



# EU-Ukraine Deep and Comprehensive Free Trade Area

## Economic benefits and opportunities

### EU-Ukraine Deep and Comprehensive Free Trade Area – What is it about?

The EU and Ukraine have concluded an [Association Agreement](#). The treaty creates a so called 'Deep and Comprehensive Free Trade Area' (DCFTA) that covers the territories of both the EU and Ukraine<sup>1</sup>.

The free trade area **came into effect on 1 January 2016**.

From this date on, the EU and Ukraine offer each other privileged access to their respective markets.

The DCFTA is much more than a classic free trade agreement. It contains three major pillars:

- I. It **opens markets** through the progressive removal of customs duties and restrictions on services and public procurement.
- II. It ensures **fair competition between EU and Ukrainian firms** by safeguarding the respect of
  - intellectual property rights;
  - basic workers' protection or environmental standards;
  - disciplines on use of subsidies and anti-competitive behaviour.
- III. It lays the ground for **gradual alignment of norms and standards**, including on food safety and technical regulations.

The EU provides Ukraine with significant support not only to bring its legislation in line with the EU's but also through macro-financial and technical assistance.

An improved regulatory framework and easier access to the EU market is expected to increase trade and make Ukraine more attractive to European investors.

In the longer term, this should support Ukraine's economic development and generate more demand for European products and services - a **win-win situation**.



### How closely are the EU and Ukraine economies integrated today?

Goods traded between the European Union and Ukraine are worth €30 billion a year<sup>2</sup>.

The EU is Ukraine's first commercial partner, ahead of Russia. It accounts for **35% of Ukraine's external trade**.

The EU is also the principal source of investment in Ukraine. More than 50% of Foreign Direct Investment (FDI) in Ukraine comes from the EU.

Ukraine's exports to the EU are mainly commodities:

- iron & steel
- mining products
- agricultural goods

and to a lesser extent:

- chemicals
- and machinery.

The DCFTA can help Ukraine fully realise its industrial potential and move towards higher-end exports.

For the EU, Ukraine is today a source of many raw materials. With 45 million consumers located next to the EU's border, it is also a high-potential market.

Main EU exports to Ukraine are:

- machinery & appliances
- transport equipment
- chemicals
- other industrial products.

Ukraine is also an economic bridge to other countries of the EU's Eastern Neighbourhood.

<sup>1</sup> The EU supports Ukraine's territorial integrity and considers the annexation of Crimea to the Russian Federation as illegal. Imports from Crimea and EU investment in the peninsula are banned.

<sup>2</sup> 2014 data



## Why is the DCFTA an opportunity for Ukraine's economy?

The DCFTA offers good opportunities for **modernising Ukraine's economy**.

Ukraine receives preferential **access to the largest market in the world** with 500 million customers and a GDP of €14 trillion<sup>1</sup> and **greater opportunities to export to global markets**.

The agreement triggers a reform of Ukraine's legal system. Given the adoption by Ukraine of EU standards in production and services, and their international recognition, Ukraine should be able to export more easily not only to the EU but also to the rest of the world – including Ukraine's traditional markets. EU-based industries, which by definition comply with EU rules, are, for example, exporting successfully to the Russian market. It should not, therefore, be different for Ukrainian industries.

Moreover, pursuing the internal reform triggered by the DCFTA will mark a milestone in **curbing corruption** and will improve the business climate in Ukraine. An improved business climate in turn opens more opportunities to gain access to **new sources of financing** - including foreign direct investments and foreign loans - and provides an incentive to EU businesses to invest in Ukraine. This will create additional jobs in Ukraine.

EU businesses in Ukraine will naturally trigger the **transfer of new technologies** and management methods that will **improve efficiency and quality** of Ukrainian production. Ukrainian businesses will also be pushed to upgrade their production technologies to reduce their production costs and be able to compete with the EU-based firms.

In this way, Ukraine will have an opportunity to **diversify its economy**, which today is in significant part based on large corporations in commodity sectors (e.g. metallurgy), towards a more modern model including the development of a vibrant services sector and many small- and medium-sized enterprises (SMEs). This can help Ukraine move from a position of an exporter of raw materials and agricultural products, to a player fully integrated into EU and global value chains: a substantial leap in terms of added value of its production.

This in turn will boost competitiveness in the domestic market, which will be **beneficial to Ukrainian consumers**. The [quantitative assessment of Ukraine's regional integration options: DCFTA with European Union vs. Customs Union with Russia, Belarus and Kazakhstan](#) prepared by the German Advisory Group and the Institute for Economic Research and Policy Consulting predicted that Ukrainian consumers' welfare would increase by almost 12% in the medium term.

