of accession to the Customs Union democratic development is much less important than prosperity.

The participants tended to focus not on the advantages but on the shortcomings of different lines of integration (with the EU or the Customs Union).

Alongside the vocal support for a specific integration path even the adherents of accession to those unions expressed concerns that Ukraine would be an unequal partner, “used” by other countries (by wealthy Western European states in the EU; by Russia – in the Customs Union) for own political and economic interests.

The preference for one or another integration trajectory is largely attributed to the mistrust in Ukraine’s ability to solve its social, economic, political problems independently. This is primarily related to the low level of trust in the Ukrainian political elite that, according to an overwhelming majority of participants, is not interested in positive changes. Those changes may be encouraged after joining an international union. These hopes were more often reported by the proponents of accession to the EU.

On the other hand, mistrust in the Ukrainian leadership also gives rise to pessimism of many participants about the success of any integration, since, according to respondents, the Ukrainian authorities tend only to proclaim one or another policy (foreign policy) course and are not interested in its implementation that will benefit the lives of ordinary citizens. ■

CUSTOMS UNION OR EUROPE? THE PUBLIC OPINION

Ukraine's integration choice strongly depends on public support which, in turn, is shaped by many factors: stereotypes of mass consciousness, media influences, public perceptions of the quality of life in the EU and the Customs Union, advantages and disadvantages of those unions and possible effects of Ukraine's membership.

All these factors, together with citizens' attitudes to signing of the Association Agreement between the EU and Ukraine, social portraits of proponents of Ukraine's membership in the EU or the Customs Union and of those undecided about Ukraine's integration trajectory were in focus of a public opinion poll held by the Razumkov Centre in April 2013.¹

Citizens' attitudes to Ukraine's accession to the EU or the Customs Union

Citizens are generally well disposed to Ukraine's accession to the EU – a relative majority of those polled (46%) favour Ukraine's European integration, while 36% oppose it (Diagram "Should Ukraine join the EU?"). **Ukrainian attitudes toward accession to the Customs Union are more controversial:** the proportions of those who support and do not support the accession do not statistically differ – 40% and 39%, respectively. (Diagram "Should Ukraine join the Customs Union?").

When presented with three options – "Ukraine's accession to the EU", "to the Customs Union", "non-accession to both" – 42% supported European integration of Ukraine, 33% – joining the Customs Union, 12% were in favour of non-accession (Diagram "Which integration path should Ukraine choose?").

Ukraine's accession to the EU generally finds broad support among the residents of the country's West and Centre, Ukrainian-speaking groups, representatives of younger and middle-aged groups, people with high education and income. Strong supporters of the EU integration are representatives of social and professional groups with high educational level (i.e. among specialists, businessmen, students the EU integration was supported by 57-68%).

Accession to the Customs Union is favoured by the residents of the South and East, Russian-speaking groups, elderly people, people with low education and income.² Ukraine's accession to the Customs Union is, first of all, supported by pensioners (48%) and workers (43%). The industrial sector is the only sector of economy where the percentage in favour of joining the Customs Union is greater than that of its opponents (47% and 32%, respectively).³ It is also the only sector where the

number of adherents and opponents of accession to the EU do not statistically differ (40% and 44%, respectively). When selecting among the three options, 39% of industrial workers spoke in favour of accession to the Customs Union, and only 32% supported Ukraine's membership in the EU. Their position may be attributed to the interest of many Ukrainian industrial enterprises in the Russian market.

In all other sectors, proponents of European integration represent the majority.

Advantages and drawbacks of the EU and the Customs Union

High level of social protection (47%), the rule of law (32%) and a developed democracy (27%) were cited as major advantages of the EU, followed by such elements as the availability of financial resources (22%), quality of healthcare (19%), science and technology development (17%), low level of corruption (14%) (Diagram "What are the main advantages of joining the European Union?").

Among the advantages of the Customs Union, the respondents mentioned common history, culture, similar mentality of citizens of the Customs Union's countries (53%), presence of natural resources, and energy supplies (47%). Stable economic situation was another factor, which was frequently cited (15%) (Diagram "What are the main advantages of joining the Customs Union?").

The high level of social protection and healthcare, low levels of corruption were the elements often considered as advantages of joining the EU by the residents of Western and Central Ukraine. The rule of law was far more frequently mentioned by the residents of the West (as compared with representatives of other regions). Developed democracy was the element most often cited by the residents of the West and the East, while "availability of financial resources" was a dominating advantage of joining the EU for the East.

¹ The poll was held on 20-25 April 2013. 2010 respondents aged above 18 years were polled in all regions of Ukraine with a sample representative of the adult population of Ukraine by the basic socio-demographic indicators (area of residence, settlement type, age, gender). The sample's theoretical error does not exceed 2.3%.

² The regional division is as follows: the **West**: Volyn, Transcarpathian, Ivano-Frankivsk, Lviv, Rivne, Ternopil, Chernivtsi regions, the **Centre**: city of Kyiv, Vinnytsya, Zhytomyr, Kyiv, Kirovohrad, Poltava, Sumy, Khmelnytskyi, Cherkasy, Chernihiv regions, the **South**: Autonomous Republic of Crimea, Odesa, Kherson, Mykolayiv regions, the **East**: Dnipropetrovsk, Donetsk, Zaporizhya, Luhansk, Kharkiv regions.

³ The analysis covered foreign policy preferences of groups of respondents employed in different sectors of economy: industry; agriculture and agro-industrial sector; transport and communications; the sector of services; education; pre-school education, science, culture, arts; public health.

Representatives of the eldest age group were less inclined to see the advantages of joining the EU (as compared with the other age groups).⁴

Residents of the South and the East (less – of the West) were more prone to name the advantages of the Customs Union. “Common history” and “presence of natural resources” were less frequently named among the advantages of joining the Customs Union by representatives of youth (as compared with the other age groups).

While comparing the EU and the Customs Union, the general public found it difficult to distinguish which one of them is “a simpler and more reliable partner”, “more prone to dictate, both politically and economically, to its members”, “offers more opportunities for promoting goods of its member countries to markets of third countries” – almost equal proportions of the respondents attributed all these features to both the EU and the Customs Union (Diagram “*Comparing the EU and the Customs Union...?*”). However, the majority believes the EU pursues a more socially oriented policy, where GDP growth leads to an increase of personal income (47% vs. 15%).

All in all, **49% suggested that the European model is far more attractive than the Russian one** (only 23% disagreed with that), and 43% agreed that the Customs Union’s countries have no democracy (31% disagreed) (Diagram “*Do you agree with the following statements?*”).

The following disadvantages of the EU were mentioned more frequently: unstable economic situation (34%), uneven economic development of the EU countries (32%), domination by some leading states over other EU countries (31%), as well as differences in culture, values, mentality of citizens of the EU countries (24%), shortage of natural resources (23%), unemployment (16%) (Diagram “*What are the main disadvantages of the EU?*”). Regarding the current crisis in the EU, 48% of respondents noted that it would be resolved with time, and the EU citizens would avoid facing fundamental deterioration of living standards (only 20% disagreed with that) (Diagram “*Do you agree with the following statements?*”).

Disadvantages of the EU were less evident to the residents of the West, more – to the residents of the South. Southerners more frequently noted domination by the EU leading states over other EU countries, cultural differences, unemployment, and alongside with Easterners – the unstable economic situation and shortage of natural resources. By contrast, residents in the West indicated the EU’s inefficient migration policy (which could be a sign of discontent with what the respondents see as severe obstacles to entering EU countries).

Major drawbacks of the Customs Union, as people see them, include corruption (48%), grey economy (33%), Russian domination (29%), and lack of democracy (27%) (Diagram “*What are the main disadvantages of the Customs Union?*”).

Disadvantages of the Customs Union are more evident to the residents of the West, who mention corruption, lack of democracy, Russian domination (although these factors are quite often reported in other regions, too). The spread of grey economy is equally often reported by residents of the West, Centre and East; less often – by residents of the South. Representatives of the eldest age group and people with low level of education

(incomplete secondary) hardly ever mentioned the disadvantages of the Customs Union.

Representatives of some social and professional groups assess disadvantages of the Customs Union from the viewpoint of their professional interests. For instance, businessmen referred to corruption (61%, and 48% of all the respondents polled) and unfriendly business environment (19% and 7%, respectively).

By and large, when **comparing the EU and the Customs Union, the EU’s prospects for development (38%) prevailed over those of the Customs Union (31%),** although many respondents spoke of uncertain future for both unions (36% and 35%, respectively) (Diagram “*How would you assess the prospects for further development of...?*”).

Positive attitudes towards the EU’s prospects prevail in the West, among the Ukrainian-speaking population, and rise markedly among younger respondents and those with higher education.

Prospects for the Customs Union are more positively assessed in the South and the East, and among the Russian-speaking population. Interestingly, more favourable attitudes rise with age and fall with better education levels.

Assessments of the “humanitarian potential” or “human capital” of the EU and the Customs Union are controversial. Here, in many respects, the respondents’ perceptions of the EU are more positive: for instance, they believe that in the EU people are more cultured (48%) than in countries of the Customs Union; have a stronger sense of dignity (42%); more socially active and caring (42%). Instead, they note that people in the Customs Union and Ukraine are more alike mentally (64%). However, judging by the logic of those polled, this mental kinship also has some negative connotations such as relatively low level of culture, social passivity, lack of personal dignity (Diagram “*Comparing the EU and the Customs Union countries, where do you think the people are...?*”).

Explaining attitudes to Ukraine’s accession to the EU or the Customs Union⁵

Proponents of EU membership tend to name economic reasons to explain their position: “life will get better, living standards will increase, we will secure a better life for our children and grandchildren” (21% of EU supporters), “living standards in the EU are higher than in Ukraine” (21%), “since Europe is technologically and socially more developed than Ukraine, accession to the EU will speed up Ukraine’s development”, “give an impetus to Ukraine’s development” (11%), “it will promote economic reforms, economic and industrial development,” (10%). Meanwhile, more than 5% of EU supporters also mentioned the following reasons: “this will give Ukrainian citizens a possibility of visa-free travel across the EU countries” (8%), “the European social model is more attractive” (7%), “this will reduce unemployment” (6%) (Diagram: “*Why do you think we should join the EU...?*”). Hence, **on top of economic reasons, supporters of European integration also spoke of social prospects and social changes that should take place in Ukraine after its accession to the EU, as well as simplification of travel to the EU countries for Ukrainian citizens.**

Opponents of accession to the EU explained their position as follows: “we are not wanted in the EU” (19% of those opposing the EU membership), “our people are not prepared and not ready to live in the EU” (14%),

⁴ Hereinafter – 60 years and more.

⁵ Questions about motives were open-ended, i.e., respondents were not given a list of possible answers to choose from, but formulated answers on their own. Their answers were codified and summarised.

“today, the EU is in crisis, and it will tear the Union apart” (13%), “Ukraine will be dependent on the EU countries” (10%), “Ukraine should independently develop its economy and go its own way” (10%), “Ukraine and Europe have different mentality, culture, different level of development, they are not like us” (9%), “we should make friends with Russia, not Europe” (5%) (Diagram: “*Why do you think we should not join the EU...?*”). So, **among the reasons to oppose Ukraine’s accession to the EU could be divided into the following groups:**

- **Ukraine’s cultural and mental alienation from the EU** (“Ukraine and Europe have different cultures”, “we are not wanted there”, “our people are not prepared to live in the EU”, “we should make friends with Russia”);
- **inequality** (“Ukraine will be dependent”);
- **uncertainty surrounding the EU’s future** (“today, the EU is in crisis, it will tear the Union apart”).

Noteworthy, the statement “we are not wanted in the EU” was commonly given by the respondents, who were undecided on whether Ukraine should join the EU (Diagram “*Why do you find it difficult to answer the question of whether Ukraine should join the EU?*”). In other words, **one may assume that statements of the EU officials about their readiness to accept Ukraine might be important for shaping opinions of that group.**

Cultural and mental kinship was the main motive behind the support for accession to the Customs Union – “we are all Slavs with a common history” (41% of adherents of the Customs Union) and “we are neighbours” (12%). **Followed by economic benefits and stability:** “to restore economic ties, economic partnership” (18%), “to have an access to cheap energy resources” (7%), to achieve “stability, as it was during the Soviet time” (7%), “to have an access to markets for its products” (6%) (Diagram: “*Why do you think Ukraine should join the Customs Union...?*”).

Such factors as “inequality”, “Russia’s domination”, “a threat of losing independence” dominated among the respondents opposing the accession to the Customs Union: (“in the Customs Union, Ukraine will always stay in the shade of its ‘big brother’; Russia will command us” (20% of opponents of the Customs Union), “they will create another USSR” (19%), “this will result in Ukraine losing its independence” (8%), “Ukraine should develop independently, build its economy and go its own way” (7%), **as well as the motives for lack of prospects and backwardness of the Customs Union** (“this will give nothing to Ukraine, the Customs Union has no future” (16%), “low living standards in the Customs Union countries, similar social problems in Ukraine and the CU. Russia is an economically backward country” (10%) (Diagram: “*Why do you think Ukraine should not join the Customs Union...?*”).

Those unsure whether Ukraine should join the Customs Union often referred to a threat of losing the country’s independence and growth of Russia’s domination (5%: Diagram “*Why do you find it difficult to answer whether Ukraine should join the Customs Union?*”).

Awareness and sources of information about the EU and the Customs Union

A relative majority (44%) of respondents consider themselves poorly informed about both the EU and the Customs Union. 39% have assessed

their level of knowledge as “average” (of the EU) and 38% (of the Customs Union), while a tiny proportion of respondents (5% and 4% respectively) believe to be well-informed (Diagram “*How do you assess your knowledge about...?*”).

Knowledge about the EU and the Customs Union rises markedly with level of education. Representatives of the middle class consider themselves much better informed about both integration unions.

Residents of the South believe they are better informed about the EU, while the residents of the South and the Centre – about the Customs Union. The youngest age group has shown the lowest level of knowledge about the Customs Union.⁶

Far more Ukrainians have visited countries of the Customs Union (48%) than EU member states (21%). The same applies to having an experience of a long stay in any member state of the Customs Union or the EU, or having relatives and friends who have visited or lived in countries of the Customs Union or the EU (Diagram “*Do you have...?*”). In other words, **as far as personal contacts and experiences are concerned, Ukrainian citizens are better familiar with countries of the Customs Union.**

Residents of the West showed more experience of travelling to the EU countries, whereas the residents of the South and East – to the Customs Union countries. In the East, the number of those who visited countries of the Customs Union exceeds by four times the number of those who have travelled to EU countries, while in the South and Centre, this is down to twice as much. Only in the West the numbers are roughly equal.

People having personal experience of visiting the EU countries show stronger support for Ukraine’s membership in the EU than those who have not had this experience (70% and 40%, respectively). Similarly, respondents who have travelled to the Customs Union countries are more prone to support Ukraine’s accession to the Customs Union than those who have not had this opportunity (50% and 31%, respectively). However, the gap in their attitude towards the EU membership among the Ukrainians travelling and not travelling to the EU countries is significantly bigger as compared to the attitude towards joining the Customs Union among those having or not having personal experience of visiting countries of the Customs Union (30% and 19%, respectively).

Moreover, travelling to the EU makes it attractive for more than two-thirds of travellers, while travelling to the Customs Union – only for half.

The fact that the proportion of EU supporters among those who never visited the EU countries is larger than the proportion of proponents of the Customs Union among those who never travelled there (40% and 31%, respectively) leads to the assumption that **a more positive image of the EU (compared to that of the Customs Union) has been partially shaped by the mass media.**

Central Ukrainian TV channels are the main source of information about both the EU and the Customs Union – over 75% of citizens receive information from that source (Diagram “*From what media...?*”). Also, information is obtained from local (regional) and Russian TV channels, Ukrainian newspapers (national and regional), and Ukrainian Internet sites (over 20% of respondents).

⁶ Hereinafter – 18-29 years.

Internet as a source of information on the EU and the Customs Union plays an important role for younger respondents. The role of print media and state radio, however, decreases as the respondents' age goes down (coupled with a growing importance of FM radio stations). In general, the youngest age group tends to be less influenced by information coming from TV channels. In fact, this also shows a general role played by media in shaping the consciousness of different age groups not only with regard to the EU or the Customs Union.

Factors affecting Ukraine's accession to the EU and the Customs Union

According to Ukrainians, corruption (80%), low level of economic development, insufficient pace of reforms (78%), and problems in the field of democracy (70%) are the main factors hindering Ukraine's integration in the EU (Diagram "Do the following factors hinder Ukraine's integration in the EU?").

As regards the difference between the Ukrainian and European cultural development, such factors as language barriers and geopolitical (historic, cultural) affinity with Russia were rarely mentioned (40% and 38%, respectively). Furthermore, a proportion of those who do not consider that these factors may hinder Ukraine's membership in the EU is greater than the proportion of those who do.

According to the majority (53%), only Ukraine's integration with the EU would hinder Ukraine's accession to the Customs Union. A majority of respondents (51-60%) believe that neither corruption, low level of economic development, insufficient pace of reforms nor problems in the field of democracy would prevent Ukraine from joining the Customs Union. In other words, while there are several tough requirements standing in the way of gaining EU membership, Ukraine's accession to the Customs Unions would not require the fulfillment of such requirements. (Diagram "Do the following factors hinder Ukraine's accession to the Customs Union?").

Targeted policy on the part of Ukraine's leadership, however, could play a decisive role in the making of Ukraine's final choice on integration. However, citizens are more prone to believe that in reality the Ukrainian authorities are not leading the country either towards the EU or to the Customs Union (27%); another 20% are certain that the authorities are pushing for integration in both directions; a similar percent of respondents could not answer this question. Only 22% believe that the authorities are leading the country to the EU, and 10% – to the Customs Union (Diagram "How do you perceive the policy pursued by Ukraine's leadership?").

