



Razumkov
centre

UKRAINE'S SECTORAL INTEGRATION INTO THE EU: PRECONDITIONS, PROSPECTS, CHALLENGES



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UKRAINE'S SECTORAL INTEGRATION INTO THE EU: PRECONDITIONS, PROSPECTS, CHALLENGES

Sectoral integration is an extensive, multi-vector and multi-speed process aimed at, so to speak, step-by-step construction of modern Europe in Ukraine – “digital”, “energy-sector”, “infrastructural”, “industrial”, “ecological”, etc.

The indicator of efficiency of government's eurointegration activity is the level of implementation of the Association Agreement (overall and by sectors), which, regrettably, due to various subjective and objective circumstances is not satisfactory at the moment. Yet, another thing is also obvious, – the Agreement, approved back in 2011, now fails to match current circumstances and the potential of EU-Ukraine relations. Thus, a comprehensive update of this document is on the agenda with the objective of Ukraine's active entry into EU's sectoral markets, including with high value added products, and overall – for efficient progress towards the “four freedoms” in relations between Kyiv and Brussels.

Thus, the Agreement update entails a new quality of cooperation in key areas of sectoral integration. Ahead of us is the signing of important agreements with the EU: on “industrial visa-free regime” (ACAA), cooperation in the digital sector, common aviation area, etc. There are also discussions on Ukraine's accession to EU Common Transit System, cooperation in the framework of European Green Deal, etc. At the same time, new challenges bring adjustments to partnership priorities. Namely, the battle against COVID-19 brings to the forefront the issue of expanding cooperation in healthcare and pharmaceuticals, introduction of new contactless technologies, strengthening cooperation in business and employment guarantees.

That said, it should be noted that on the one hand, current technical assistance and potential of financial resources do not match the scale of transformational issues that Ukraine faces in the context of sectoral integration. And on the other – the Agreement does not contain an ultimate mobilising goal, i.e. the prospect of EU membership.

Overall, there are grounds to talk about progress and achievements on the path towards Europe: from active political dialogue to implementation of a range of European norms in a number of sectors. However, progress towards the EU is restricted and complicated by a range of adverse internal factors, which include corruption in Ukraine, socio-economic troubles, quality of public administration system, limitations and failures of government policy, etc.

At the same time, movement towards European community is slowed down by adverse geopolitical trends, centrifugal processes within the EU, Russian hybrid aggression, global pandemic outbreak. Unfortunately, so far we have failed to effectively convert eurointegration course into socio-economic changes tangible for Ukrainian citizens. It is rather obvious that Ukraine's overall eurointegration results, as well as the process of further Agreement implementation will be defined by how efficiently it overcomes its internal problems.

Section one talks about the nature and specific aspects of government's eurointegration policy, achievements and problems on the path towards the EU, outlines internal circumstances and external conditions of Ukraine's progress towards the European community.

Section two looks at some new priorities in Kyiv-Brussels' cooperation, analyses preconditions for intensification of sectoral integration in the economy, outlines ways of Ukraine's progress towards EU markets, discusses efficiency of instruments that facilitate sectoral integration.

Section three studies the current state, trends and prospects of EU-Ukraine integration in a number of specific sectors. Namely, in the sectors of energy, digital market, transport, banking and ecology.

Section four provides generalised conclusions and a complex of proposals for intensifying and deepening EU-Ukraine sectoral integration.

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1. INTEGRATION INTO THE EUROPEAN UNION: CURRENT STATE, PECULIARITIES AND CHALLENGES

Ukraine's European integration is a multi-layered, dynamic and lasting process with a complex and sometimes dramatic evolution, which depends on many internal and external factors. Stages, specifics and chronology of the development of Brussels-Kyiv relations are outlined in the previous project of the Razumkov Centre (2020).¹

The first section of the report assesses the nature and peculiarities of the current government's European integration policy, accomplishments and problems on the way to the EU. It also highlights some internal circumstances and external geopolitical conditions for Ukraine's advancement towards the European community.

The basic indicator of the government's effectiveness on the European path is the implementation of the EU-Ukraine Association Agreement, especially in various specific areas, from security to environment. Updating this document is today's priority with due regard to global trends and current relations between Kyiv and Brussels. Some theses of this section are supplemented with the results of expert² survey conducted by the Razumkov Centre within this project.

