

Vošta M., Musiyenko S., Abrhám J. (2016), Ukraine-EU Deep and Comprehensive Free Trade Area as Part of Eastern Partnership initiative, *Journal of International Studies*, Vol. 9, No 3, pp. 21-35.
DOI: 10.14254/2071-8330.2016/9-3/2

Ukraine-EU Deep and Comprehensive Free Trade Area as Part of Eastern Partnership initiative

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Abstract. The article analyzes the key issues of bilateral cooperation between the EU and Ukraine in the framework of the Eastern Partnership initiative. Special attention is paid to political and economic components of this interaction, and in particular – good governance, signing of association agreements and formation of Deep and Comprehensive Free Trade Area (DCFTA). The results of the research show that even despite the pressure from Russia's side and EU's high dependence on energy import from Russia, the EU has demonstrated its willingness to support Ukraine in stabilizing its economy, encouraging judicial, political and economic reforms and further economic integration with the EU. Ukraine, in its turn, has also demonstrated its interest in intensifying cooperation with the EU and, comparing to other EaP countries, has demonstrated the highest results in the areas of political dialogue, trade and economic integration. However, turbulent and unpredictable political situation in Ukraine is negatively affecting the cooperation between Ukraine and the EU: Ukraine's trade performance and signing DCFTA with the EU has been negatively affected by war conflict with Russia, which caused not only economic slowdown, falling commodity prices, high inflation, but has also negatively affected Ukrainian exporters' ambitions and innovation development due to worsening investment climate in the country.

Keywords: economic integration, the Eastern Partnership, Deep and Comprehensive Free Trade Area, Association agreement, political stability.

JEL classification: F13, F15, F51, F59.

Received:
June, 2016
1st Revision:
September, 2016
Accepted:
November, 2016

DOI:
10.14254/2071-
8330.2016/9-3/2

INTRODUCTION

Almost seven years after its launch, the Eastern Partnership (EaP) has seen both achievements and serious obstacles, mostly connected with the conflict between Russia and Ukraine and other countries of Russia's "near abroad", energy crisis, high level of corruption, democratization, migration etc. Being adopted after the Euro-Mediterranean Partnership (EUROMED), formerly known as the Barcelona Process, re-launched in Paris in July 2008, and the Black Sea Synergy (launched in Kiev in February 2008) the EaP is still seen as one of the ENP's "youngest" initiatives.

In view of this its effectiveness assessment remains controversial, though the only thing which is out of doubt is that either within the EaP, or any other cooperation program, the EU does need a well-balanced, effective and properly arranged tool for cooperation with its Eastern partners.

Therefore, the case chosen for the Eastern dimension of the ENP comprises six former Soviet republics – Ukraine, Moldova, Belarus, Georgia, Armenia and Azerbaijan (Chumachenko, 2012, pp. 330-331). The initiative was officially launched in 2009 at the Prague Summit on the Polish-Swedish proposal, with strong support from the Visegrad states. Declaration on the establishment of the Eastern Partnership, adopted in May 2009 at the first EaP summit, stated that "the main purpose" of the Eastern Partnership was "to create the necessary conditions to foster political and economic integration between the European Union and interested partner countries" (Joint Declaration of the Prague Eastern Partnership Summit, 2009).

The main reason for the Eastern Partnership launch was territorial enlargement of the European Union in 2004 and 2007, which is a political and economic stake that pushed the EU further to the east and as Štefan Füle, ex-Commissioner for Enlargement and European Neighborhood Policy, emphasized: "*The Eastern partnership, a key policy initiative in the Neighborhood, aims to bring our eastern neighbors closer to the European Union. Drawing on the EU's unique range of instruments, we are seeking to achieve a new, innovative style of partnership. We want to engage further in cooperation with our neighbors to support their democratic transformation. We encourage reforms in key policy areas. We offer stronger links of political association and economic integration, adapted to our partners' wishes and capacities. EU funding channeled via budget support programs is an important tool to achieve these goals*" (Eastern Partnership: Supporting reforms, promoting change, 2013)

One of the main areas of cooperation, offered for strengthening the relations between the EU and the EaP countries was signing the Association Agreements, which include the Deep and Comprehensive Free Trade Area agreements between the EU and the six EaP partner countries. Within the last five years the most significant results were reached in political dialogue and economic cooperation, specifically, trade facilitation.