Effects of accession to the EU or the Customs Union

Positive expectations prevail among the respondents when assessing effects of the EU integration for Ukraine: possibility of visa-free travel to EU countries (38%), perfection of the judicial system (26%), access to advanced technologies, modernisation of enterprises (23%), access to financial resources for economic development (22%), enhancement of the rule of law (21%), reduction of unemployment, creation of new working places (21%). Negative effects include drain of skilled manpower to the EU countries (24%) and deterioration of relations with Russia (22%)⁷ (Diagram "What effects will Ukraine's integration to the EU bring for the country?").

Among positive effects of joining the Customs Union, the respondents mentioned: unification of the

fraternal peoples (31%), restoration of disrupted economic ties, free trade between countries of the Customs Union (30%), improvement of relations with Russia (23%), access to cheap energy resources (22%), preservation of culture, traditions, moral values (21%), discount for goods and services from Russia, Belarus, Kazakhstan (20%); **among the negative effects:** dependence on Russia, Russia's influence on internal processes in Ukraine (31%), a step back in terms of political, socio-economic development, a return to the USSR (27%). Drifting away from the EU (32%) was another negative impact of joining the Customs Union (Diagram "What effects will Ukraine's accession to the Customs Union bring for the country?"), considering the fact that an overwhelming majority (67%) of respondents who gave this answer support Ukraine's accession to the EU (and only 21% – are against it).

A relative majority of respondents (48%) believe that Eastern European countries that joined the EU have gained, rather than lost from it (23%). One may assume that this opinion has also influenced the respondents' assessment of possible effects of Ukraine's accession to the EU (Diagram "Do you agree with the following statements...?").

When it comes to creation of the Customs Union with Russia, Belarus and Kazakhstan, a relative majority (37%) believe that those countries have gained, rather than lost from gaining membership there (28%). However, far fewer respondents think that Customs Union members have gained from joining than there are those who believe that Eastern European countries which joined the EU made the right choice. There is no prevailing opinion as to whether Ukraine's accession to the Customs Union will help it cope with the crisis: 37% of respondents believe so, 36% disagree.

Assessing the effects that Ukraine's accession to the Customs Union will have on different aspects of life, a relative majority of respondents expect positive changes to the national economy (44%), education, science and technology (38%), personal income (35%), prices (34%), unemployment rate (34%). Meanwhile, a relative majority of those polled expect no positive change to the environment (41%), efficiency of current leadership (37%), development of the housing and utilities sector, roads, infrastructure (34%), and social stratification (33%).

Roughly an equal proportion of respondents reported positive effect/no effect for the quality of foodstuffs and negative effect/no effect for democracy and corruption levels (Diagram "What effects do you expect from Ukraine's accession to the Customs Union?").

Citizens seemed rather sceptical towards prospects of lower prices on imported gas from Russia:

12% – Russia will significantly reduce the price for a long period without any additional conditions

20% – Russia will significantly reduce the price in exchange for Ukrainian gas transportation system

11% – Russia will insignificantly reduce the price only for a few years and without any additional conditions

24% – Russia will insignificantly reduce the price in exchange for the Ukrainian gas transportation system

21% – Russia will never reduce the gas price for Ukraine.

When comparing the conditions in the EU and the Customs Union for Ukraine's innovative development and transformation into a country with economic, social and cultural sector development, 42% of those polled preferred the EU membership, with only 27% in favour of joining the Customs Union.

⁷ Reported by 20% and more respondents.

The EU was favoured by an overwhelming majority (70%) in the West, a relative majority in the Centre (45%) most of whom were Ukrainian-speaking respondents (52%), who are often representatives of all sectors of economy.

The Customs Union was favoured by a relative majority of residents in the South and East (44% and 37%, respectively), most of Russian-speaking respondents (43%) (Diagram “Where do you think the conditions for Ukraine’s innovative development are better?”).

Assessing the EU’s interest in cooperation with Ukraine, citizens most of all noted that the EU is interested in using Ukraine’s natural resources (48%); intellectual, scientific potential, manpower (44%); Ukrainian market for EU goods (41%); freeing Ukraine from Russia’s influence (33%), transit of energy resources from Russia (31%) (Diagram “Is the EU interested in cooperation with Ukraine?”).

The Customs Union is interested in transit of energy resources to the EU countries (48%), establishing control over Ukraine, freeing it from Western influence (43%), in the Ukrainian market (42%), its intellectual, scientific potential, manpower (39%), restoration of economic ties (38%), Ukraine’s natural resources (34%) (Diagram “Is the Customs Union interested in cooperation with Ukraine?”).

By and large, a relative majority of respondents (45%) believe that Ukraine will benefit from joining the EU (30% – Ukraine will lose); the proportion thinking that Ukraine will gain from accession to the Customs Union is equal to the proportion of those who believe that it will not (37%) (Diagram “Will Ukraine gain or lose more...?”).

Personal gains and losses from Ukraine’s accession to the EU or the Customs Union

A relative majority of respondents (41%) believe that they will benefit from accession to the EU (will lose from accession – 26%); the proportion of those who expect personal gains from membership in the Customs Union is equal to the proportion of those who expect personal losses (32%) (Diagram “Will you personally gain or lose more...?”).

Personal benefits from Ukraine’s accession to the EU are expected by the majority in the West (65%) and a relative majority of Ukrainians polled in the Centre (42%); losses – by a relative majority in the South (38%). Meanwhile, these proportions are roughly equal in the East (32% and 33%, respectively).

Ukrainian-speaking respondents are more likely to believe they would benefit from Ukraine’s membership in the EU, while Russian-speaking respondents thought they would lose.

The younger the respondents are, the more they tend to believe that they will win from the country’s accession to the EU, the same trend is observed with education levels. That is why the EU membership is favoured more by representatives of social and professional groups with high education, i.e. businessmen (62%), students (64%), specialists (50%); and opposed by representatives of social and professional groups with low education (e.g., pensioners – 30%).

Citizens’ confidence in benefits of the EU membership goes up with the growth of their income – from 29% among those who “can hardly make ends meet” to 49% among those who are doing well.

Representatives of most sectors of economy more often express a belief that they will benefit from Ukraine’s accession to the EU; however, among the industrial workers, the proportion of those expecting benefits does not statistically differ from the proportion of those who expect losses.

More than half of residents in the South (51%) and a relative majority in the East (44%) believe they will benefit from Ukraine’s accession to the Customs Union, while half of residents in the West and a relative majority in the Centre (34%) expect losses.

Russian-speaking respondents tend to expect benefits, and vice versa, the Ukrainian-speaking groups are more prone to think of losses. The elder the respondents are, the lower income and education they have, the more often they stick to the opinion that they will win. Pensioners are the most hopeful for gaining personal benefits (41%), students and professionals are the least (17% and 22%, respectively). Industry is the only sector where the share of optimists exceeds that of pessimists (38% and 33%, respectively).⁸

Comparing the prospects for people of their occupation or social group, a relative majority (37%) of those polled preferred the EU (37%), 25% – the Customs Union (Diagram “Where do you think people of your occupation or social group have better prospects...?”).

Representatives of most sectors of the economy believe that people of their occupation or social group have better prospects in the EU than in the Customs Union, however, these proportions do not statistically differ among the industrial workers. When it comes to different social and professional groups, only pensioners are keen to believe that their group will have better prospects in the Customs Union than in the EU (34% and 25%, respectively).

Attitudes to signing of the EU-Ukraine Association Agreement

42% of Ukrainians polled support signing of the Association Agreement with the EU, while 33% are against it (Diagram “Should Ukraine sign the Association Agreement with the EU?”). At that, not all the proponents of Ukraine’s accession to the EU stand for signing of the Association Agreement: while the signing is supported by 84%, it is opposed by 2%, and 14% remain undecided. Among the opponents of Ukraine’s accession to the EU, 78% stand against signing of the Agreement, 6% support it, and 17% are undecided.

Supporters of the Association Agreement have often referred to such motives as: “the living standards in the EU are higher” (28% those who stand for signing of the Agreement), “it will mark the start of an accession process to the EU” (18%), “it will promote economic development of Ukraine” (12%), “European judiciary, the rule of law, success in dealing with corruption should be an example to us” (6%) (Diagram “Why do you think Ukraine should sign the Association Agreement with the EU?”).

⁸ The distribution of answers to the question: “Will Ukraine gain or lose more from accession to the EU (the Customs Union)?” in different groups of respondents largely follows the distribution of answers to the question: “Will you personally gain or lose more, if Ukraine joins the EU (the Customs Union)?” (e.g., younger and more educated people, residents of the country’s West and Centre similarly more often believe that Ukraine will win from accession to the EU). The same trend is observed in answers to the question: “Where do you think people of your occupation or social group have better prospects – in the EU or in the Customs Union?”.

Opponents of the Agreement have often argued that “we will not be equal partners in the EU, we will join it on terms of enslavement” (19%), “this will give Ukraine nothing, it will not promote economic development” (13%), “it is better to make friends with Russia” (11%), “the EU is in crisis, it is breaking apart” (9%), “we are not ready to sign the Agreement” (9%), “we should not adjust to match any structure but set things right on our own” (8%), “domestic production will decline, we will become a raw material appendage of the EU” (6%) (Diagram “*Why do you think Ukraine should not sign the Association Agreement with the EU?*”).

At that, only 30% of respondents are familiar with the content of the Agreement (24% in the West; 35% in the South) (Diagram “*Are you familiar with content of the Association Agreement between Ukraine and the EU?*”). Knowledge of the Agreement increases with respondents’ education (from 15% among people with incomplete secondary education to 39% among those who have higher or incomplete higher education).

48% of citizens know that the EU has set the requirements Ukraine should meet for the Agreement to be signed, but only 7% know all of them, 81% knows them partially, and 11% have no idea whatsoever (Diagrams “*Do you know that the EU has set the requirements Ukraine should meet before signing the Association Agreement?*”, “*Are you familiar with these requirements?*”).

Assessing the effects of the Association Agreement on different aspects of life of Ukrainian society, the respondents have often noted positive effects in most domains listed in the questionnaire: development of economy (53%), democracy (52%), education, science and technologies (51%), development of the housing and utilities sector, roads, infrastructure (49%), quality of foodstuffs (47%), efficiency of Ukrainian leadership (41%), individual income (41%), corruption (38%), unemployment (37%), environmental situation (36%) (Diagram “*What effects do you expect from the Association Agreement...?*”). A relative majority of Ukrainians polled (30%) expect no effect on the level of social stratification; 35% – negative effects on prices for goods and services (slightly higher than the proportion of those expecting positive changes – 31%).

In other words, the Ukrainians polled expect the Agreement to have a positive impact on all domains except prices for goods and services (where the accession to the Customs Union is thought slightly more often to bring positive changes in this domain). **The biggest difference in favour of signing the Association Agreement was shown in the following domains:**

- the level of democracy (33%)
- the level of corruption (23%)
- efficiency of the leadership (21%)
- development of the housing and utilities sector, roads, infrastructure (20%).⁹

According to the survey, positive effects from the Association Agreement are more often expected in the West and Centre, by representatives of younger age groups, and people with high education (*refer to the Razumkov Centre’s web site: www.razumkov.org*).

In general, the respondents representative of all sectors of the economy have exhibited predominantly positive expectations from the Agreement (from 54% to 64%). Among social and professional groups, businessmen and students shared the most optimistic views, pensioners – the most pessimistic.

⁹ Diagram “*Difference in expectations of effects ...*”.

SOCIAL PORTRAITS OF UKRAINIANS SUPPORTING MEMBERSHIP IN THE EU OR THE CUSTOMS UNION, AND OF THOSE UNDECIDED

On the basis of answers to three questions: “*Which integration path should Ukraine choose?*”, “*Should Ukraine join the EU?*”, “*Should Ukraine join the Customs Union?*”, three groups of respondents were distinguished: 1) staunch supporters of Ukraine’s accession to the EU (35% of all those polled); 2) staunch supporters of Ukraine’s accession to the Customs Union (29%); 3) those undecided about Ukraine’s integration trajectory (36%).*

Supporters of Ukraine’s accession to the EU (hereinafter – supporters of the EU)

Two-thirds of the EU supporters are younger than 50 years old. 69% of them live in the West and Centre. More than two-thirds (68%) are Ukrainian-speakers. 65% are voters of the three biggest opposition parties – All-Ukrainian Association *Batkivshchyna*, UDAR of Vitaliy Klychko and All-Ukrainian Association *Svoboda*. 40% have higher or incomplete higher education – much more than among the proponents of the Customs Union (25%) and among those undecided (27%). The majority of them (57%) have relatively high income (those who reportedly “can live on it” or “do well”). As well as in the entire adult population of Ukraine, women are in a slight majority in that group (54%).**

The importance of personal experience and contacts in showing support for different lines of integration is shown by the fact that, say, the EU supporters have had much greater personal experience of visiting the EU countries than proponents of the Customs Union (34% and 13%, respectively). They also more often have had the experience of living in the EU countries (7% and 2%, respectively), friends or relatives living in the EU countries (42% and 17%, respectively).

Social environment plays an important role in shaping foreign policy preferences. For instance, 37% of the EU supporters said that their friends or relatives support Ukraine’s European integration, and none of them favour the country’s membership in the Customs Union (while among strong proponents of accession to the Customs Union, such an answer was given by only 2% of respondents).

48% of this group often termed their knowledge of the EU as average; an equal percent of respondents from this group (42%) also thought their knowledge of the Customs Union was average or poor.

Comparing the channels of information that influence perceptions of the EU and the Customs Union, the EU supporters – probably, due to high share of young people and people with high education – obtain information from Ukrainian and Russian Internet sites.

The EU supporters critically assess recent developments in Ukraine: 74% believe the situation in Ukraine is developing in a wrong direction (among all the respondents polled – 66% think so).

There is little difference in perceptions of the most urgent social problems among proponents of different integration lines. However, slightly more supporters of the EU (31%) noted the “inefficiency of Ukrainian leadership, their inability to implement reforms and enforce the law” as compared to 22% of the proponents of the Customs Union, and 24% of those undecided.

Despite dissatisfaction with the Ukrainian authorities’ policy, almost half (45%) of the EU proponents believe that the authorities still lead Ukraine toward integration with the EU.

Among the advantages of EU membership, they often mentioned high level of social protection (70%), rule of law (43%) and developed democracy (41%). 94% believe that the EU offers better conditions for Ukraine’s innovative development, its transformation into a country with developed economy, social and cultural sector.

This group also mentioned **some disadvantages** of joining the EU. They usually spoke of unstable economic situation in some EU countries (25%), uneven economic development of the EU countries (25%), domination by some leading EU countries over others (22%), shortage of natural resources (19%), different cultures of the EU countries (16%). 28% saw no disadvantages.

Membership in the Customs Union, according to respondents, has the following disadvantages: corruption (64%), Russia’s domination (41%), lack of democracy (41%), grey economy (40%). Among the **advantages** of the Customs Union, they often mentioned common history (35%), and natural resources (35%). 40% of EU supporters see no advantage in joining the Customs Union.

73% believe the EU is a more reliable partner than the Customs Union, while 85% prefer the EU for “a more socially-oriented policy, where GDP growth results in growth of individual incomes” (85%).

The majority believes that in the EU countries, people are more socially active, cultured, moral, and having a stronger sense of dignity than people in the Customs Union. Nevertheless, the mentality of people living in the Customs Union countries is more similar to that of Ukrainians.

The majority in this group believes that Ukraine and Ukrainian people will benefit from Ukraine’s accession to the EU, and will lose from its accession to the Customs Union.

* The latter group includes those who, answering those questions, either gave vague and contradictory answers (e.g., support accession to both the EU and the Customs Union, or evasive replies (found it “hard to say”).

** Women are also in a majority among the adherents of Ukraine’s accession to the Customs Union (55%) and among those undecided (56%).



Supporters of Ukraine's accession to the Customs Union
(hereinafter – supporters of the Customs Union)

The majority of supporters of the Customs Union (55%) are over 50 years old. Pensioners, here, represent the largest social group (40%); the majority (58%) are on a low income; 70% live in the South and the East of Ukraine. A relative majority (45%) are people whose mother tongue is Russian; 46% are Party of Regions voters (almost twice as much as among all the respondents polled) and 13% are CPU voters.

In comparison to the group of EU supporters, they had more experience of travelling (61% and 44%, respectively) or living (17% and 7%, respectively) in countries of the Customs Union. Only 13% of them visited the EU countries, and 2% had the experience of living there.

Industrial workers comprise a substantial part of this group (22%) making it different from the group of EU supporters (12% of industrial workers).

46% of this group often termed their knowledge of the EU as poor; an equal percent of respondents from this group (42%) also thought their knowledge of the Customs Union was average or poor. This group tends to receive information about the Customs Union and the EU from Russian and regional TV channels.

Supporters of the Customs Union are often unsure which path the state leadership has chosen for Ukraine (only 10% believe that it is the path of European integration).

Among the main advantages of the Customs Union, they referred to common history (86%), natural resources (69%), stable economic situation (34%). 80% of them believe that the Customs Union offers the best conditions for innovative development of Ukraine.

Some representatives of that group also named corruption (34%), grey economy (26%), Russia's domination (18%) as disadvantages of the Customs Union. However, 38% saw no disadvantages.

While 41% saw no advantages of the EU, 27% noted a high level of social protection, 21% – the rule of law, 19% – availability of financial resources, 16% – a developed democracy.

The main drawbacks of the EU are the domination by some leading states over other EU members (46%), unstable economic situation in some EU countries (46%), uneven economic development of its countries (39%), cultural differences (34%), shortage of natural resources (30%).

86% believe that the Customs Union is a more reliable partner than the EU. A relative majority (42%) are certain that "a more socially-oriented policy, where GDP growth results in growth of individual incomes" is more characteristic of the Customs Union members (against 14% those who preferred the EU).

The majority sticks to the opinion that people in the Customs Union countries are more generous, friendly, cordial, mentally more kindred with the people in Ukraine, and a relative majority – that they are more moral than in the EU countries.