To make all this happen, the **EU provides significant support** to the government of Ukraine to implement the agreement and to create the optimal conditions for economic development. This includes technical assistance **to various state authorities** for preparing technical regulations and standards, food safety rules, intellectual property legislation and public procurement, as well as direct support **to the private sector**.

The EU's assistance involves business support organisations from the EU and Ukraine and **focuses mainly on small and medium-sized enterprises (SMEs)**. These programmes aim at increasing the competitiveness of Ukrainian SMEs, improving their access to finance, **enabling them to comply with new standards** on food safety, and technical and quality standards, as well as with environmental protection measures – an essential precondition to benefit from the new market access opportunities. Also, an important part of the €11 billion of EU assistance to Ukraine will be allocated to investment projects in infrastructure (road, energy, water, etc.). Read more about EU support to Ukraine [in general](#), in the [recent context](#) and more specifically on [investment](#) and trade.

The EU's assistance alone is not enough to achieve all the economic benefits described above. The instability created by the ongoing military and economic aggression against Ukraine needs to cease in order that the reforms can deliver.

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<sup>1</sup> Twelve times more than Russia - the second commercial partner of Ukraine

## How can EU firms gain from the DCFTA with Ukraine?

Some of the benefits of the EU-Ukraine DCFTA are available to EU companies already. Others will materialise in the longer term, following Ukraine's progressive implementation of the agreement. EU businesses can already count on:

- new potential suppliers, service providers and outsourcing opportunities;
- interesting investment opportunities;
- increased demand in Ukraine for EU products and services in the future.

In simple terms, the DCFTA means:

### Fewer duties

As of 1 January 2016, the EU and Ukraine no longer apply import duties on most products exported from the EU to Ukraine and imported from Ukraine into the EU (99.1% on the Ukrainian side and 98.1% on the EU side).

This means several million euros of savings for companies, especially in EU sectors that export most to Ukraine, such as machinery and transport equipment, chemicals and manufactured goods.

### Opportunities for service providers

Ukraine is aligning its regulations related to financial services, telecommunications, postal and courier services, as well as international maritime services with EU rules.

EU financial service providers will find ample opportunities to market their services to Ukrainian consumers, SMEs and larger companies.

### Less red tape

With the progressive alignment of Ukrainian legislation with EU standards, EU businesses will see fewer technical obstacles to their exports.

Harmonisation of regulations will lower costs in particular for companies trading in agri-food products, textiles, cars, machinery and electronics.

Simplified customs requirements should also mean less fraud.

### Access to Ukrainian public tenders

The DCFTA offers EU suppliers and service providers full access to Ukrainian public procurement markets.

They can participate in public tenders related to infrastructure, transport, medical care and education on an equal footing with Ukrainian companies. This benefits EU companies, but also the Ukrainian taxpayer.

### Investment opportunities

Good access to the EU market for goods produced in Ukraine and the harmonisation of the regulatory environment in the EU and Ukraine will result in positive conditions for investment. The DCFTA sends also a clear signal that Ukraine is ready to implement economic reforms to raise the confidence of potential investors.

Implementing the DCFTA necessitates investments that will upgrade Ukraine's production methods in line with EU standards. This creates various investment opportunities, especially in sectors such as agri-food, energy, transport or environmental services.

### Transparent business conditions

The DCFTA gives businesses the ability to defend their commercial rights. It allows interested parties to:

- comment on proposed regulations and helps businesses to voice their interests.
- make *amicus curiae* submissions to panels operating under the DCFTA's Dispute Settlement Mechanism.
- access the mediation mechanism that promises quick and effective solutions to market access problems.

### Improved energy security

In the trade-related energy chapter of the DCFTA the EU and Ukraine commit themselves to maintain an uninterrupted transit of energy and to establish an early warning mechanism. In addition, Ukraine will implement EU energy market legislation, EU and independent Ukrainian traders and business will benefit from open markets, unregulated prices for industry and an independent energy regulator.

### Sourcing opportunities

Liberalising trade in agricultural products, steel and machinery will have a positive impact on EU downstream sectors that need steel and machines for their production. Cheaper inputs for industry should also mean lower prices for consumers.

### Fair competition

The DCFTA leads also to alignment of Ukraine's competition law and its enforcement practice with that of the EU. Therefore, European companies have equal access to the Ukrainian market and cannot be treated in a less favourable way than the Ukrainian firms as regards state aid and anti-trust procedures.

Breaking-up monopolies in public transport and infrastructure will likely lead to better quality of transport services and cheaper prices so that Ukrainian users as well as EU exporting businesses benefit from improved infrastructure.