Despite the war conflict, started by Russia in 2014, Ukraine is still on the first place in cooperation with the EU as the only Eastern partner country that holds official consultations with both the EU Military Committee (EUMC) and the Political and Security Committee (PSC).

On 1 January 2016 DCFTA between the EU and Ukraine came in force, which is part of the larger AA, signed in June 2014. The political and cooperation association chapters as well as general provisions of the AA are already operational provisionally since November 2014 while the whole EU-Ukraine AA with its DCFTA are expected to be fully into force as soon as the ratification by all 28 Member States will be finalized.

In view of this Ukraine should as never before concentrate its efforts on eliminating trade barriers, providing support to local businesses and guarantee them transparent and fair conditions for entrepreneurship development, lowering the level of corruption, providing market transparency, better access to financing, informing about changes in national legislation.

REVIEW OF RECENT PUBLICATIONS ON THE ISSUE

The economic aspects of Ukraine's integration into the European Union, including in the context of creation of the free trade area as part of the Eastern Partnership have been studied by such Ukrainian researchers as A. Aleksik(2011), Y. Kulik(2010), T. Tigova(2011), A. Chumachenko(2012), and others, and such foreign researchers as A.Rettman, Schnellbach C.(2014), Soare S.(2013), Delcour(2014; 2015), L., Düvell F.(2015), Gylfason T.(2014), Grigoryan A.(2015), Zenkner, P.(2013) and others. However, timely and comprehensive solution for all problems, connected with certain areas of Ukraine's integration to EU, is still in progress.

RESEARCH OBJECTIVES

The main objective of the article is to study the influence of the Eastern Partnership initiative on the intensification of the Ukraine-EU bilateral cooperation, to make the assessment of potential positive and negative aspects of the potential DCFTA, and analyze the main factors, which could power or deprive the cooperation between Ukraine and the EU in future. The article assesses Ukraine's position in the EaP initiative in relation to other EaP partner countries, to identify both main advantages and shortcomings that could take place from the DCFTA with the EU for Ukraine.

Special attention in the paper is paid to the non-tariff (regulatory) component of the EU DCFTA and potential implications of regulatory approximation. Also, current level of harmonization of EaP countries' regulatory framework with the EU acquis in the areas, connected with the DCFTA.

For estimating the effectiveness of the economic reforms, implemented by partner countries and forecasting scenarios of possible Eastern Partnership's framework development in future, the methods of comparative economics, empirical-inductive and deductive methods will be used.

STATEMENT OF THE PROBLEM

Being a part of the European Neighborhood Policy, all the EaP partner countries negotiate on signing and implementation of the association agreements, including the Deep and Comprehensive Free Trade Areas (DCFTA). Since not all countries have shown willingness to open their markets and ensure comprehensive harmonization of their economic and legal frameworks with the EU, both cooperation programs and the negotiation processes are also individual.

The most intensive dialogue with the EU was reached with Moldova, Ukraine and Georgia. The other Eastern partners, i.e. Belarus, Azerbaijan and Armenia, have showed interest only in sectoral cooperation (energy, visa liberalization, SME support programs) rather than in a comprehensive integration with the EU.

At some point, the EU showed more flexibility allowing each EaP country to determine the pace at which it wishes to move towards integration and reforms implement. With the EU's support the partner states, opened for reforms and closer cooperation, can achieve the required harmonization with the EU's legislation, regulations and standards, which will eventually lead such countries to their economic integration into the internal European market (Yakovenko, 2012, pp. 29-30).

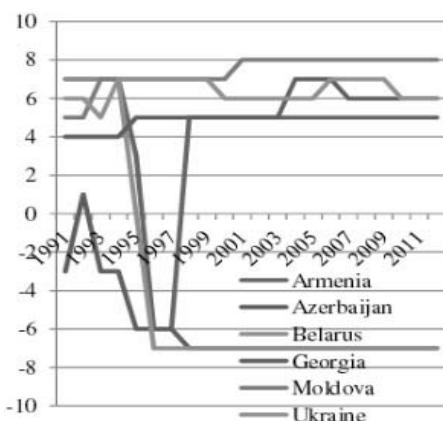
The EU takes Ukraine as a leading partner in the EaP region and affirms that Ukraine's model can be an example for other Eastern partners in their European integration and EU convergence. Ukraine may also take an advantage of this mission to both strengthen its political standing as a regional leader and gradually move towards its strategic goal of integration to the EU. It is very important for Ukraine, the same as for

the rest of the EaP countries, to develop democracy and maintain political stability as a core base for their successful cooperation with the EU.