The majority believes that both Ukraine and Ukrainians will benefit from joining the Customs Union, and will lose from membership in the EU.

* Those who reported that their incomes were enough only for food and acquisition of inexpensive necessary items, or not enough even for food.

To conclude, the following can be said:

1. Most of the Ukrainians polled welcome Ukraine's accession to the EU. Their attitude toward accession to the Customs Union is controversial – the number of its proponents and opponents is roughly the same.

2. Support for Ukraine's integration with the EU or the Customs Union differs substantially among different social, professional and socio-demographic groups. Ukraine's accession to the EU is favoured more in the West and the Centre, among the Ukrainian-speaking groups, representatives of younger and middle aged groups, people with high level of education and income. Accession to the Customs Union, on the other hand, is often supported in the South and the East, among the Russian-speaking groups, and elderly people with low level of education and income.

Ukrainians undecided about Ukraine's integration trajectory

Regional and age structure of those undecided about Ukraine's integration trajectory is similar to the structure of an adult population of Ukraine in general. This means that the respondents are more or less evenly present in all age and regional groups.

Representatives of this group:

- much more often visited the Customs Union countries (42%) than the EU (16%);
- more often considered their knowledge about both the EU and the Customs Union as low (47%);
- the majority of them (51%) either do not know about integration preferences of their close surrounding, or reported that there were no supporters of the EU or the Customs Union around them;
- among the EU advantages, they often mentioned: high level of social protection (40%), the rule of law (29%), a developed democracy (22%); among disadvantages: an unstable economic situation in some EU countries (34%), uneven economic development of the EU countries (32%), domination by some leading states over other EU members (28%), shortage of natural resources (22%), different cultures of the EU countries (22%);
- among the advantages of the Customs Union: common history of its members (46%), access to natural resources (42%); among its disadvantages: corruption (44%), grey economy (33%), Russia's domination (25%), lack of democracy (25%);
- more often preferred the EU for "a more socially-oriented policy, where GDP growth results in growth of individual incomes" (35% against 6% of those who ascribed that feature to the Customs Union);
- more often preferred the Customs Union (27%) to the EU (17%) as a reliable partner, easier to come to terms with;
- more often are undecided, where – in the EU or the CU – conditions for Ukraine's innovative development are better (38%), or believe that in the EU and in the Customs Union those conditions are the same (31%). Still, those who believe that conditions are better in the EU, prevail over those who believe that conditions are better in the Customs Union (22% and 10%, respectively);
- more often cannot decide on the benefits or losses from accession to the EU and the Customs Union for them personally and for Ukraine as a whole;
- are undecided which integration path Ukraine's leadership has chosen to lead the country: usually, they either believe that it leads the country neither to the EU nor to the Customs Union (36%), or simply do not know (28%);
- believe that such human features as social activity, culture, morality, sense of dignity, generosity, open-heartedness are equally characteristic of people both in the EU and the Customs Union. However, citizens of the Customs Union countries are believed to be closer to Ukrainians mentally (61%);
- more often agree rather than disagree that the European model is more attractive than the Russian one (37% and 17%, respectively); that the present crisis in the EU will be done away with, and the EU citizens will see no serious deterioration of living standards (37% and 18%, respectively); that Eastern European countries that joined the EU won rather than lost (37% and 20%, respectively); but the Customs Union countries also won rather than lost (29% and 19%, respectively); that the Customs Union countries have no democracy (38% and 28%, respectively).

However, when summing up all those answers, one may say that representatives of that group consider the situation in the EU somewhat better than the situation in the Customs Union.

Among representatives of different employment sectors, the industrial workers stand out as *more inclined to Ukraine's accession to the Customs Union than to the EU*. Their position may be attributed to the interest of many Ukrainian industrial enterprises in Russian market.

3. Greater attractiveness of the EU ensues largely from the fact that Ukrainian citizens often preferred

the European model of organisation of the state and society, as compared to the Russian one.

Among the main advantages of the EU, citizens see the high level of social protection, rule of law, developed democracy, availability of financial resources, quality of healthcare, high levels of science and technology development, low level of corruption. The social dimension of the EU policy, according to respondents, is its main advantage over the Customs Union countries.

Instead, the perceived advantages of the Customs Union include common history and culture, similar mentality among citizens of the Customs Union members, access to natural resources, energy supplies, as well as stable economic situation.

Among the drawbacks of the EU, the Ukrainian citizens see unstable economic situation in some EU countries, uneven economic development of its member states, domination by some leading states over other countries, as well as differences in cultures, values, mentality of citizens of the EU countries, shortage of natural resources, unemployment.

Meanwhile, corruption, grey economy, Russia's domination, and lack of democracy are seen as major drawbacks of the Customs Union.

4. People living in the Customs Union countries, according to respondents, are closer to Ukrainians mentally. However, judging by the logic of those polled, that mental kinship largely involves negative features: relatively low culture, social passivity, lack of personal dignity. Such qualities as high level of culture, social activity, sense of dignity, according to respondents, are more inherent in citizens of the EU countries.

5. In terms of personal contacts and living experience, the Ukrainians are more familiar with the Customs Union countries than the EU. Respondents who visited the EU countries are more prone to support Ukraine's accession to the EU than those who did not visit them. Similarly, those who visited the Customs Union countries are keener to support Ukraine's accession to the Customs Union than those who have never travelled there. However, visiting the EU makes it attractive for more than two-thirds of travellers, while visiting the Customs Union – for only half.

The poll results lead to a conclusion that more attractive image of the EU, compared to that of the Customs Union, has been largely shaped under the influence of mass media.

6. When assessing the effects of Ukraine's integration with the EU, positive expectations prevail: possibility of a visa-free travel across the EU countries; perfection of the judicial system; access to advanced technologies; modernisation of enterprises; access to financial resources for economic development; enhancement of the rule of law; reduction of unemployment; creation of new working places. Drain of skilled manpower to the EU countries and deterioration of relations with Russia were among the negative effects most frequently mentioned by the respondents.

Among the effects of Ukraine's accession to the Customs Union, the respondents mentioned both positive (unification of the fraternal peoples; restoration of disrupted economic ties, free trade between countries of the Customs Union; improvement of relations with Russia; access to cheap energy resources; preservation of culture,

traditions, moral values; discounts for goods and services from Russia, Belarus, Kazakhstan), and negative factors (dependence on Russia; Russia's influence on internal processes in Ukraine; a step back in political, socio-economic development; drifting apart from the EU).

Comparing the conditions for innovative development of Ukraine, its transformation into a country with developed economy, social and cultural sector, a relative majority of Ukrainians polled preferred the EU.

A relative majority (41%) of those polled believe that they will gain personal benefits from accession to the EU (26% – will lose). The number of those who believe that they will win from accession to the Customs Union is equal to the number of those thinking they will lose.

7. Supporters of the EU membership usually give economic reasons to explain their position, but also refer to social prospects and social changes set to take place in Ukraine following its accession to the EU, as well as facilitation of travel to the EU countries for Ukrainian citizens.

The motives for standing against the EU membership fall into following groups: cultural and mental gap between Ukraine and the EU countries; inequality of partnership ("Ukraine will be dependent on the EU"); and the EU's uncertain future.

Cultural and mental kinship is clearly the main reason to support membership in the Customs Union. The next important motives are economic benefits and stability.

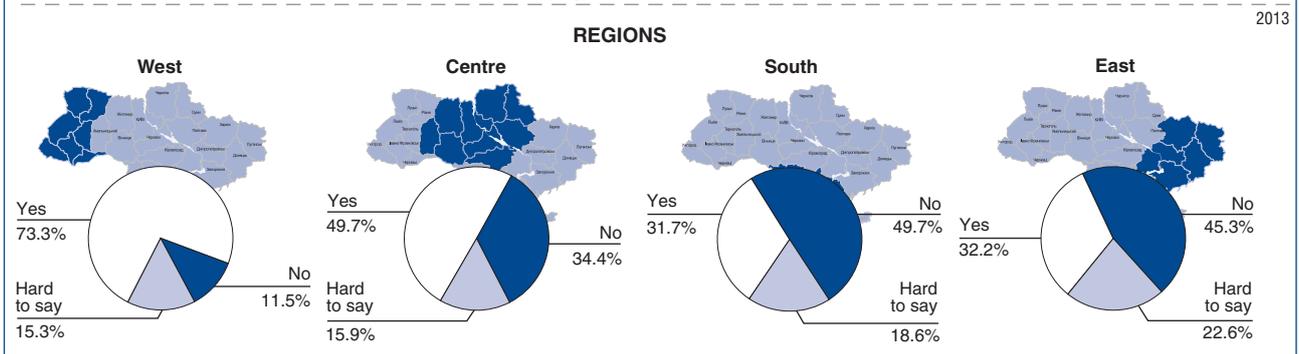
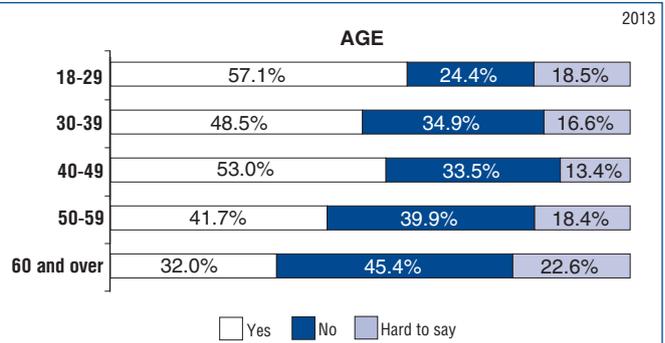
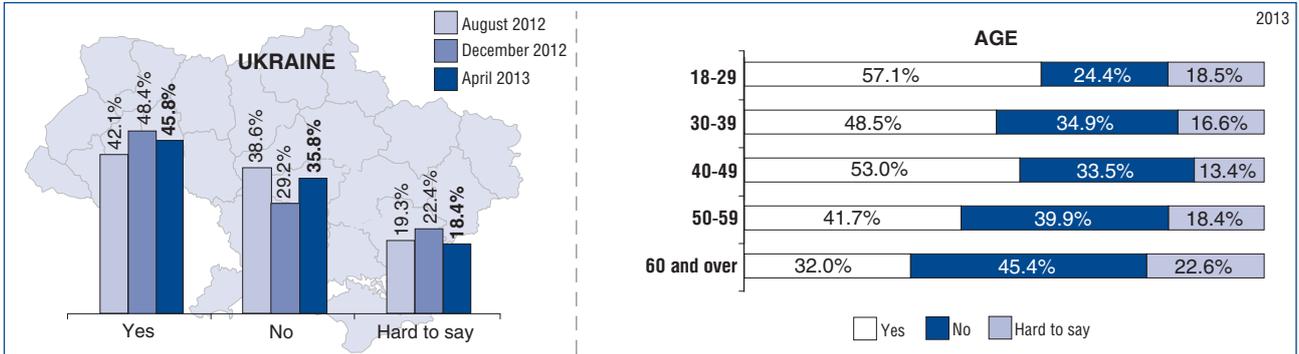
The main motives for being against the accession to the Customs Union include inequality, Russia's domination, danger of losing Ukraine's independence, lack of prospects and backwardness of the union.

8. According to those polled, corruption, low level of economic development, slow pace of reforms, issues in the field of democracy are the factors that stand on the way of Ukraine's integration with the EU. Only Ukraine's integration with the EU, as the majority believes, may impede Ukraine's accession to the Customs Union. European integration, however, would mean meeting tough requirements put forward by the EU, while Ukraine's accession to the Customs Unions would not require the fulfillment of such requirements.

9. 42% of citizens support signing of the Association Agreement between the EU and Ukraine, while 33% are against it. One of the main motives for support is that the Agreement will mark the start of an accession process to the EU. At the same time, only 30% of respondents are familiar with the content of the Agreement.

Assessing the effects of the Association Agreement, respondents often note its positive effects on most aspects of life. Only with regards to prices for goods and services, the proportion of those who expect a negative effect slightly exceeds the proportion of those who believe that the effect will be positive.

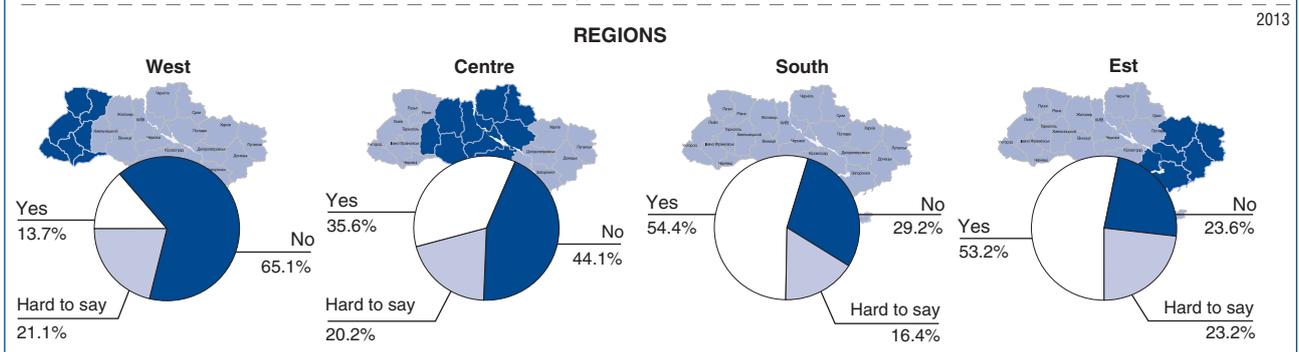
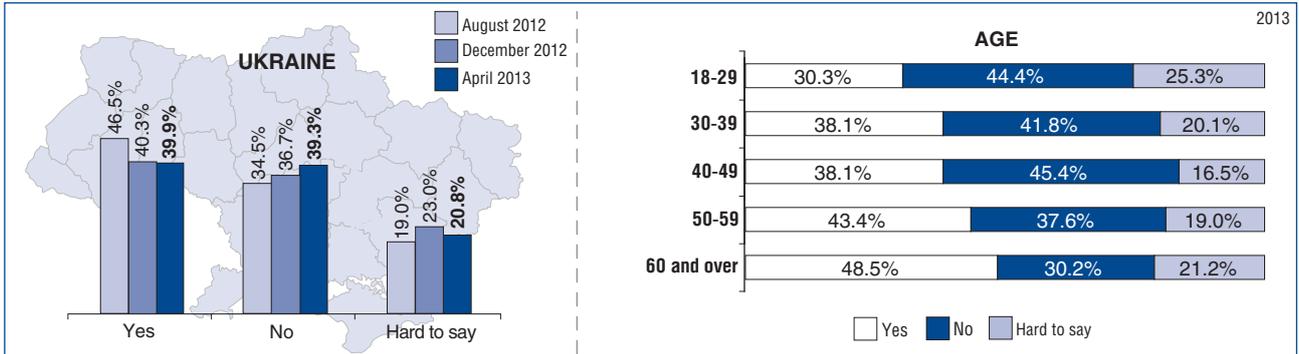
10. Adherents of accession to the EU and adherents of accession to the Customs Union substantially differ in their socio-demographic and social features. The former are mainly people of younger and middle age, residents of the West and Centre, Ukrainian-speakers, people with high education and relatively high income and voters of the opposition parties; the latter are generally elderly people, residents of the South and East, often Russian-speakers with low education and income, voters of the Party of Regions and of the Communist Party.