Evolution of democracy in the post-Soviet countries is reviewed in the Polity IV report (available at the Center for Systemic Peace website). This indicator estimates the ratings of democracy level in the country.

The Polity 2 variable (21-point scale) describes a spectrum of governing authority that spans from fully institutionalized autocracies (with -10 meaning hereditary monarchy) through mixed authority regimes to fully institutionalized democracies (with +10 meaning consolidated democracy) (Figure 1).

The deviation in variables for each of the EaP countries is closely connected with the level openness of their external policy and integration to world economy. Much suggests that the political regime strongly influences the speed of transition to a market economy and market reform implementation.



Note: Democratic >/= 6. Autocratic </= -6.

Figure 1. Democracy 1991-2012

Source: Polity IV Polity IV project, Center for Systemic Peace, www.systemicpeace.org

According to the Polity IV report (Figure 1), only two of the six Eastern Partnership countries (Moldova and Ukraine) as well as Georgia starting from 2004 have been demonstrating high (six or more) and stable scores comparing to other EaP partner countries. The Ukrainian score ranges between 5 and 7 though it decreased to 6 in 2010 as a direct consequence election of the ex-President Viktor Yanukovych. In 2015, only after the fall of the Yanukovych's regime and election of the new Ukrainian President P. Poroshenko, Ukraine, with the support of the EU, has finally signed the Association Agreement with the EU.

Despite the military conflict in Ukraine in 2014, compared to other Eastern Partnership countries, Ukraine remains the cooperation leader as the only Eastern partner country holding formal consultations with both the EU Military Committee (EUMC) and the Political and Security Committee (PSC). The country's public opinion has changed in the process of integration into the EU: support of the integration has increased from 47% to 57% compared to 2013. At the same time, support of the Customs Union with Russia, Belarus and Kazakhstan has decreased from 36% to 16%. The policy of integration into the EU prevails throughout the country, except for the Eastern Region of Donbass. At the same time, the Association Agreement as a legally binding document obliges the Ukrainian authorities to implement the necessary re-

forms and gives extra leverage for Ukrainian civil society in the legislative framework (European Integration Index 2014).

As mentioned above, the decision to start negotiations on a new EU-Ukraine Association Agreement, including the DCFTA between the EU and Ukraine, was made in March, 2007 but from 2013 Ukraine, headed by president V. Yanukovych, actually suspended negotiations with the EU both on the AA and DCFTA and revived them after the political coup in 2014, when pro-European oriented Ukrainian president Poroshenko came to power.

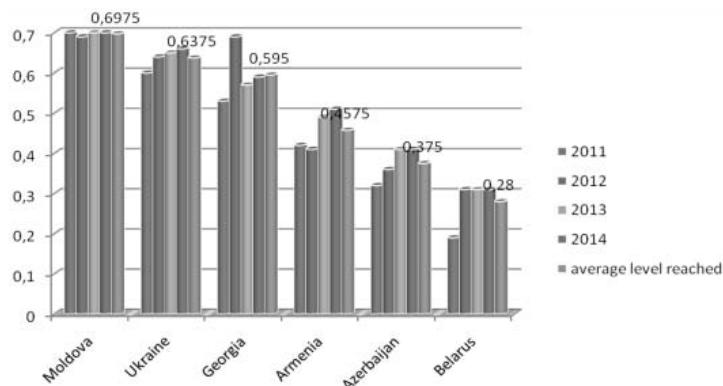
Being Ukraine's key trade and business partner, EU has actively supported Ukraine on its hard way to democracy and economic reforms during before the political coup in 2014 and showed even more support during the coup itself, that it's obvious that Ukraine's today pro-European orientation and further integration with EU would have a positive impact on political, social and economic development of the country.

Ukraine is the European Union's driving force in the Eastern Partnership. If the European Union experienced political and economic failure in Ukraine, it could lose its image of key political player in general and thus weaken its role of world leader. If Ukraine finally becomes part of the European political and economic model, the power and influence of the European Union and its political model will increase in the whole world. Therefore, the EU even theoretically excludes the possibility of failure.

Ukraine is a European country with a geopolitical location particularly significant for the EU; Ukraine has a 1,500-km long border with Russia and borders with the EU member states such as Poland, Romania, Hungary and Slovakia. Ukraine, with its population of 45.7 million people, is the only EaP country that is of great importance for the European Union as both an emerging market and a transit country for Russian gas. This means that "insufficiently" integrated Ukraine is a political and economic slack for the Europe.