Should Ukraine join the European Union (EU)?
 % of citizens polled


	EDUCATION				SOCIAL CLASS		MATERIAL STANDING				SOCIAL AND PROFESSIONAL GROUPS					
	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Middle class	Lower class	We hardly make ends meet, money is insufficient to buy even necessary foodstuffs	It is sufficient for food and acquisition of inexpensive necessary items	By and large, you can live with it, but acquisition of durables, such as furniture, a refrigerator, a TV set, causes difficulties	We do well so far but cannot afford some purchases (an apartment, a car, etc.)	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed
Yes	19.4	37.1	46.2	58.2	51.1	38.3	29.7	42.0	53.5	52.5	60.7	57.3	43.8	67.8	34.1	54.9
No	42.9	38.5	38.3	29.1	33.1	40.7	45.2	38.2	30.3	36.4	25.0	26.5	39.1	13.8	43.9	30.7
Hard to say	37.8	24.4	15.5	12.7	15.8	21.0	25.1	19.8	16.2	11.0	14.3	16.2	17.1	18.4	22.0	14.4

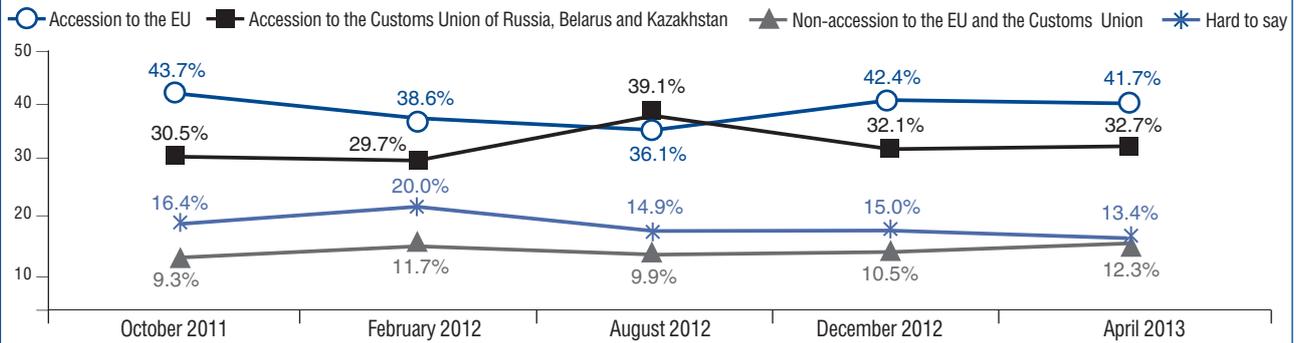
	OWNERSHIP			SECTORS OF ECONOMY							NATIVE LANGUAGE		
	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health	Russian	Ukrainian	Both Russian and Ukrainian
Yes	49.0	58.8	46.1	40.3	50.0	54.1	51.2	49.3	47.2	58.5	30.1	56.0	37.1
No	36.4	23.5	36.2	43.5	32.6	38.7	29.2	30.6	31.5	17.0	50.8	27.1	40.4
Hard to say	14.6	17.6	17.7	16.1	17.4	7.2	19.6	20.1	21.3	24.5	19.1	16.9	22.5

Should Ukraine join the Customs Union of Russia, Belarus and Kazakhstan (CU)?
% of citizens polled



	EDUCATION				SOCIAL CLASS		MATERIAL STANDING				SOCIAL AND PROFESSIONAL GROUPS					
	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Middle class	Lower class	We hardly make ends meet, money is insufficient to buy even necessary foodstuffs	It is sufficient for food and acquisition of inexpensive necessary items	By and large, you can live with it, but acquisition of durables, such as furniture, a refrigerator, a TV set, causes difficulties	We do well so far but cannot afford some purchases (an apartment, a car, etc.)	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed
Yes	47.4	43.1	40.2	35.3	37.7	43.6	49.4	42.3	35.3	36.4	36.1	31.5	43.4	16.1	48.1	36.9
No	19.6	34.2	40.5	45.7	41.5	35.7	26.6	38.3	43.5	44.1	45.8	49.3	37.6	55.2	30.9	44.4
Hard to say	33.0	22.7	19.3	19.0	20.9	20.7	23.9	19.4	21.1	19.5	18.1	19.2	19.0	28.7	21.1	18.6

	OWNERSHIP			SECTORS OF ECONOMY							NATIVE LANGUAGE		
	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health	Russian	Ukrainian	Both Russian and Ukrainian
Yes	36.4	35.3	40.6	47.0	34.4	42.7	33.7	29.7	36.5	38.5	56.0	28.9	48.0
No	44.7	42.4	40.8	32.4	46.2	45.5	52.1	44.8	39.7	44.2	24.7	50.2	28.9
Hard to say	19.0	22.4	18.5	20.5	19.4	11.8	14.2	25.5	23.8	17.3	19.3	20.9	23.1

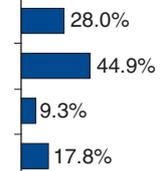
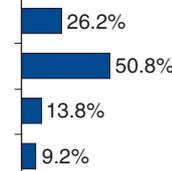
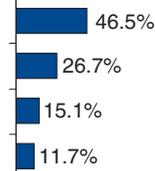
Which integration path should Ukraine choose?
 % of citizens polled


April 2013


West

Centre

South

East


	AGE					EDUCATION				SOCIAL CLASS		NATIVE LANGUAGE				
	18-29	30-39	40-49	50-59	60 and over	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Middle class	Lower class	Russian	Ukrainian	Both Russian and Ukrainian		
Accession to the EU	54.9	44.5	45.4	38.2	27.9	16.3	34.7	40.1	54.6	46.6	34.7	28.1	52.5	30.3		
Accession to the Customs Union of Russia, Belarus and Kazakhstan	21.1	29.6	31.4	34.8	44.6	44.9	36.2	33.5	26.3	30.5	36.6	49.7	22.0	38.8		
Non-accession to the EU and the Customs Union	10.8	12.1	11.3	14.4	12.9	17.3	13.7	12.3	9.9	10.7	14.6	9.5	14.3	11.5		
Hard to say	13.2	13.8	11.9	12.6	14.6	21.4	15.4	14.1	9.1	12.2	14.0	12.6	11.2	19.4		
	SOCIAL AND PROFESSIONAL GROUPS						OWNERSHIP			SECTORS OF ECONOMY						
	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health
Accession to the EU	58.3	52.8	37.8	67.4	30.2	49.6	43.5	51.8	42.5	32.3	43.5	47.3	50.0	44.4	46.4	49.1
Accession to the Customs Union of Russia, Belarus and Kazakhstan	27.4	23.1	35.9	10.1	42.7	23.7	29.2	28.2	32.6	39.2	26.1	35.5	25.0	26.4	27.2	30.2
Non-accession to the EU and the Customs Union	3.6	12.5	14.2	7.9	11.7	11.4	13.4	9.4	13.9	17.7	14.1	7.3	13.1	12.5	15.2	9.4
Hard to say	10.7	11.6	12.1	14.6	15.4	15.3	13.8	10.6	10.9	10.8	16.3	10.0	11.9	16.7	11.2	11.3

April 2013

What are the main advantages of the European Union?*	
% of citizens polled	
High level of social protection	46.9
Rule of law	31.5
Developed democracy	27.1
Availability of financial resources	22.2
Quality of healthcare	18.6
Science and technology development	16.7
Low level of corruption	13.7
Access to education	8.9
High level of public safety	7.3
High level of culture	7.3
Social activity	4.6
Common history, culture, similar mentality of citizens of the EU countries	3.5
Other	0.8
I see no advantages in the European Union	18.0
Hard to say	5.9

* Respondents were supposed to give not more than three acceptable answers.

What are the main advantages of the Customs Union?*	
% of citizens polled	
Common history, culture, similar mentality of citizens of the Customs Union countries	53.4
Availability of natural resources, energy supplies	47.1
Stable economic situation	15.4
Cheap manpower	10.6
Science and technology development	8.1
Access to education	5.9
High level of social protection	5.8
Quality of healthcare	4.0
Social activity	3.9
Democratic development	3.4
High level of culture	2.0
Other	1.3
I see no advantages in the Customs Union	20.8
Hard to say	8.3

* Respondents were supposed to give not more than three acceptable answers.

Comparing the EU and the Customs Union, which one is...?				
% of citizens polled				
	EU	Customs Union	Equally the EU and the Customs Union	Hard to say
... a simpler and more reliable partner, easier and safer to come to terms	32.3	36.9	13.6	17.2
... more prone to dictate, both politically and economically, to its members	29.4	30.7	20.6	19.3
... offers more opportunities for promoting goods of its member countries to markets of third countries	30.5	26.7	20.6	22.2
... pursues a more socially-oriented policy, where GDP growth results in growth of individual incomes	46.5	14.6	13.2	25.7

Do you agree with the following statements?*			
% of citizens polled			
	Yes	No	Hard to say
The European model of organisation of the state and society is more attractive than the Russian model	48.9	23.3	27.8
Eastern European countries that joined the EU won, rather than lost	48.2	22.9	28.9
The present crisis in the EU will be done away with, the EU citizens will not face fundamental deterioration of living standards	48.0	19.9	32.1
Countries of the Customs Union (Russia, Belarus, Kazakhstan) have no democracy	42.8	31.3	25.8
Countries that joined the Customs Union have won, rather than lost	37.0	28.2	34.8
In the Customs Union, Ukraine can successfully cope with the crisis	36.5	36.1	27.4
Homosexuality is imposed in the EU countries	31.2	36.2	32.6
Greater mass protests in some EU countries, as compared to Ukraine, show that the crisis in the EU is greater than in Ukraine	29.0	43.6	27.3
Ukraine can cope with its domestic problems without foreign assistance	24.0	47.6	28.3

* Respondents were supposed to give not more than three acceptable answers.

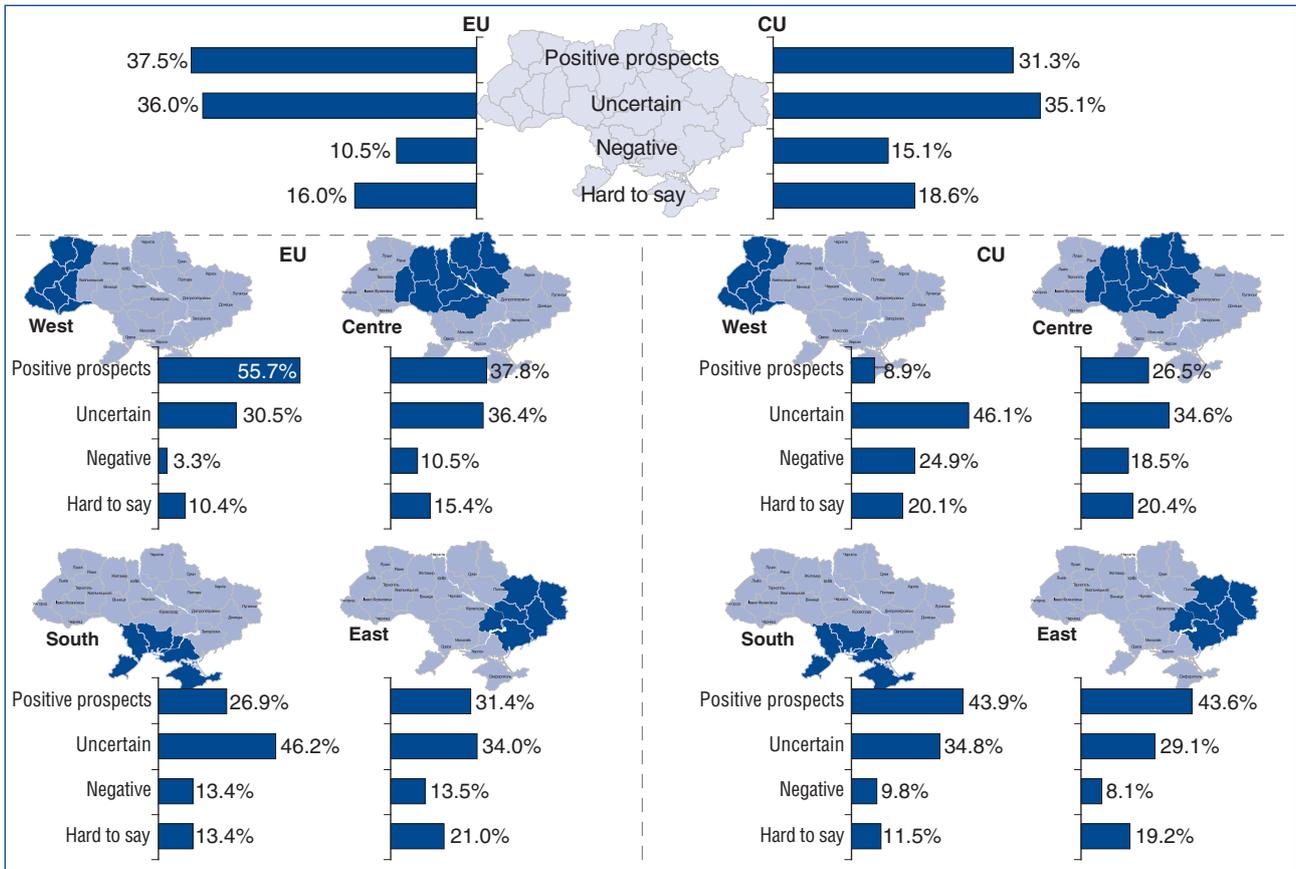
What are the main disadvantages of the European Union?*	
% of citizens polled	
Unstable economic situation (crisis in some EU countries)	34.2
Uneven economic development of the EU countries	31.8
Domination of the leading states over other EU countries	31.0
Differences in cultures, values, mentality of citizens of the EU countries	23.5
Shortage of natural resources	23.4
Unemployment	15.9
Consumer mentality, earthliness	10.1
Inefficient migration policy	9.4
Other	1.0
I see no disadvantages in the European Union	13.4
Hard to say	10.4

* Respondents were supposed to give not more than three acceptable answers.

What are the main disadvantages of the Customs Union?*	
% of citizens polled	
Corruption	48.0
Grey economy	33.2
Russian domination	28.6
Lack of democracy	27.3
Inadequate social protection of citizens of the Customs Union countries	14.6
Inefficiency of state leadership	12.2
Low level of public safety	10.3
Unfriendly business environment	6.7
Limited scientific and technological development	4.3
Other	0.9
I see no disadvantages in the Customs Union	14.5
Hard to say	10.2

* Respondents were supposed to give not more than three acceptable answers.

How would you assess the prospects for further development of the EU and the Customs Union?
% of citizens polled



	AGE					EDUCATION				SOCIAL AND PROFESSIONAL GROUPS						OWNERSHIP			SECTORS OF ECONOMY						NATIVE LANGUAGE			
	18-29	30-39	40-49	50-59	60 and over	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health	Russian	Ukrainian	Both Russian and Ukrainian
Positive prospects	45.4	42.5	40.4	34.8	27.2	16.5	31.7	37.9	46.3	55.4	43.9	35.7	52.3	28.7	46.2	39.5	42.9	39.6	30.6	41.8	42.3	46.7	44.4	37.0	34.0	29.1	43.2	31.6
Uncertain	35.2	36.9	35.3	34.8	37.2	34.0	38.6	36.3	33.3	25.3	37.6	38.7	29.5	36.3	30.4	38.7	36.5	37.9	40.3	37.4	38.7	33.7	38.9	33.9	43.4	36.7	34.6	40.7
Negative	5.7	9.3	10.3	13.2	13.8	13.4	11.7	10.9	8.4	7.2	6.6	12.1	2.3	13.7	8.9	11.1	6.5	10.3	16.7	8.8	9.0	7.7	5.6	7.1	7.5	16.4	7.7	10.9
Hard to say	13.7	11.3	14.0	17.2	21.8	36.1	18.0	14.8	12.0	12.0	11.9	13.5	15.9	21.4	14.5	10.7	14.1	12.2	12.4	12.1	9.9	11.8	11.1	22.0	15.1	17.8	14.6	16.7

	AGE					EDUCATION				SOCIAL AND PROFESSIONAL GROUPS						OWNERSHIP			SECTORS OF ECONOMY						NATIVE LANGUAGE			
	18-29	30-39	40-49	50-59	60 and over	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health	Russian	Ukrainian	Both Russian and Ukrainian
Positive prospects	22.5	29.6	30.8	32.3	40.0	37.1	33.1	33.1	26.3	30.1	23.8	34.1	13.6	38.4	20.7	31.7	24.3	32.2	36.2	30.1	34.5	29.6	29.7	23.0	24.5	47.7	21.6	35.3
Uncertain	38.8	37.5	39.6	34.6	27.7	21.6	32.2	35.3	40.2	27.7	41.6	32.7	42.0	29.3	41.0	37.7	37.9	35.4	35.7	34.4	34.5	37.9	37.9	38.1	39.6	29.3	39.1	32.2
Negative	16.7	17.7	14.6	15.0	12.1	5.2	14.2	15.4	17.2	25.3	16.2	17.6	19.3	11.6	15.1	16.7	18.3	17.7	13.0	19.4	18.2	20.1	16.6	15.1	17.0	8.6	19.0	13.4
Hard to say	22.0	15.2	14.9	18.2	20.3	36.1	20.5	16.3	16.3	16.9	18.5	15.7	25.0	20.6	23.1	13.9	19.5	14.7	15.1	16.1	12.7	12.4	15.9	23.8	18.9	14.4	20.4	19.1

Comparing the EU and the Customs Union countries, where do you think the people are...?
% of citizens polled

	In the EU countries	In the CU countries	Both, equally	Hard to say
More generous, friendly, cordial	25.1	22.8	44.5	7.6
More socially active and caring	41.5	14.7	34.2	9.7
More cultured	47.6	11.2	32.2	9.0
More moral	30.7	19.8	35.5	13.9
Have a stronger sense of dignity	42.1	14.1	32.5	11.3
Mentally more kindred with people in Ukraine	8.2	64.3	18.6	9.0

Why do you think we SHOULD join the EU?*
% of those willing to join

Life will get better, living standards will increase, we will secure a better life for our children and grandchildren	21.4
The living standards in the EU are higher than in Ukraine	21.0
Since Europe is technologically and socially more developed than Ukraine, accession to the EU will speed up Ukraine's development	10.8
It will promote economic reforms, development of economy, industry	10.1
This will give Ukrainian citizens a possibility of visa-free travel across the EU countries	7.6
The European social model is more attractive	7.0
This will reduce unemployment	6.3
Corruption will decline	3.7
In the EU countries, they respect the law	3.5
Hard to say/no answer	5.9

* Cited are only the answers given by more than 3% of respondents.

Why do you think we SHOULD NOT join the EU?*
% of those willing to join

We are not wanted in the EU	18.7
Our people are not adapted and ready to live in the EU	14.3
Today, the EU is in crisis, it will tear the Union apart	13.3
Ukraine will be dependent on EU countries	10.3
Ukraine should independently develop its economy and go its own way	9.7
Ukraine and Europe have different mentality, culture, different level of development, they are not like us	9.2
We should make friends with Russia, not Europe	4.9
This will destroy Ukrainian manufacturers, Ukraine will become a raw-material appendage for Europe	3.4
Ukraine will see no good from that	3.2
Hard to say/no answer	8.2

* Cited are only the answers given by more than 3% of respondents.

Why do you think we SHOULD join the Customs Union of Russia, Belarus and Kazakhstan?*
% of those willing to join

We are all Slavs with a common history	40.9
This will restore economic ties, economic partnership	18.2
We are neighbours	11.6
This will give Ukraine access to cheap energy resources	7.1
This will give stability, as in the Soviet times	7.1
Ukraine will access markets for its products	6.0
This will give benefits to Ukraine	4.5
This will improve the situation in Ukraine	4.0
Hard to say	3.9

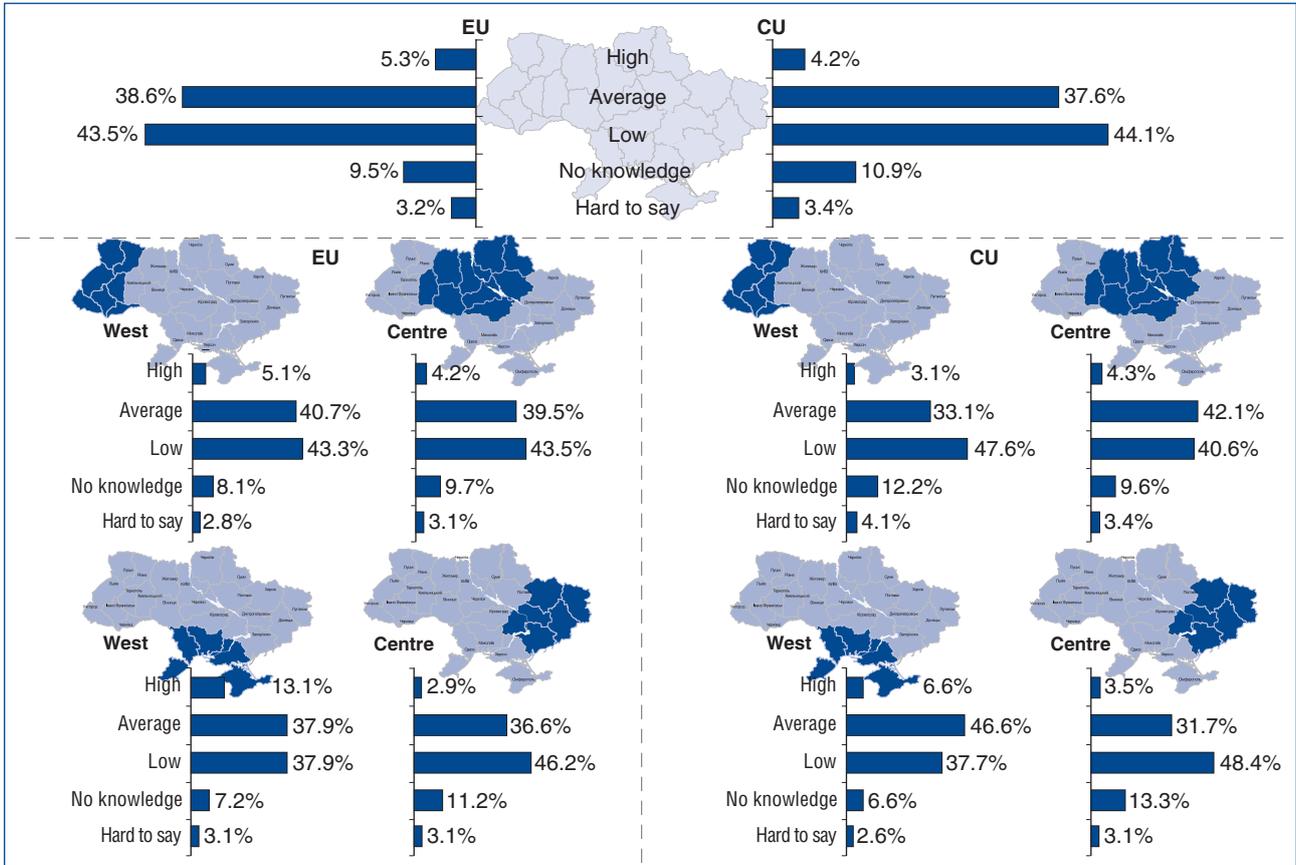
* Cited are only the answers given by more than 3% of respondents.

Why do you think we SHOULD NOT join the Customs Union of Russia, Belarus and Kazakhstan?*
% of those willing to join

In the Customs Union, Ukraine will always stay in the shade of the "big brother", Russia will command us	19.6
They will create another USSR	19.1
This will give Ukraine nothing, the Customs Union has no future	16.3
Low living standards in the Customs Union countries, similar social problems in Ukraine and the CU. Russia is an economically backward country	9.9
This will result in Ukraine losing its independence	8.3
Ukraine should develop independently, build its economy and go its own way	7.1
Hard to say/no answer	10.8

* Cited are only the answers given by more than 3% of respondents.

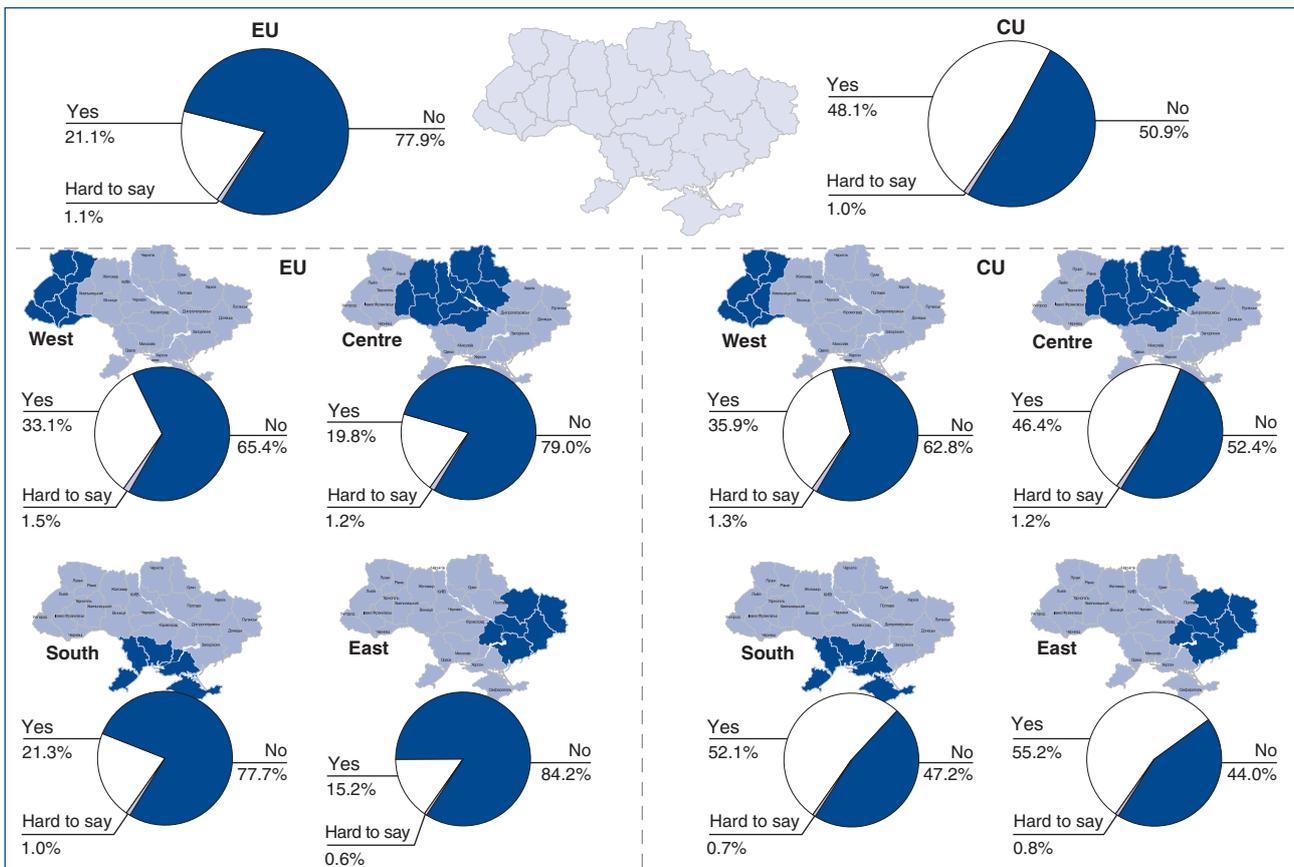
How do you assess your knowledge about the European Union and the Customs Union?
% of citizens polled



	AGE					EDUCATION			SOCIAL CLASS		SOCIAL AND PROFESSIONAL GROUPS					OWNERSHIP			SECTORS OF ECONOMY								
	18-29	30-39	40-49	50-59	60 and over	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Middle class	Lower class	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health
High	4.6	3.1	7.3	5.2	6.0	4.1	2.9	4.5	8.8	6.6	3.7	11.8	6.0	4.1	6.7	5.1	1.9	6.3	6.4	7.6	5.4	6.5	7.3	4.7	10.3	6.3	7.5
Average	36.6	44.1	41.8	40.3	33.5	20.4	30.8	39.5	47.6	44.3	31.9	56.5	52.3	35.5	38.2	33.9	32.2	48.4	39.8	40.6	43.5	33.3	46.4	45.0	44.8	40.5	41.5
Low	46.0	40.7	42.7	43.2	44.0	45.9	47.9	46.4	35.9	38.6	48.5	25.9	34.8	47.1	42.7	45.2	49.2	33.1	45.0	41.3	39.2	47.3	32.7	40.2	35.2	46.0	43.4
No knowledge	9.9	8.8	6.4	7.2	13.0	26.5	14.6	6.7	4.9	7.6	12.2	5.9	3.6	10.5	10.1	12.5	11.9	9.8	3.5	8.4	9.7	9.7	10.0	7.1	9.0	3.2	1.9
Hard to say	2.9	3.4	1.8	4.0	3.5	3.1	3.9	2.9	2.8	2.9	3.7	0.0	3.3	2.8	2.2	3.4	4.8	2.4	5.3	2.1	2.2	3.2	3.6	3.0	0.7	4.0	5.7

	AGE					EDUCATION			SOCIAL CLASS		SOCIAL AND PROFESSIONAL GROUPS					OWNERSHIP			SECTORS OF ECONOMY								
	18-29	30-39	40-49	50-59	60 and over	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Middle class	Lower class	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health
High	2.9	1.7	5.5	4.6	5.8	3.1	1.9	3.2	7.6	5.0	3.0	8.4	5.3	2.5	4.6	5.1	1.5	5.9	5.8	3.8	4.3	5.4	2.7	3.6	4.1	6.3	7.7
Average	32.4	40.3	41.6	40.5	35.8	23.5	30.3	40.9	42.9	42.3	32.5	55.4	44.6	36.5	33.3	35.8	29.1	44.1	35.7	41.4	42.2	35.5	50.9	39.6	46.9	34.6	34.6
Low	48.5	42.8	41.3	43.1	43.4	43.9	48.1	45.1	39.1	39.5	48.5	30.1	40.6	45.9	49.4	43.9	47.7	35.4	46.8	42.6	40.0	43.0	29.1	47.9	36.6	51.2	42.3
No knowledge	13.7	10.7	8.5	8.3	11.7	25.5	15.9	8.1	6.8	10.1	12.3	6.0	5.9	12.1	11.5	11.8	16.2	11.8	5.3	9.7	11.4	10.8	13.6	6.5	10.3	3.9	7.7
Hard to say	2.6	4.5	3.0	3.4	3.3	4.1	3.7	2.6	3.6	3.2	3.7	0.0	3.6	3.0	1.1	3.4	5.5	2.8	6.4	2.5	2.2	5.4	3.6	2.4	2.1	3.9	7.7

Do you have personal experience of visiting any of the EU or Customs Union countries?
% of citizens polled



	AGE					EDUCATION				SOCIAL AND PROFESSIONAL GROUPS					OWNERSHIP			SECTORS OF ECONOMY							
	18-29	30-39	40-49	50-59	60 and over	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health
Yes	16.9	28.2	27.1	22.1	15.2	5.1	11.5	19.6	34.6	51.2	31.1	17.1	17.2	14.7	17.5	27.7	24.0	27.2	22.0	26.1	27.3	30.2	25.7	23.0	25.0
No	81.8	70.3	72.0	77.0	84.0	92.9	87.5	79.4	64.4	48.8	67.2	81.3	82.8	84.5	81.2	70.8	73.7	72.2	76.9	73.9	70.9	68.6	73.6	73.8	73.1
Hard to say	1.3	1.4	0.9	0.9	0.8	2.0	1.0	1.0	1.0	0.0	1.7	1.7	0.0	0.8	1.2	1.6	2.3	0.6	1.1	0.0	1.8	1.2	0.7	3.2	1.9

	AGE					EDUCATION				SOCIAL AND PROFESSIONAL GROUPS					OWNERSHIP			SECTORS OF ECONOMY							
	18-29	30-39	40-49	50-59	60 and over	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health
Yes	35.2	47.0	51.8	55.5	52.6	34.7	41.4	49.4	55.1	67.5	51.5	48.6	31.8	51.9	35.0	45.5	51.8	51.8	54.1	38.0	55.5	47.9	48.6	49.2	42.3
No	63.7	51.5	47.6	44.0	46.2	63.3	57.6	49.7	43.7	31.3	46.5	50.3	68.2	47.1	63.7	52.2	46.5	48.0	44.3	62.0	43.6	50.9	50.7	48.4	55.8
Hard to say	1.1	1.4	0.6	0.6	1.2	2.0	1.0	.9	1.1	1.2	2.0	1.1	0.0	1.0	1.2	2.4	1.8	0.2	1.6	0.0	0.9	1.2	0.7	2.4	1.9

From what media do you get information about the EU and the Customs Union of Russia, Belarus and Kazakhstan?*
 % of citizens polled

	EU	CU	About the EU				About the CU				About the EU					About the CU				
	UKRAINE		REGIONS								AGE									
			West	Centre	South	East	West	Centre	South	East	18-29	30-39	40-49	50-59	60 and over	18-29	30-39	40-49	50-59	60 and over
Central Ukrainian TV channels	78.5	76.3	79.6	76.4	82.0	78.4	78.1	75.0	81.0	74.4	71.2	79.7	79.3	83.0	80.7	70.5	77.1	75.3	81.9	77.8
Local TV channels	33.3	30.6	41.5	22.4	42.0	35.1	37.4	20.8	38.2	32.6	27.3	33.0	33.7	37.6	35.6	25.3	28.7	31.6	33.6	33.9
Russian TV channels	22.7	24.4	30.0	29.2	22.2	20.5	26.7	27.8	22.3	20.7	12.3	24.3	29.5	29.3	32.5	11.4	23.4	29.6	27.9	31.0
Central Ukrainian newspapers	25.4	24.4	21.9	27.1	20.3	21.7	16.5	25.6	18.0	20.7	38.2	36.3	27.7	15.2	3.9	35.0	31.0	24.9	14.4	3.9
Local newspapers	21.5	20.3	10.9	19.9	35.7	26.3	10.9	23.1	40.0	26.5	23.1	24.6	22.2	24.7	20.0	22.4	27.6	25.3	27.9	21.1
Ukrainian web sites	23.3	21.0	30.5	16.8	26.8	18.2	26.7	16.8	26.6	17.0	13.8	19.2	21.6	20.7	30.2	12.7	17.7	19.8	20.7	29.2
Russian web sites	14.7	14.5	8.7	15.3	18.0	16.4	7.6	15.9	17.7	15.8	24.4	21.8	17.4	10.3	2.7	24.2	22.0	16.7	10.3	2.3
FM radio stations	14.2	13.0	16.8	12.7	21.3	10.7	12.5	12.2	21.0	10.3	17.8	17.5	16.7	13.8	7.4	16.5	16.7	14.3	12.4	7.0
Central Ukrainian radio	9.6	9.8	10.2	14.8	6.6	5.5	10.2	14.8	6.9	6.0	4.8	7.6	9.4	9.5	15.6	4.6	7.6	9.1	9.8	16.2
Other foreign web sites	4.6	3.2	4.8	3.9	10.5	2.5	3.3	2.6	7.2	1.7	9.9	5.1	4.3	3.2	0.8	5.9	3.7	4.0	2.6	0.4
Local state radio	5.4	5.6	0.8	3.2	1.3	4.0	1.0	4.0	1.0	3.5	1.8	2.3	1.5	1.4	2.3	1.8	2.8	2.4	3.4	3.3
Other foreign TV channels	4.0	2.8	0.3	0.0	0.0	1.7	0.8	0.8	4.3	2.6	2.4	2.8	1.2	2.9	3.5	1.8	2.8	1.8	1.1	1.9
Russian newspapers	2.7	2.8	6.4	3.1	5.9	2.6	3.3	2.3	5.2	1.7	4.6	5.4	3.4	3.4	3.3	3.3	3.4	2.1	2.0	2.7
Russian radio stations	1.9	1.9	7.4	5.6	5.2	4.1	6.6	6.2	4.9	4.9	2.0	4.2	4.3	4.6	10.5	2.4	4.2	4.6	4.9	10.3
Other foreign newspapers	1.0	0.9	2.5	0.5	0.3	1.1	2.0	0.6	0.7	0.6	1.8	0.8	0.6	1.1	0.8	1.1	0.8	0.6	0.6	1.0
Other foreign radio stations	0.6	0.4	0.6	0.4	0.6	0.4	0.3	0.0	0.3	0.9	1.5	0.3	0.0	0.3	0.6	0.9	0.0	0.0	0.3	0.4
Other	4.3	4.5	2.3	4.5	7.5	3.8	2.5	4.5	7.2	4.3	6.2	4.2	4.0	3.2	3.7	6.2	4.0	4.3	3.4	4.1
Hard to say	5.1	6.4	4.6	2.9	5.2	7.5	5.3	3.4	5.2	10.7	8.8	3.7	3.6	4.6	4.3	11.0	4.5	5.2	4.9	5.4
	About the EU				About the CU				About the EU		About the CU									
	EDUCATION								SOCIAL CLASS											
	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Middle class	Lower class	Middle class	Lower class								
Central Ukrainian TV channels	77.6	77.5	81.0	76.9	74.5	75.6	78.5	74.6	77.1	80.3	75.4	77.3								
Local TV channels	34.0	33.7	35.4	30.6	30.6	29.4	33.3	28.6	32.7	33.2	29.9	30.8								
Russian TV channels	20.6	21.5	26.7	28.6	19.4	20.0	25.3	28.7	27.7	23.1	27.0	21.7								
Central Ukrainian newspapers	2.1	16.2	21.0	36.3	1.0	14.2	18.9	33.3	29.8	14.9	27.3	13.3								
Local newspapers	10.3	18.6	22.5	28.9	11.3	19.3	25.4	30.5	27.1	16.9	28.7	18.9								
Ukrainian web sites	23.5	23.4	21.9	19.2	22.4	22.5	21.5	16.9	19.1	24.7	18.1	23.4								
Russian web sites	3.1	11.0	13.2	21.8	3.1	10.7	12.9	21.9	19.8	7.6	19.5	7.6								
FM radio stations	10.2	13.9	12.9	16.6	10.2	12.4	11.8	15.3	15.8	12.9	14.9	11.4								
Central Ukrainian radio	19.4	8.5	10.3	8.5	18.4	9.1	9.9	9.1	8.3	11.9	8.7	11.9								
Other foreign web sites	12.2	5.4	6.2	3.4	12.2	6.4	6.0	3.4	4.7	6.4	4.7	6.8								
Local state radio	1.0	2.9	4.1	7.3	1.0	1.7	3.5	4.6	5.9	2.3	4.2	1.6								
Other foreign TV channels	1.0	3.6	3.0	6.0	1.0	2.5	2.2	4.1	4.8	2.5	3.3	2.0								
Russian newspapers	1.0	1.4	2.0	5.0	1.0	1.2	3.1	4.2	3.7	1.5	3.8	1.5								
Russian radio stations	1.0	1.9	1.9	2.0	1.0	1.9	2.2	1.8	2.4	1.3	2.4	1.5								
Other foreign newspapers	0.0	0.8	1.0	1.3	0.0	0.8	1.0	1.0	1.4	0.6	0.8	0.9								
Other foreign radio stations	1.0	0.5	0.6	0.7	0.0	0.3	0.6	0.2	0.8	0.4	0.4	0.5								
Other	7.2	4.6	3.6	4.1	8.2	4.9	3.6	4.4	3.6	5.3	3.9	5.4								
Hard to say	7.1	8.0	3.3	3.9	9.3	9.8	4.6	4.7	5.4	4.9	6.7	6.1								

* Respondents were supposed to give all acceptable answers.