Unstable political and economic situation in Ukraine could lead to far-reaching instability in the external eastern borders of the EU, which would discredit the European model as such. The EU's entire EaP policy is focused on the Ukrainian model, which also serves as a benchmark for the EU's new neighborhood policy in the southern dimension. The USA has largely ceased to provide assistance for the development of Eastern Europe stating that Europeans should do it themselves. So, the EU must fulfill this commitment as a global player. On the other hand, for the EU Ukraine is a chance to get the political and economic access to other CIS countries.

If in the nearest few years Ukraine implements the basic statements from the Article 2 of the Treaty on the European Union, and if the EU under Article 49 of the Treaty on the European Union provided Ukraine with the membership chances, Ukraine would be able to become a European success model like at the time of launching of the Association Agreement negotiations. This would have a significant positive impact on the Eastern neighbors of the European Union and contribute to political and economic changes throughout the region. Implementation of the above mentioned reforms is assessed in the European Integration Index reports. Assessment is applied to every area of the EaP partner countries and the EU economic integration programs. This assessment also allows classifying the members by the results of their integration with the EU (Figure 2).



Note: Indicators range from 0 to 1, the closer indicator to 1 shows the higher level of implemented reforms

Figure. 2. Key indicators of reforms in dynamics

Source: own compilation based on the European Integration Indexes' data 2011-2014.

Within the last six years the EU has become Ukraine's main trading partner. (Figures 3 and 4.). In 2014 Ukraine's exports to the EU made €14 billion in 2014 (comparing to €12bn in 2010). The fastest growing categories are food products (30% of the total exports and growing more than 20% per year), chemicals, machinery (2%), and textiles/clothing (1,2%)(Gender analysis of the EU AA/DCFTAs with Georgia, Moldova and Ukraine, 2016). In 2014 EU exports to Ukraine made €17m. The main growth areas were fuels (14%), food products (2,4%) and chemicals/pharmaceuticals and machinery (4%), textiles/clothing and others. This combination is reportedly changing, due to the conflict and adjusted markets, and the DCFTA is sparking greater interest in diversification and higher-value-added export activities.

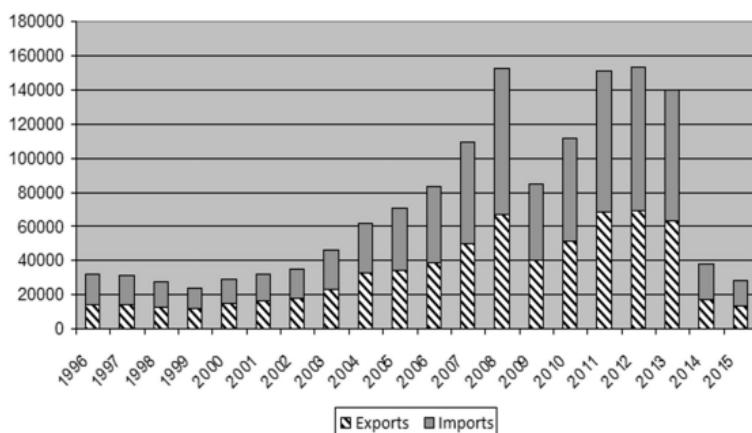


Figure 3. Dynamics of exports-imports of goods between Ukraine and the EU, 1996-2016 (mln. USD)

Source: own elaboration, based on the data from the official website of the State Statistics Service of Ukraine,
www.ukrstat.gov.ua

Ukraine's steady gains in trade in commercial services have been negatively affected by the conflict and the loss of Crimea, which, the same with Carpathians was the major tourist destination. Even though, the 11% share of "goods-related" services exports shows higher-value-added export activities, that could be taken as a positive tendency.