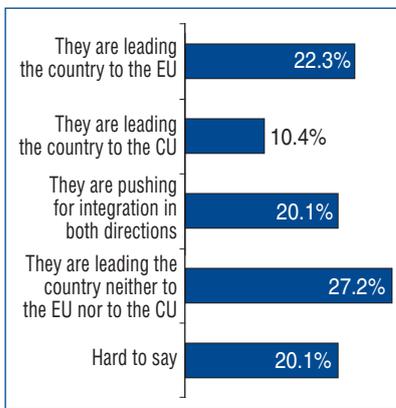
Do the following factors hinder Ukraine's integration in the EU?
% of citizens polled

	Yes	No	Hard to say
High level of corruption in Ukraine	80.2	7.9	11.8
Low level of economic development and insufficient pace of reforms	78.2	9.0	12.9
Problems in the field of democracy	69.8	14.4	15.9
Difference of cultural development of Ukraine from the European and language barriers	40.0	43.6	16.4
Geopolitical (historic, cultural) kinship with Russia	38.2	42.4	19.5

Do the following factors hinder Ukraine's accession to the CU?
% of citizens polled

	Yes	No	Hard to say
Ukraine's integration in the EU	52.8	27.0	20.2
High level of corruption in Ukraine	32.3	51.1	16.6
Low level of economic development of and insufficient pace of reforms	27.7	56.1	16.3
Problems in the field of democracy	20.7	60.2	19.2
Difference of Ukrainian cultural development from Russian	9.6	75.9	14.5

How do you perceive the policy pursued by Ukraine's leadership?
% of citizens polled



What effects will Ukraine's integration to the EU bring for the country?
% of citizens polled

EU*	
Possibility of visa-free travel across the EU countries	37.6
Perfection of the judicial system	26.0
Drain of skilled manpower to the EU countries	24.4
Access to advanced technologies, modernisation of enterprises	22.7
Access to financial resources for economy development	22.3
Deterioration of relations with Russia	22.1
Enhancement of the rule of law	20.9
Reduction of unemployment, creation of new working places	20.5
Transformation of Ukraine into raw-material appendage of the EU	19.1
Reduction of individual incomes, growth of living expenses	18.6
Growth of prices of essential goods, energy resources	18.0
Growth on independence from Russia	15.5
Growth of utility rates	15.5
Deterioration of the quality of foodstuffs, inflow of poor quality goods from the EU	15.2
Growth of competitiveness of Ukrainian goods	14.5
Enhancement of the quality of life, growth of incomes	14.4
Growth of unemployment	14.0
Development of democracy	13.8
Influence of an alien culture	13.6
Enhancement of public safety	12.4
Intensification of fighting corruption	12.2
Perfection of the public health system	11.3
Deterioration of economic situation (closure of uncompetitive enterprises)	9.1
Limitations of state sovereignty	8.8
Deterioration of the environmental situation due to placement of "dirty" enterprises in Ukraine	8.6
Political, economic dependence on the EU	7.9
Limitations of access of Ukrainian goods to the European market	7.6
Creation of a favourable business environment	7.0
Development of education	6.5
Reduction of export of Ukrainian goods to countries of the Customs Union	5.1
Development of culture	4.8
Integration in the EU will have no effect on Ukraine	2.9
Other	0.5
Hard to say	8.9

CU*	
Distancing from the EU	32.1
Dependence on Russia, Russian influence on internal processes in Ukraine	31.0
Unification of spiritually kindred fraternal peoples of the former Soviet republics	30.7
Restoration of disrupted economic ties, free trade	30.4
A step back in political and socio-economic development (back to the USSR)	27.4
Improvement of relations with Russia	22.5
Access to cheap energy resources	22.3
Preservation of culture, traditions, moral values	21.1
Discounts for goods and services from Russia, Belarus and Kazakhstan	19.7
Corruption	18.3
Loss of markets in Europe	17.6
Simplification of procedures for visiting countries of the Customs Union	17.1
Expansion of markets for Ukrainian goods	15.0
Limitations of sovereignty	14.7
Transformation of Ukraine into raw-material appendage of the Customs Union	14.6
Enhancement of the living standards of Ukrainian citizens	13.4
Strengthening of national security, border protection	13.2
Development of Ukraine's economy	12.5
Economic backwardness	12.1
Reduction of the living standards of the population	9.4
Deterioration of the situation in the field of democracy	8.5
Growth of prices of imported goods	7.9
Creation of new working places	7.6
Development of new technologies	4.5
Enhancement of the quality of healthcare	3.8
Accession to Customs Union will have no effect on Ukraine	4.0
Other	0.3
Hard to say	8.4

* Respondents were supposed to give not more than seven acceptable answers.

* Respondents were supposed to give not more than seven acceptable answers.

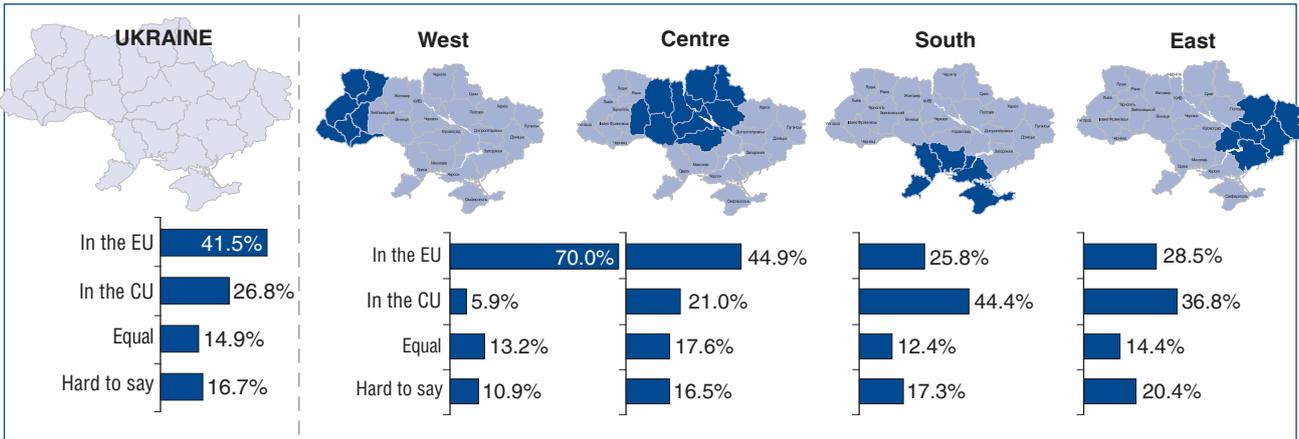
What effects do you expect from Ukraine's accession to the Customs Union for...?
% of citizens polled

	Positive	Negative	No effect	Hard to say
Level of economy development	43.5	19.5	24.4	12.5
Level of education, science and technology	38.2	13.2	32.0	16.7
Level of individual incomes	35.2	21.3	28.3	15.2
Level of prices of goods and services	34.4	23.7	24.9	17.0
Level of unemployment	33.8	22.4	26.7	17.1
Quality of foodstuffs	33.6	16.6	34.5	15.3
Level of development of the housing and utilities sector, roads, infrastructure	29.5	17.5	34.3	18.6
Environmental situation	20.6	19.1	41.4	18.8
Level of efficiency of the authorities	19.6	23.4	36.7	20.2
Level of democracy	19.0	30.7	32.2	18.1
Level of social stratification	16.6	25.1	33.0	25.3
Level of corruption	14.8	31.2	33.1	20.9

In case of Ukraine's accession to the Customs Union, Russian politicians speak of possible reduction of gas prices for Ukraine. Do you believe that...?
% of citizens polled



Where do you think the conditions for innovative development of Ukraine, its transformation into a country with developed economy, social and cultural sector are better – in the EU or the CU?
% of citizens polled



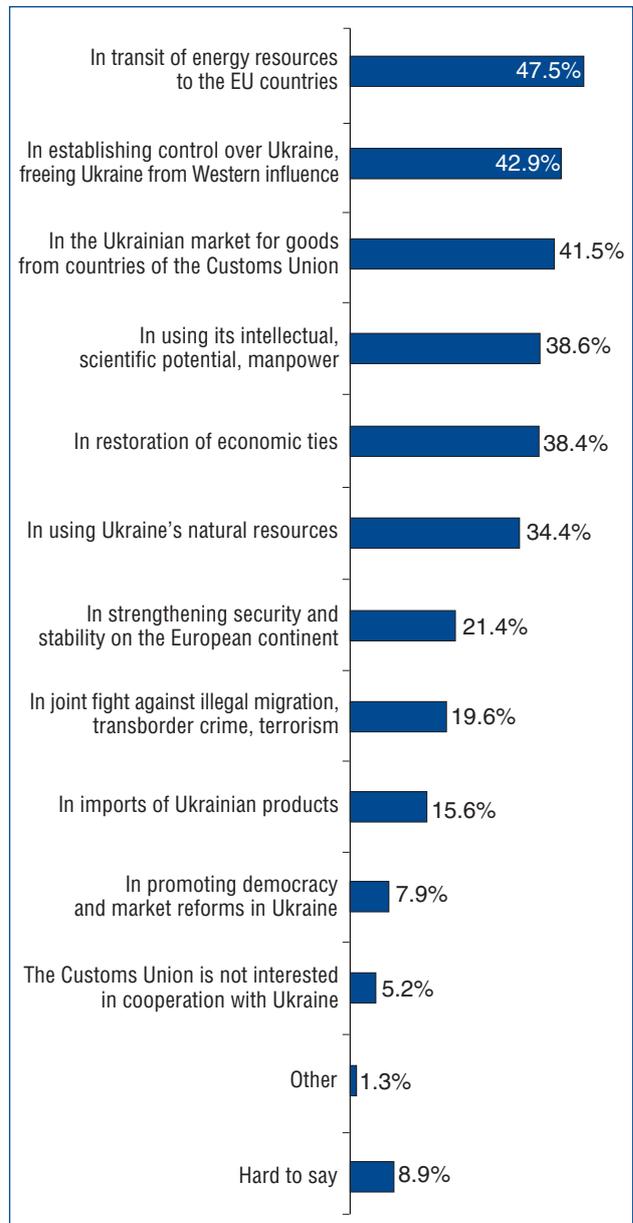
	AGE					EDUCATION			SOCIAL AND PROFESSIONAL GROUPS					OWNERSHIP			SECTORS OF ECONOMY					NATIVE LANGUAGE						
	18-29	30-39	40-49	50-59	60 and over	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health	Russian	Ukrainian	Both Russian and Ukrainian
In the EU	53.2	44.9	47.4	35.9	29.2	20.4	34.9	40.9	52.4	54.8	53.2	39.3	67.4	30.4	49.1	45.7	54.4	41.4	33.5	44.0	48.2	45.0	47.6	47.2	54.7	26.7	52.4	31.9
In the CU	17.6	23.2	22.8	29.9	37.7	36.7	29.4	27.4	21.5	23.8	19.6	27.5	7.0	35.8	18.7	25.2	23.1	24.2	25.4	23.1	26.4	26.6	19.3	22.8	26.4	43.1	17.3	30.4
Equal	11.4	16.9	14.3	15.5	16.5	18.4	15.2	15.4	13.7	13.1	11.0	16.8	10.5	16.5	14.3	13.8	10.7	16.8	21.1	16.5	17.3	13.6	13.8	12.6	7.5	14.4	14.8	15.5
Hard to say	17.8	15.0	15.5	18.7	16.5	24.5	20.5	16.3	12.5	8.3	16.3	16.5	15.1	17.4	17.9	15.4	11.8	17.6	20.0	16.5	8.2	14.8	19.3	17.3	11.3	15.9	15.5	22.2

**Is the EU interested in cooperation with Ukraine?
Where do its interests lie?***
% of citizens polled



* Respondents were supposed to give all acceptable answers.

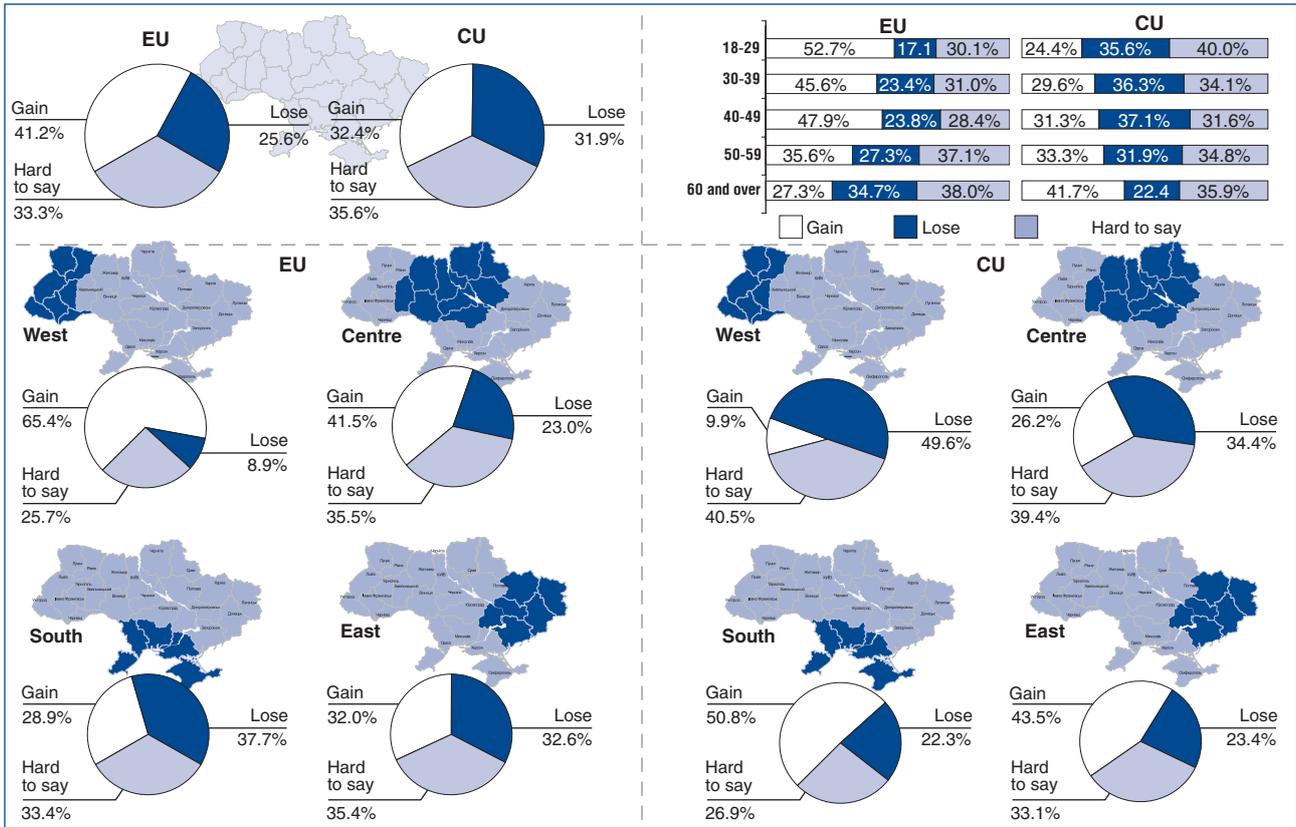
**Is the Customs Union interested in cooperation with Ukraine?
Where do its interests lie?***
% of citizens polled



* Respondents were supposed to give all acceptable answers.



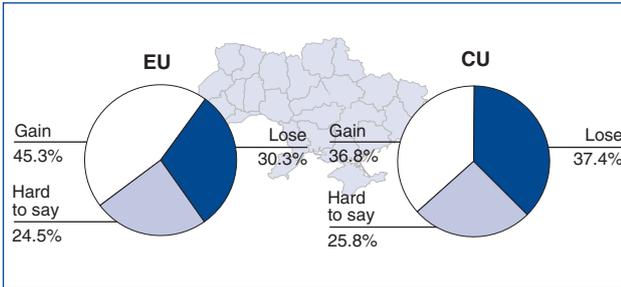
Will you personally will gain or lose more, if Ukraine joins...?
% of citizens polled



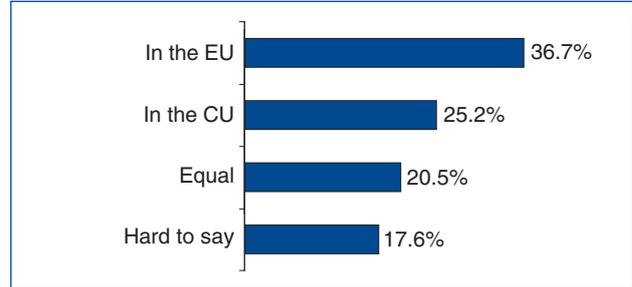
	EDUCATION				SOCIAL CLASS		MATERIAL STANDING				SOCIAL AND PROFESSIONAL GROUPS						OWNERSHIP			SECTORS OF ECONOMY						NATIVE LANGUAGE			
	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Middle class	Lower class	We hardly make ends meet, money is insufficient to buy even necessary foodstuffs	It is sufficient for food and acquisition of inexpensive necessary items	By and large, you can live with it, but acquisition of durables, such as furniture, a refrigerator, a TV set, causes difficulties	We do well so far but cannot afford some purchases (an apartment, a car, etc.)	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health	Russian	Ukrainian	Both Russian and Ukrainian
Win	15.5	33.7	41.4	52.4	47.5	32.7	27.0	36.2	49.0	49.2	61.9	50.3	39.7	63.6	29.7	50.0	43.9	50.6	44.5	37.3	39.6	47.7	52.1	46.2	41.3	54.7	29.7	48.8	34.3
Lose	29.9	28.1	26.6	21.3	24.3	27.8	28.2	26.9	23.2	28.8	20.2	18.2	30.6	10.2	31.8	17.8	29.2	20.0	25.0	32.4	25.3	27.9	24.3	19.3	23.0	15.1	36.5	18.8	30.1
Hard to say	54.6	38.1	32.1	26.3	28.2	39.5	44.8	36.9	27.8	22.0	17.9	31.5	29.8	26.1	38.5	32.2	26.9	29.4	30.5	30.3	35.2	24.3	23.7	34.5	35.7	30.2	33.8	32.4	35.6

	EDUCATION				SOCIAL CLASS		MATERIAL STANDING				SOCIAL AND PROFESSIONAL GROUPS						OWNERSHIP			SECTORS OF ECONOMY						NATIVE LANGUAGE			
	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Middle class	Lower class	We hardly make ends meet, money is insufficient to buy even necessary foodstuffs	It is sufficient for food and acquisition of inexpensive necessary items	By and large, you can live with it, but acquisition of durables, such as furniture, a refrigerator, a TV set, causes difficulties	We do well so far but cannot afford some purchases (an apartment, a car, etc.)	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health	Russian	Ukrainian	Both Russian and Ukrainian
Win	40.8	33.2	33.2	29.1	31.3	33.5	35.1	34.4	29.9	31.6	32.1	22.2	35.0	17.0	40.5	27.2	29.5	30.4	31.5	38.4	29.3	37.8	27.8	22.2	28.6	28.3	46.8	22.1	40.3
Lose	17.3	26.9	31.3	39.8	36.4	25.9	20.1	27.5	38.6	42.7	47.6	43.0	32.5	45.5	23.0	28.9	40.9	36.3	35.9	33.0	32.6	37.8	40.8	42.4	30.2	45.3	23.2	39.9	22.4
Hard to say	41.8	39.8	35.4	31.2	32.3	40.6	44.8	38.0	31.5	25.6	20.2	34.8	32.5	37.5	36.5	43.8	29.5	33.3	32.6	28.6	38.0	24.3	31.4	35.4	41.3	26.4	30.0	38.0	37.3

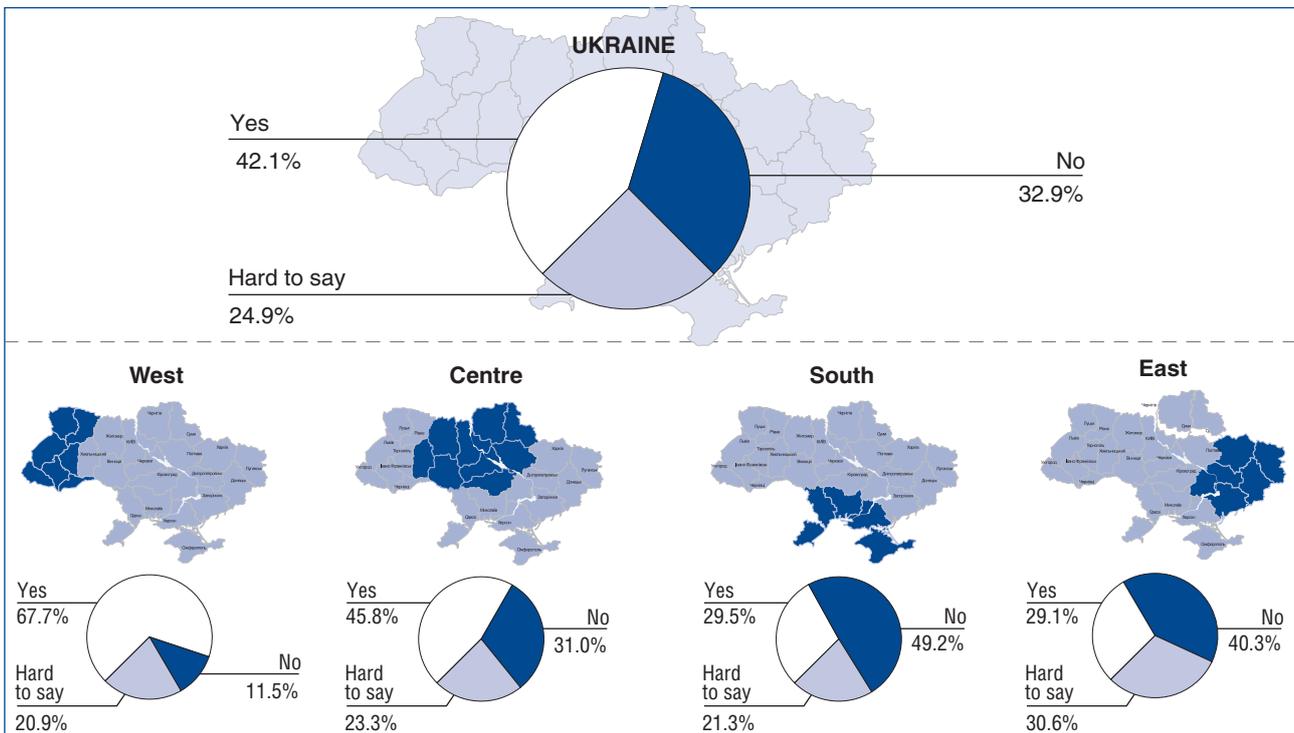
Will Ukraine gain or lose more from accession to...?
% of citizens polled



Where do you think people of your occupation or social group have better prospects – in the EU or in the CU?
% of citizens polled



Should Ukraine sign the Association Agreement with the EU?
% of citizens polled



	AGE					EDUCATION			SOCIAL AND PROFESSIONAL GROUPS					OWNERSHIP			SECTORS OF ECONOMY					NATIVE LANGUAGE						
	18-29	30-39	40-49	50-59	60 and over	Incomplete secondary	Secondary	Secondary vocational	Higher or incomplete higher	Businessmen	Specialists	Workers	Students	Pensioners	Unemployed	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget	Non-state enterprise	Industry	Agriculture and agro-industrial sector	Transport and communications	Sector of services	Trade	Education, pre-school education, science, culture, arts	Public health	Russian	Ukrainian	Both Russian and Ukrainian
Yes	53.6	46.2	48.0	38.8	27.6	17.3	33.3	42.8	54.0	56.0	53.3	39.9	62.1	30.2	50.6	42.7	54.7	43.2	35.7	41.3	45.5	51.5	45.1	45.2	52.8	29.9	50.9	33.4
No	22.2	33.5	31.6	32.5	43.4	40.8	34.7	35.7	26.8	23.8	25.5	38.3	8.0	40.1	24.0	34.8	25.9	33.5	43.2	26.1	35.5	28.4	29.2	28.6	32.1	46.7	24.1	39.5
Hard to say	24.2	20.3	20.4	28.7	29.0	41.8	32.0	21.5	19.2	20.2	21.2	21.8	29.9	29.7	25.4	22.5	19.4	23.4	21.1	32.6	19.1	20.1	25.7	26.2	15.1	23.4	25.0	27.1

Why do you think Ukraine SHOULD sign the Association Agreement with the EU?*
 % of those willing to sign

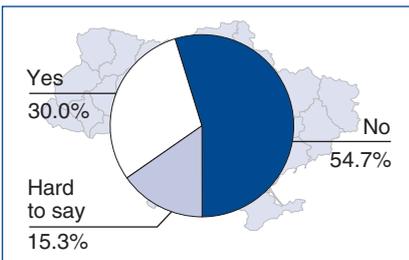
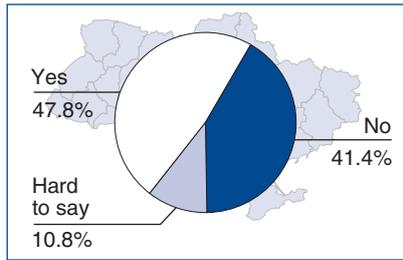
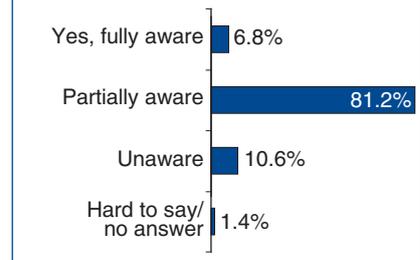
Higher living standard in the EU	28.3
It will mark the start of an accession process to the EU	18.1
It will promote economic development of Ukraine	12.1
European judiciary, the law of law, success in dealing with corruption should be an example to us	5.8
This will open borders with the EU	4.3
For the children to live better	4.3
High level of democracy development in the EU	3.2
Hard to say/no answer	11.4

* Cited are only the answers given by more than 3% of respondents.

Why do you think Ukraine SHOULD NOT sign the Association Agreement with the EU?*
 % of those unwilling to sign

We will not be equal partners in the EU, we will join it on terms of enslavement	19.0
This will give Ukraine nothing, it will not promote economic development	13.1
It is better to make friends with Russia	10.8
The EU is in crisis, it is breaking apart	9.3
We are not ready to sign the agreement	9.2
We should not adjust to any structure but set things right on our own	7.6
Domestic production will decline, we will become a raw-material appendage of the EU	6.0
We are not wanted in the EU	4.3
Hard to say/no answer	14.2

* Cited are only the answers given by more than 3% of respondents.

Are you familiar with content of the Association Agreement between Ukraine and the EU?*
 % of citizens polled

Do you know that the EU has set the requirements Ukraine should meet before signing the Association Agreement?*
 % of citizens polled

Are you familiar with these requirements?*
 % of those who know about the existence of requirements

What effects do you expect from the Association Agreement between Ukraine and the EU for...?*
 % of citizens polled

	Positive	Negative	No effect	Hard to say
Level of economy development	52.5	15.2	14.4	17.9
Level of democracy	51.9	6.9	22.3	18.8
Level of education, science and technology	51.4	8.0	21.7	18.8
Level of development of the housing and utilities sector, roads, infrastructure	49.4	7.6	22.5	20.5
Quality of foodstuffs	46.8	17.8	17.6	17.8
Level of efficiency of the authorities	41.0	8.2	28.0	22.7
Level of individual incomes	40.5	20.7	18.2	20.7
Level of corruption	38.0	12.8	25.8	23.4
Level of unemployment	37.2	24.3	16.7	21.9
Environmental situation	35.6	18.0	25.8	20.6
Level of prices for goods and services	30.6	34.5	14.3	20.7
Level of social stratification	24.2	17.6	30.0	28.2

Difference in expectations of effects for Ukraine from signing the Association Agreement with the EU and accession to the Customs Union*
 % of citizens polled

	Difference in expectations of positive effects	Difference in expectations of negative effects	Difference in expectations of no effects
Level of democracy	32.9	-23.8	-9.9
Level of corruption	23.2	-18.4	-7.3
Level of efficiency of the authorities	21.4	-15.2	-8.7
Level of development of the housing and utilities sector, roads, infrastructure	19.9	-9.9	-11.8
Environmental situation	15.0	-1.1	-15.6
Level of education, science and technology	13.2	-5.2	-10.3
Quality of foodstuffs	13.2	1.2	-16.9
Level of economy development	9.0	-4.3	-10.0
Level of social stratification	7.6	-7.5	-3.0
Level of individual incomes	5.3	-0.6	-10.1
Level of unemployment	3.4	1.9	-10.0
Level of prices for goods and services	-3.8	10.8	-10.6

SOCIAL PORTRAITS OF UKRAINIANS SUPPORTING MEMBERSHIP IN THE EU OR THE CUSTOMS UNION, AND OF THOSE UNDECIDED (COMPARED WITH UKRAINE'S OVERALL POPULATION),
% of citizens polled

	GENDER		REGIONS			AGE					EDUCATION							NATIVE LANGUAGE								
	Male	Female	West	Centre	South	East	18-29	30-39	40-49	50-59	60 and over	Primary (less than 7 classes)	Incomplete secondary (less than 10 classes)	Workers' school, factory apprenticeship school, technical school after 7-8 classes	Complete secondary, general (10-11 classes)	Technical school after 10-11 classes	Secondary vocational (engineering school, etc)	Incomplete higher (3 years and more)	Higher without academic degree	Higher with academic degree	Hard to say	Russian	Ukrainian	Both Russian and Ukrainian	Other	Hard to say
All those polled	45.1	54.9	19.6	32.4	15.3	32.7	22.8	17.7	16.4	17.4	25.7	1.3	3.6	1.4	17.7	10.4	34.4	4.9	24.2	1.7	0.4	27.8	53.5	16.5	2.0	0.3
Strong proponents of accession to the EU	46.4	53.6	34.6	34.6	10.2	20.6	29.3	18.5	18.5	16.2	17.6	0.6	1.6	0.6	16.2	7.7	33.4	6.7	31.0	2.3	0.1	18.0	68.4	11.5	1.8	0.3
Strong proponents of accession to the Customs Union	44.8	55.2	3.8	26.2	24.5	45.5	14.7	16.1	14.7	18.9	35.7	1.7	4.9	1.9	18.9	12.2	35.3	4.0	19.1	1.4	0.5	44.7	34.5	19.4	1.1	0.4
Those undecided	44.1	55.9	17.6	35.1	13.0	34.3	22.8	18.4	15.9	17.3	25.6	1.5	4.4	1.7	18.3	11.8	34.8	3.7	21.8	1.4	0.6	23.9	54.1	18.9	2.8	0.3
	LANGUAGE USED TO COMMUNICATE					SOCIAL STATUS																				
	Russian	Ukrainian	Both Russian and Ukrainian	Other	Hard to say	Principal of an enterprise or institution	Manager of an enterprise division	Businessman	Technical specialist	Specialist in natural sciences	Humanitarian specialist (including economists, lawyers, specialists in education, arts, public health, etc)	Military servant, security service or militia officer	Skilled worker	Office worker	Unskilled worker	Agricultural worker, collective farmer	Farmer, leaseholder	Pupil, student	Housewife	Pensioner	Incapacitated (including disabled)	Nonworker (but not registered as unemployed)	Officially registered unemployed	Other	No answer	
All those polled	33.4	41.1	23.6	1.2	0.7	0.5	1.6	4.2	5.9	0.6	8.6	0.6	14.3	4.0	3.9	1.9	0.6	4.4	6.8	29.6	1.3	6.2	1.2	3.5	0.2	
Strong proponents of accession to the EU	23.3	56.5	18.0	1.7	0.6	0.7	1.6	5.5	8.5	0.7	10.5	0.3	12.2	4.0	4.7	1.4	0.6	7.2	8.0	21.6	1.0	7.0	1.6	3.0	0.0	
Strong proponents of accession to the Customs Union	50.2	23.4	25.2	0.3	0.9	0.3	0.2	3.5	3.5	0.5	5.8	1.0	16.8	4.0	3.3	1.6	0.2	1.0	6.3	39.5	1.7	4.7	0.9	4.7	0.3	
Those undecided	29.9	40.0	27.8	1.5	0.8	0.4	2.6	3.5	5.1	0.6	9.3	0.6	14.6	4.0	3.5	2.6	0.8	4.2	6.2	29.8	1.2	6.5	1.0	3.2	0.3	
	OCCUPATION										SECTORS OF EMPLOYMENT (among those employed)															
	State or municipal enterprise of the production, services or trade sector	Organisation or institution funded from the state or municipal budget - schools, hospitals, scientific research institutions, cultural establishments, etc.)	Bodies of power, state or municipal governance	Army, militia, Security Service of Ukraine	Non-state enterprise (private, joint stock, collective, etc.)	Public organisation	Political association, political party	Do not work	Other	Hard to say/No answer	Industry	Agriculture and agro-industrial sector	Transport	Communications	Sector of services	Trade	Education and pre-school education	Science	Public health	Culture and arts	Sports	Public or political activity	Bodies of power, state or municipal governance	Army, militia, Security Service of Ukraine	Other	Hard to say/No answer
All those polled	12.7	8.5	1.7	1.0	23.8	0.3	0.0	45.8	1.1	5.2	17.0	8.5	8.3	1.8	15.6	13.3	9.8	0.5	4.9	1.3	0.6	0.5	3.3	1.8	3.3	9.3
Strong proponents of accession to the EU	13.8	11.5	1.4	1.0	23.2	0.4	0.1	40.6	0.7	7.2	12.4	8.1	7.9	2.4	16.2	13.8	8.8	1.2	5.5	1.7	0.7	1.0	4.1	1.7	2.9	11.7
Strong proponents of accession to the Customs Union	11.3	6.6	1.7	1.4	23.4	0.0	0.0	50.3	1.2	4.0	21.8	7.0	10.9	1.4	12.7	11.3	8.8	0.4	4.2	1.4	0.7	0.4	2.8	2.5	4.6	9.2
Those undecided	12.7	7.0	2.1	0.7	24.6	0.3	0.0	47.2	1.4	4.0	18.6	10.0	6.8	1.3	17.1	14.2	11.5	0.0	4.5	1.0	0.5	0.3	2.9	1.6	2.9	6.8