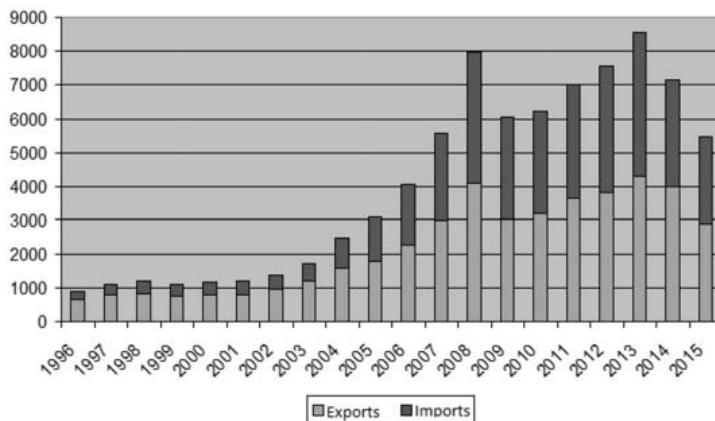


Figure 4. Dynamics of exports-imports of services between Ukraine and the EU, 1996-2014 (mln. USD)

Source: own elaboration, based on the data from the official website of the State Statistics Service of Ukraine,
www.ukrstat.gov.ua

The EU has replaced Russia as Ukraine's main trading partner, supplying a rising share of both imports and exports, and partially making up for the decline in sales to Russia, the second largest market and supplier(Figure 5.).

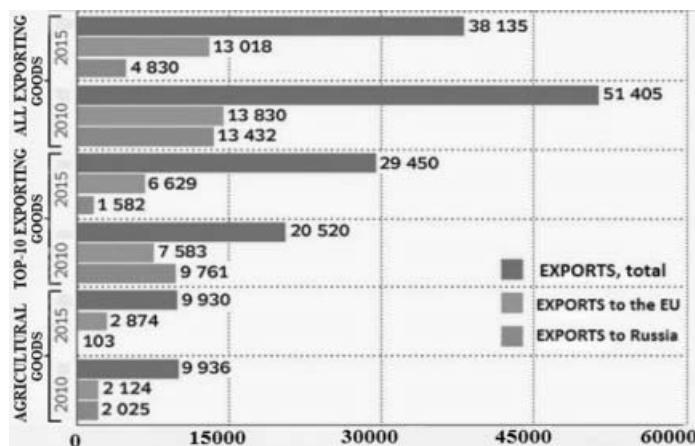


Figure 5. Reorientation of exports from Ukraine in 2010 and 2015, million USD

Source: own interpretation. Official website of the official State Statistics Service of Ukraine. www.ukrstat.gov.ua.

It's important to notice that, Ukraine's trade performance has been negatively affected by war conflict with Russia, which caused not only the economic slowdown, falling commodity prices, high inflation, but has also negatively affected Ukrainian exporters' ambitions and innovation development due to worsening the investment climate in the country.

Germany is the second largest investor in Ukraine after the United States, while Poland far ahead on the creation of jobs in Ukraine. Over the past 5 years to arrive, mainly by investors from the United States, Germany, Russia and France. The German economy, as the main European investor is represented in Ukraine by numerous companies, in particular such as Leoni, Claas, Big Dutchman, Bayer, Henkel Group, Rheinmetall, Rhenus Logistics, YKK, BASF, HELM, Dyckerhoff Zement International, Heidelberg Cement, Praktiker, Siemens, Meffert Farbwerke, Heidelberger Druckmaschinen, BRINKMANN, Ratiopharm International GmbH, Rehau and others.

At the same time, insufficient investment climate in Ukraine, weighed down by considerable corruption, delay in the return of paid taxes and customs duties, have so far been an obstacle to better use of the available investment potential.

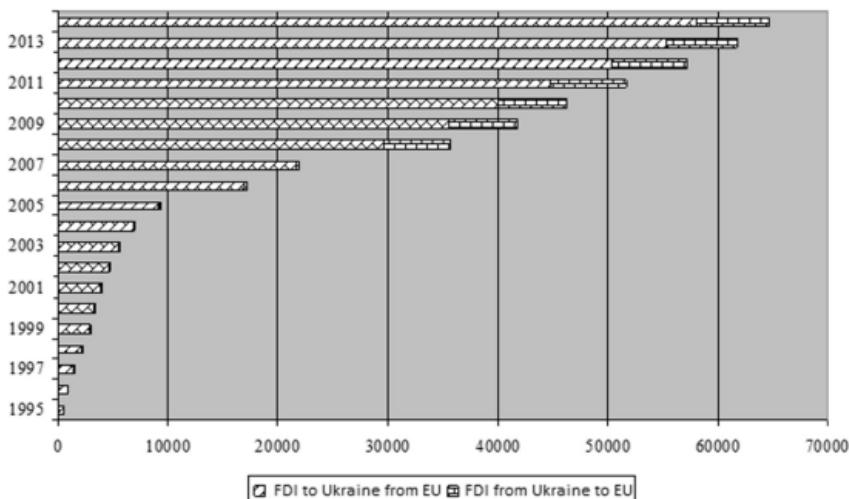


Figure 5. Trends of direct investment between the EU and Ukraine, 1995-2013 (USD, billion)

Source: own compilation based on the official website of the State Statistics Service of Ukraine. www.ukrstat.gov.ua.

According to the World Bank's Doing Business Report, in the 2015 Ukraine ranked 83 of 189 countries (Doing business report, World bank, 2016; Gender analysis of the EU AA/DCFTAs with Georgia, Moldova and Ukraine, 2016). The position has improved for 4 points from 87th in 2014. Taking into account the war conflict, more than 50% inflation and political and economic instability in the country, this can be taken as a very good achievement. Figure 6 presents the "distance to the border" for the indicators used in the report; 100 is the best score, 0 is the worst (Doing business report, World bank, 2016; Gender analysis of the EU AA/DCFTAs with Georgia, Moldova and Ukraine, 2016):



Figure 6. Favorable/unfavorable conditions for doing business in Ukraine

Source: Gender analysis of the EU AA/DCFTAs with Georgia, Moldova and Ukraine. (2016).

According to the World Bank's Doing Business Report Ukraine has strongest positions in ease of starting a business, getting credit and paying taxes and the weakest positions in bankruptcy issues, protecting minority investors, getting electricity and building permits and enforcing contracts. Ukraine has significantly improved its positions in WEF Global Competitiveness Report rankings. In 2015, Ukraine ranked #76 of 144 countries, with a score of 4,1 out of 7 (best), comparing to 2011, when it ranked #82, scoring 4,0 (Doing business report, World bank, 2016; Gender analysis of the EU AA/DCFTAs with Georgia, Moldova and Ukraine, 2016. The most problematic factors for doing business and to rank them 1 (most problematic) to 5(the least problematic) were corruption, policy instability access to financing, government instability and inefficient government bureaucracy(Table 1)(Global Competitiveness Report 2014–2015; Gender analysis of the EU AA/DCFTAs with Georgia, Moldova and Ukraine, 2016):

The most problematic factors for doing business in Ukraine

Corruption	17.8
Policy instability	14.0
Access to financing	13.9
Government instability/coups	10.5
Inefficient government bureaucracy	8.8
Inflation	8.0
Tax rates	7.7
Tax regulations	4.3
Foreign currency regulations	4.1
Restrictive labor regulations	3.4
Insufficient capacity to innovate	1.8
Crime and theft	1.7
Inadequate supply of infrastructure	1.7
Poor public health	1.1
Inadequately educated workforce	0.8
Poor work ethic in national labor force	0.6

Source: Own interpretation based on the data from the Global Competitiveness Report 2014–2015.

World Economic Forum, <http://www3.weforum.org>

In 2014 Ukraine's ranking in Transparency International's Corruption Perception Index worsened to 142 of 174 countries, comparing to 134 in 2010. However, its score of 26 (100 is the best) was similar to previous years.

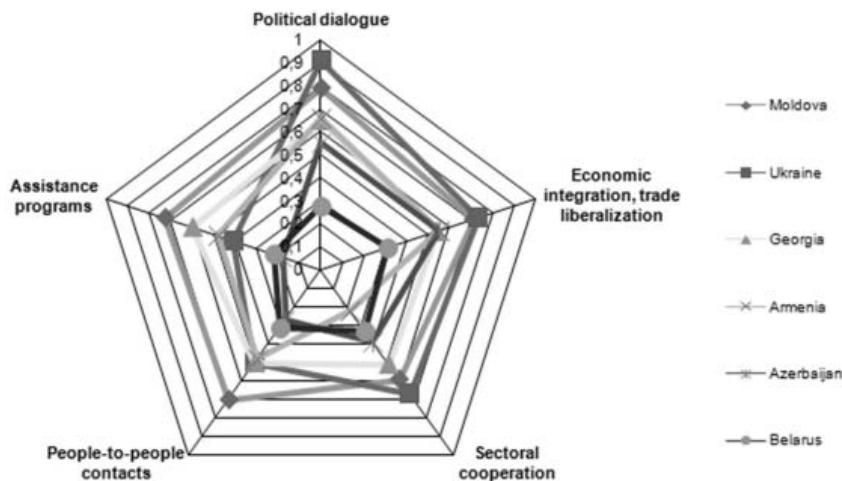
Thought fight against the corruption was seen as a main objective of the EuroMaidan protests, nearly half of respondents said they believed that the situation has not changed and corruption has remained at the same level, while 32% said it has even increased (Kyiv International Institute of Sociology (KIIS) survey)(Düvell, Lapshyna, 2015).