	MATERIAL STANDING						SOCIAL CLASS			
	We hardly make ends meet, money is insufficient to buy even necessary foodstuffs	It is sufficient for food and acquisition of inexpensive necessary items	By and large, you can live with it, but acquisition of durables, such as furniture, a refrigerator, a TV set, causes difficulties	We do well so far but cannot afford some purchases (an apartment, a car, etc.)	We can afford actually anything we want	Hard to say	Upper	Middle	Lower	Hard to say
All those polled	12.9	38.9	41.4	5.9	0.3	0.6	0.2	55.1	39.6	5.1
Strong proponents of accession to the EU	7.5	34.4	50.2	7.1	0.1	0.6	0.1	61.7	33.2	5.0
Strong proponents of accession to the Customs Union	16.1	42.3	35.5	5.4	0.2	0.5	0.0	50.0	45.8	4.2
Those undecided	15.8	40.5	37.8	5.0	0.4	0.6	0.3	52.8	40.9	6.1
	VOTING PREFERENCES AT THE 2012 ELECTIONS									
	All-Ukrainian Association <i>Batkivshchyna</i>	All-Ukrainian Association <i>Svoboda</i>	Communist Party of Ukraine	Party of Regions	Political Party UDAR of Vitaliy Klitschko	Another party	Did not go to the polls	Do not remember, Hard to say	No answer	
All those polled	19.8	7.3	6.1	26.3	12.7	3.7	17.3	6.1	0.7	
Strong proponents of accession to the EU	30.6	13.5	1.8	11.8	20.9	2.3	13.3	5.2	0.6	
Strong proponents of accession to the Customs Union	9.1	2.1	13.1	45.9	4.9	4.0	17.0	3.7	0.2	
Those undecided	17.6	5.3	4.6	25.2	11.1	4.7	21.4	8.7	1.4	
Sources of information on the EU					Sources of information on the CU					
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the Customs Union	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the Customs Union	Those undecided	
Central Ukrainian newspapers	25.4	26.7	28.0	22.1	Central Ukrainian newspapers	24.4	25.7	27.3	21.0	
Local newspapers	21.5	22.4	24.8	18.0	Local newspapers	20.3	21.1	24.1	16.6	
Russian newspapers	2.7	1.4	3.8	3.0	Russian newspapers	2.8	1.7	4.4	2.6	
Other foreign newspapers	1.0	1.0	0.3	1.5	Other foreign newspapers	0.9	0.9	0.0	1.5	
Central Ukrainian TV channels	78.5	80.0	81.1	75.1	Central Ukrainian TV channels	76.3	78.0	79.9	71.8	
Local TV channels	33.3	32.9	39.2	29.0	Local TV channels	30.6	30.1	37.5	25.6	
Russian TV channels	22.7	19.1	28.3	21.7	Russian TV channels	24.4	21.1	29.7	23.4	
Other foreign TV channels	4.0	3.8	3.3	4.7	Other foreign TV channels	2.8	2.4	2.8	3.2	
Central Ukrainian radio	9.6	8.8	10.8	9.3	Central Ukrainian radio	9.8	8.4	11.9	9.5	
Local state radio	5.4	4.4	7.9	4.4	Local state radio	5.6	4.7	8.0	4.6	
FM radio stations	14.2	16.1	14.0	12.4	FM radio stations	13.0	13.9	13.8	11.5	
Russian radio stations	1.9	1.0	3.5	1.5	Russian radio stations	1.9	1.1	3.1	1.7	
Other foreign radio stations	0.6	0.1	0.3	1.1	Other foreign radio stations	0.4	0.1	0.2	0.7	
Ukrainian Web sites	23.3	33.2	17.0	18.7	Ukrainian Web sites	21.0	28.7	17.0	16.9	
Russian Web sites	14.7	18.2	12.9	12.9	Russian Web sites	14.5	18.7	12.6	11.9	
Other foreign Web sites	4.6	6.5	3.8	3.2	Other foreign Web sites	3.2	4.4	2.6	2.5	
Other	4.3	3.4	4.7	4.8	Other	4.5	3.4	5.2	5.1	
Hard to say	5.1	3.3	4.0	7.7	Hard to say	6.4	3.7	4.7	10.4	

Personal experience of visiting any of the EU countries					Personal experience of visiting any of the CU countries				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the Customs Union	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the Customs Union	Those undecided
Yes	21.1	33.5	12.8	15.6	Yes	48.1	44.1	61.0	41.6
No	77.9	65.6	86.7	82.7	No	50.9	55.2	38.1	56.8
Hard to say	1.1	0.9	0.5	1.7	Hard to say	1.0	0.7	0.9	1.7
Personal experience of a long stay in any of the EU countries					Personal experience of a long stay in any of the CU countries				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Yes	4.0	6.5	2.1	3.0	Yes	10.3	6.8	16.6	8.8
No	94.5	92.2	96.9	95.0	No	88.3	92.2	81.8	89.6
Hard to say	1.5	1.3	1.0	1.9	Hard to say	1.3	1.0	1.6	1.5
Relatives or friends who have the experience of visiting or long stay in the EU countries					Relatives or friends who have the experience of visiting or long stay in the CU countries				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Yes	43.6	58.2	35.1	36.1	Yes	59.7	62.0	66.4	52.1
No	55.0	40.8	63.6	62.0	No	38.9	37.3	32.3	45.8
Hard to say	1.4	1.0	1.2	1.9	Hard to say	1.4	0.7	1.2	2.1
Relatives or friends who now live in the EU countries					Relatives or friends who now live in the CU countries				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Yes	28.1	41.7	17.1	23.5	Yes	52.4	50.1	63.4	46.0
No	70.0	57.3	80.4	74.2	No	45.7	48.7	34.7	51.4
Hard to say	1.9	1.0	2.4	2.3	Hard to say	1.9	1.1	1.9	2.6
Proponents of integration in the EU or the Customs Union among friends or relatives									
	UKRAINE					REGIONS			
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		West	Centre	South	East
There are proponents of integration in the EU, and no supporters of joining the CU	15.6	36.5	1.6	6.3		40.2	13.1	3.3	9.0
There are proponents of integration in the CU, and no supporters of joining the EU	11.5	3.4	28.5	5.9		2.5	7.6	16.7	18.4
There are both proponents of integration in the EU and the Customs Union	38.9	40.3	40.4	36.4		32.8	43.9	53.1	31.1
There are no proponents of integration either in the EU or the Customs Union	9.4	4.4	7.9	15.3		6.9	12.3	6.2	9.3
Hard to say / never talked to my friends or relatives about that	24.6	15.3	21.7	36.0		17.6	23.1	20.7	32.2
Assessment of developments in Ukraine					Assessment of the policy pursued by Ukraine's leadership				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
In the right direction	16.8	11.8	25.6	14.7	They are leading the country to the EU	22.3	45.2	10.1	9.7
					They are leading the country to the CU	10.4	4.5	25.2	4.3
In a wrong direction	65.7	73.9	59.9	62.5	They are pushing for integration in both directions	20.1	14.8	23.6	22.7
					They are leading the country neither to the EU nor to the CU	27.2	22.3	22.0	35.9
Hard to say	17.5	14.3	14.5	22.9	Hard to say	20.1	13.2	19.1	27.5



The main advantages of the European Union*					The main disadvantages of the European Union*				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
High level of social protection	46.9	69.9	26.9	40.2	Unstable economic situation (crisis in some EU countries)	34.2	25.3	45.8	33.7
Rule of law	31.5	43.3	20.6	28.6					
Developed democracy	27.1	41.4	15.9	22.1	Uneven economic development of the EU countries	31.8	25.1	39.2	32.4
Availability of financial resources	22.2	27.7	19.4	19.1					
Quality of healthcare	18.6	24.7	12.8	17.3	Domination of the leading states over other EU countries	31.0	22.1	45.8	28.0
Science and technology development	16.7	22.4	12.6	14.2					
Low level of corruption	13.7	21.6	6.5	11.8	Differences in cultures, values, mentality of citizens of the EU countries	23.5	16.3	33.9	22.1
Affordability of education	8.9	11.2	4.5	10.1					
High level of public safety	7.3	9.9	5.2	6.2	Shortage of natural resources	23.4	19.0	30.0	22.4
High level of culture	7.3	8.7	7.2	6.1	Unemployment	15.9	12.9	22.6	13.4
Social activity	4.6	5.7	2.6	5.1	Consumer mentality, earthliness	10.1	6.5	13.8	10.5
Common history, culture, similar mentality of citizens of the EU countries	3.5	3.4	3.5	3.5	Inefficient migration policy	9.4	10.5	8.7	9.0
					Other	0.8	0.6	0.5	1.2
I see no advantages in the European Union	18.0	0.0	40.7	17.4	I see no disadvantages in the European Union	13.4	27.9	1.7	8.4
Hard to say	5.9	0.7	5.1	11.5	Hard to say	10.4	6.7	7.7	16.2

* Respondents were supposed to give not more than three acceptable answers.

The main advantages of the Customs Union*					The main disadvantages of the Customs Union*				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Common history, culture, similar mentality of citizens of the Customs Union countries	53.4	34.8	86.0	45.6	Corruption	48.0	64.1	33.7	43.6
					Grey economy	33.2	39.5	26.0	32.8
					Russian domination	28.6	40.7	18.2	25.0
Availability of natural resources, energy supplies	47.1	34.6	68.9	42.2	Lack of democracy	27.3	40.5	14.2	24.9
					Inadequate social protection of citizens of the Customs Union countries	14.6	19.6	11.0	12.7
Stable economic situation	15.4	3.7	34.1	12.0	Inefficiency of state authorities	12.2	16.6	8.2	10.9
Cheap manpower	10.6	12.4	7.0	11.6					
Affordability of education	8.1	4.5	14.0	6.9	Low level of public safety	10.3	12.1	7.9	10.4
High level of social protection	5.9	2.1	8.4	7.5	Unfriendly business environment	6.7	11.3	4.0	4.4
Social activity	5.8	2.3	10.7	5.4	Limitations of science and technology development	4.3	6.5	2.6	3.6
Science and technology development	4.0	1.7	5.4	5.0					
Democratic development	3.9	1.8	5.9	4.4	Other	0.9	0.4	1.4	0.8
Quality of healthcare	3.4	1.7	5.6	3.3	I see no disadvantages in the Customs Union	14.5	0.3	38.1	9.8
High level of culture	2.0	0.7	3.7	1.9					
Other	1.3	0.9	1.4	1.8	Hard to say	10.2	5.4	5.8	18.3
I see no advantages in the Customs Union	20.8	40.3	0.3	17.8					
Hard to say	8.3	6.7	1.9	14.8					

* Respondents were supposed to give not more than three acceptable answers.

Do you agree with the following statements?									
Eastern European countries that joined the EU won, rather than lost					Homosexuality is imposed in the EU countries				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Yes	48.2	87.8	13.6	36.8	Yes	31.2	11.5	57.2	30.0
No	22.9	1.8	52.3	20.2	No	36.2	61.5	16.3	27.2
Hard to say	28.9	10.4	34.1	43.0	Hard to say	32.6	27.0	26.6	42.7

Do you agree with the following statements?									
The present crisis in the EU will be done away with, the EU citizens will not face fundamental deterioration of living standards					Greater mass protests in some EU countries, as compared to Ukraine, show that the crisis in the EU is greater than in Ukraine				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Yes	48.0	81.0	20.6	37.4	Yes	29.0	14.2	53.8	23.9
No	19.9	4.3	42.0	17.7	No	43.6	66.6	21.7	38.5
Hard to say	32.1	14.8	37.4	44.9	Hard to say	27.3	19.2	24.5	37.6
Countries of the Customs Union (Russia, Belarus, Kazakhstan) have no democracy					The European model of organisation of the state and society is more attractive than the Russian model				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Yes	42.8	70.9	14.2	38.2	Yes	48.9	89.6	13.8	36.9
No	31.3	12.8	61.4	25.7	No	23.3	2.8	56.1	17.3
Hard to say	25.8	16.3	24.5	36.1	Hard to say	27.8	7.5	30.1	45.8
In the Customs Union, Ukraine can successfully cope with the crisis					Countries that joined the Customs Union won, rather than lost				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Yes	36.5	7.1	81.1	29.9	Yes	37.0	8.7	82.0	28.8
No	36.1	67.0	6.5	29.6	No	28.2	55.0	7.0	19.0
Hard to say	27.4	26.0	12.4	40.5	Hard to say	34.8	36.4	11.0	52.2
Ukraine can cope with its domestic problems without foreign assistance									
	All those polled		Strong proponents of accession to the EU		Strong proponents of accession to the CU		Those undecided		
Yes	24.0		18.2		19.4		33.6		
No	47.6		56.5		57.3		31.3		
Hard to say	28.3		25.4		23.3		35.1		
Comparing the EU and the CU countries, which one is...									
... a simpler and more reliable partner, easier and safer to come to terms					... more prone to dictate, both politically and economically, to its members				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
The EU	32.2	73.2	1.7	16.6	The EU	29.4	22.6	50.0	19.8
The CU	36.9	7.4	85.7	27.2	The CU	30.7	51.3	19.1	19.8
Equally the EU and the CU	13.6	7.1	7.9	24.3	Equally the EU and the CU	20.6	11.1	17.3	32.4
Hard to say	17.2	12.4	4.7	31.9	Hard to say	19.3	15.0	13.6	28.1
... offers more opportunities for promoting goods of its member countries to markets of third countries					... pursues a more socially-oriented policy, where GDP growth results in growth of individual incomes				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
The EU	30.5	52.0	14.0	22.5	The EU	46.5	84.9	13.7	35.0
The CU	26.7	15.8	50.2	18.9	The CU	14.6	1.4	41.7	6.1
Equally the EU and the CU	20.6	14.6	18.4	27.9	Equally the EU and the CU	13.2	4.3	15.1	20.5
Hard to say	22.2	17.6	17.5	30.6	Hard to say	25.7	9.4	29.6	38.5
Where the conditions for innovative development of Ukraine, its transformation into a country with developed economy, social and cultural sector are better – in the EU or in the CU?									
	All those polled		Strong proponents of accession to the EU		Strong proponents of accession to the CU		Those undecided		
In the EU	41.5		93.8		2.4		21.7		
In the CU	26.8		0.9		80.2		9.8		
Equal	14.9		3.0		9.4		30.7		
Hard to say	16.7		2.4		7.9		37.8		



Assessment of prospects for the EU's further development					Assessment of prospects for the CU's further development				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Good prospects	37.5	78.0	4.4	24.3	Good prospects	31.3	3.1	78.7	21.3
Uncertain	36.0	17.2	50.8	42.6	Uncertain	35.1	46.0	13.3	41.8
Negative	10.5	1.0	26.6	7.1	Negative	15.1	33.5	0.7	8.4
Hard to say	16.0	3.8	18.2	26.0	Hard to say	18.6	17.4	7.3	28.5
Comparing the EU and the Customs Union countries, where do you think people are...									
more generous, friendly, cordial					more socially active and caring				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
In the EU countries	25.1	48.9	5.2	17.6	In the EU countries	41.5	71.7	19.4	29.6
In the CU countries	22.8	2.3	56.6	15.9	In the CU countries	14.7	1.1	38.3	9.1
Both, equally	44.5	43.3	34.6	53.7	Both, equally	34.2	22.7	34.6	44.9
Hard to say	7.6	5.5	3.5	12.9	Hard to say	9.7	4.4	7.7	16.3
more cultured					more moral				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
In the EU countries	47.6	72.4	28.6	38.5	In the EU countries	30.7	57.0	10.3	21.4
In the CU countries	11.2	0.7	28.8	7.3	In the CU countries	19.8	3.0	48.3	13.7
Both, equally	32.2	21.9	36.3	39.0	Both, equally	35.5	29.7	32.2	43.9
Hard to say	9.0	5.0	6.3	15.2	Hard to say	13.9	10.4	9.3	21.0
with a stronger sense of dignity					mentally closer to citizens of Ukraine				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
In the EU countries	42.1	69.1	19.1	34.0	In the EU countries	8.2	18.3	0.4	4.3
In the CU countries	14.1	2.4	36.5	7.9	In the CU countries	64.3	48.2	89.0	60.6
Both, equally	32.5	22.7	35.0	40.1	Both, equally	18.6	23.3	7.7	22.7
Hard to say	11.3	5.8	9.4	18.0	Hard to say	9.0	10.2	3.0	12.4
Gains/loses if Ukraine joins the EU or the CU									
Do you think that you will personally gain or lose more, if Ukraine joins the EU?					Do you think that you will personally gain or lose more, if Ukraine joins the CU?				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Gain	41.2	88.1	2.1	26.4	Gain	32.4	1.8	82.7	22.4
Lose	25.6	0.7	60.2	22.4	Lose	31.9	67.0	0.9	22.5
Hard to say	33.3	11.2	37.7	51.2	Hard to say	35.6	31.2	16.4	55.1
Will Ukraine gain or lose more if it joins the EU?					Will Ukraine gain or lose more if it joins the CU?				
	All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided		All those polled	Strong proponents of accession to the EU	Strong proponents of accession to the CU	Those undecided
Gain	45.3	94.8	4.4	29.5	Gain	36.8	3.0	90.6	27.0
Lose	30.3	0.1	73.1	25.7	Lose	37.4	78.0	1.6	26.3
Hard to say	24.5	5.1	22.6	44.8	Hard to say	25.8	19.0	7.9	46.7
Where do you think people of your occupation or social group have better prospects – in the EU or in the CU?									
	All those polled		Strong proponents of accession to the EU		Strong proponents of accession to the CU		Those undecided		
In the EU	36.7		85.1		0.7		18.0		
In the CU	25.2		0.6		74.7		10.1		
Equal	20.5		8.4		12.9		38.3		
Hard to say	17.6		6.0		11.7		33.6		