In view of signing AA and DCFTA implementation Ukraine should as has never before concentrate on the support of SMEs (Small and medium sized businesses) and providing decent conditions for doing business, attracting foreign investors and providing appropriate legislative norms.

As it has been mentioned before the EU is a major business partner for Ukraine: almost a third of Ukraine's foreign trade is being held with the EU member states with a constantly growing tendency every year.

Therefore, the signing of the Association Agreement (AA) with the EU, including DCFTA, is key the objective for Ukraine's foreign policy. The AA provides gradual elimination of trade barriers and harmonization of legislation. For Ukraine AA opens the way to European economic integration and EU's the internal market through implementation of 80% of the EUs norms.

The core objective of Ukraine-EU DCFTA lies not only in gradual elimination of trade barriers and legislation harmonization in sectors important for trade, which includes, but not only trade barriers elimination, the reforms in anti-monopoly legislation and public procurement, as well as veterinary control of animal and plant production, customs and border control procedures. The opening of markets in all areas occurs in stages and will be implemented simultaneously with the gradual adaptation of Ukrainian legislation to the European law, as well as institutional reforms. The degree, to which Ukraine opens its market to the EU, highly depends on the level of economic and administrative reforms implementation in Ukraine. Comparing to other Eastern Partnership countries, Ukraine upholds leading positions in the field of political dialogue and economic integration intensification. (Fig. 7)



Note: The indices range from 0 to 1. The closer the index is to 1, the higher the level of reforms.

**Figure 7. Cross-sector analysis of reforms implementation within the Eastern Partnership initiative.
Average index 2011-2014.**

Source: own elaboration, based on the European Integration Indexes' data 2011-2014.

According to the data analyses, presented in Fig. 7., signing of DCFTA would be a logical conclusion of more than six years dialogue on trade liberalization between the two parties.

A part of the AA, dealing with DCFTA, i.e. “Trade and trade-related issues”, provides not only trade liberalization for goods and services, but also offers partly capital and labor movement facilitation (Yatsenko, pp. 1107-1108).

As it was mentioned before, the DCFTA provides not only the elimination or substantial reduction of the customs tariffs for more than 95% tariff items and the forward-looking liberalization of trade in services, covering all types of service provision, but it also solves the questions concerned with investment, intellectual property protection, including the geographical indications, government procurement, competition rules, regulatory transparency, and sustainable development. “Trade and trade-related issues” will also contain agreements on complete elimination and further prevention of non-tariff barriers to trade, such as technical barriers, standardization, metrology, accreditation and conformity assessment, as well as sanitary and phytosanitary measures.

The “Trade and trade-related issues” differ from the similar provisions in the other EU Agreements of this type by much more properly worked out analysis of Ukraine’s step-by-step policy towards gradual approximation and/or adaptation of Ukrainian legislation to EU legislation, which is directly associated with providing of full access to the EU’s internal market, particularly in areas such as sanitary and phytosanitary measures, trade in services, e-commerce, technical barriers to trade etc.

The negotiations on DACFTA comprise 18 areas, which cover a broad range of trade-related issues (from trade in goods and services to the competition policy and dispute settlements).

At present, the average weighted rates of import duties applicable to the trade in goods between Ukraine and the EU are relatively low (Table 2). Traditionally, the high rates are observed in the agricultural trade, while the EU market is protected better than the market of Ukraine. Low level of EU industrial market protection is largely determined by the existence of the EU General System of Preferences (GSP), the beneficiary of which is Ukraine.

Table 2

Rates of import duties applicable in trade between Ukraine and the EU within the DCFTA, comparing to 2013

	Import duties, EU (weighted average) 2013	Import duties, Ukraine (weighted average) 2013	EU import duties in terms of DCFTA (weighted average)	
			Basic rate	Ultimate rate
For agricultural products	7.42	6.41	3.7	0.0
For industrial goods	1.19	2.45	5.08	0.36

Source: author’s interpretation based on the Newsletter 1st-4th quarter (2013).

The mutual liberalization of trade in both industrial and agricultural goods will prosper to the reduction of the operations and administrative business costs. The cancellation or substantial reduction in import duties is provided for more than 95% tariff items.

The parties agreed to reduce or abolish the import duty on goods, in respect of which the Agreement on the complete trade liberalization has not been reached, under the specific schedule.

Complete import duties elimination has not been agreed on certain agricultural commodities, while the duty-free tariff quotas are established for key agricultural goods of Ukrainian origin. In particular, according to the Ministry of Agrarian Policy and Food of Ukraine (Panchenko, 2015), in 2015 the following quotas for duty-free exports to the EU were assumed:

- 1.6 million tons of grain during the first year of DCFTA provisions with a gradual increase to 2.0 million tons over five years. The quota for wheat export to the EU makes 950 thousand tons (1 million tons in five years), maize – 650 000 tons (250 000 were exported and 400 thousand tons of quotas left unused), barley – 250 000 tons (227 21 tons were exported and 227 279 tons of quotas left unused);
- 36 000 tons of frozen chicken carcasses (123 60 tons were exported and 23 640 tons of quotas left unused);
- 10 000 of grape and apple juice (quotas were fulfilled completely);
- 10 000 of processed tomatoes (quotas were fulfilled completely);
- 12 000 tons of beef (quotas weren't used);
- 8 000 tons of milk, cream, sweet milk and yogurts (quotas weren't used);
- 40 ton of pork (processed pork and carcasses equally).
- 30 tons of sugar, 27 tons of molasses and sugar syrup (2000 tons of quotas left used).

Tariff quotas will be also applicable to the other agro-products, such as honey, garlic, tomato paste, juice etc.

Cancellation of export duties by Ukraine was one of the key requirements of the EU during negotiations on DCFTA establishment. Ukraine applies export duties on number of product groups, in particular: the seeds of oil cultures, cattle, skins, ferrous and non-ferrous metals, natural gas. In general, about 1% of Ukrainian export to the EU was subject to the export duty in 2013-2015.

According to the "Trade and trade-related issues", the parties will no longer impose or establish any duty or take the other steps with an equivalent effect in connection with the export from Ukraine to the EU and vice versa. The existing measures applied by Ukraine will expire during a certain transition period, i.e. 10 years from the DCFTA implementation (with the exception of sunflower seeds with prorogated transition period of 15 years)

Consequently, during the next 15 years Ukraine will be able to apply a special safeguard mode (a surcharge within certain limits) on certain products, in particular: sunflower seeds, hides, and some types of scrap metal. Different modes will be applied to each of these goods, although the overall protection of the ideology will remain unchanged.

Thus, during the same period, the Ukrainian producers of a number of sensitive goods will be allowed to use an additional protection that will enable them to better prepare for the increased competition in the future.

CONCLUSIONS

Today, Ukraine has a stronger focus on Europe than ever before. Ukraine is considered by the EU as a model state of the EaP, the success of which remains limited so far.

The reforms related to the DCFTA will allow Ukraine to modernize its economy and structure and to increase the attractiveness for foreign and domestic investors, and thus to take advantage of the existing potential for economic development: the market with 45.7 million potential customers and a highly skilled labor force is opened for investors from Europe.

Compared to the other Eastern Partnership countries, Ukraine is holding leading positions in political dialogue and economic integration with the EU. The success of this cooperation is directly depends on the stability of political situation in the country, so the Ukrainian authorities should focus their efforts on keeping political situation stable, and to further intensify the political dialogue with the countries of Western Europe and the USA and to work tightly on settlement of the military conflict, support for small and medium-sized businesses, and economic integration with the EU.

It is possible to assume that DCFTA will determine a close intertwining of relations between the Ukrainian economy and the EU economies. Such a development would have a positive impact on stabilization of the economic climate in the country in general, upholding of the principles of the rule of law, fighting the corruption, and the resulting improvement of the investment climate in Ukraine. At the same time Ukrainian authorities should make maximum efforts to support their local businesses (especially in agricultural sphere) and to guarantee them clear and fair conditions for the entrepreneurship development, lowering the level of corruption, providing market transparency, access to necessary financing, informing about changes in legislation, offering the possibility of obtaining juridical consultations and simplified form of communication with state institutions and international organizations, involved in SMEs and business support in the region.

ACKNOWLEDGMENT

This article appears as a part of the research activities of the Faculty of International Relations of the University of Economics, Prague, and project VSE-IGA 7/2014 and financed by the institutionalised support for the development of research activities.

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