1.1. EUROPEAN INTEGRATION POLICY OF THE CURRENT GOVERNMENT: NATURE AND SPECIFICS

When assessing the current government's European integration activities in general terms, it is worth noting the following.

First, one can generally observe the continuity and stability of Ukraine's European integration course. Any revision of the public policy in this area is out of the question. The presidential team declared and tried to practically follow the course of continuing and deepening integration into the EU. Moreover, the official Kyiv put forward some rather ambitious intentions.

In particular, the official Report on Implementation of the Association Agreement between Ukraine and the European Union for 2019 cites Dmytro Kuleba, then-Vice Prime Minister of Ukraine for European and Euro-Atlantic Integration: "...for the first time, the Government, having recognised the European

integration as an overarching objective for reforming the country... set the goal to achieve Copenhagen criteria for EU membership".³ Later, in September 2020, President Zelenskyy stated that "Ukraine seeks full integration into the EU. We are the European country that can offer a lot to Europe working together... so it would be logical if Ukraine became a full member of the European Union".⁴

Second, it is important that the current government has managed in some degree to maintain the previous gains and positive trends in Brussels-Kyiv relations. These particularly include a) modernising the partnership's regulatory framework with the initiation of dialogue on updating the Association Agreement; b) developing trade and economic cooperation; c) ensuring irreversibility of the European course, as enshrined in the Constitution of Ukraine; d) preserving political and diplomatic solidarity and economic support in the face of Russian aggression. The latter has been clearly articulated in the joint statements following the EU-Ukraine summits.

¹ See: the Razumkov Centre's analytical report "Ukraine's European Integration: the Russian Factor". National Security and Defence, No.1-2, 2020, pp. 3-7, – https://razumkov.org.ua/uploads/journal/eng/NSD181-182_2020_eng.pdf.

² See: the expert survey in the Razumkov Centre's analytical report "Ukraine's European Integration" in this publication.

³ Report on Implementation of the Association Agreement between Ukraine and the European Union for 2019, Government Office for Coordination of European and Euro-Atlantic Integration, p. 5, – https://eu-ua.org/sites/default/files/inline/files/zvit_implementation-2019-4_0.pdf (in Ukrainian).

⁴ Interview of the President of Ukraine to the Slovak economic media Hospodárske noviny, 23 September 2020, – Official website of the President of Ukraine, – <https://www.president.gov.ua/en/news/intervyu-prezidenta-ukrayini-slovackomu-ekonomichnomu-vidann-63881>.

In general, the government's actions in the European direction do have some positives that can be illustrated with the following examples.

- 21st and 22nd EU-Ukraine Summits in June 2019 and in October 2020 supported Ukraine's European aspirations, ongoing reforms and solidarity in countering Russian aggression. They paved the way to updating the Association Agreement;
- The package of European integration laws adopted, including legislation necessary for the negotiations on the "industrial visa-free regime" (ACAA);
- Conditions for joining the Common Transit and launching the Authorised Economic Operators (AEO) created;
- Equivalence of the seed certification system with the EU requirements (ACAA analogue for agricultural products) recognised;
- Some European norms introduced to increase the transparency of the gas market and strengthen cooperation with European gas operators and traders;
- Annex XVII-3 to the Association Agreement updated to facilitate the introduction of the latest EU standards in electronic communications and gradual integration into the EU Digital Single Market;
- Public access granted to the "Agreement Pulse" system;
- Certain steps taken to deepen sectoral integration with the EU;
- Government Office for Coordination of European and Euro-Atlantic Integration and the respective Vice Prime Minister were granted the right to submit relevant bills to the Cabinet of Ministers;
- The practice of "European integration" Cabinet meetings introduced;
- The first regional European integration office opened in Kherson in October 2020.

Olha Stefanyshyna, Vice Prime Minister for European and Euro-Atlantic Integration, is quite optimistic about the country's European integration pace: "Based on political assessment, I would give it a solid eight (on a 12-grade scale – *ed.*).⁵ And, of course, there is room to move on and step up our pace... we spent the whole past year catching up with unfulfilled tasks set by the agreement".⁶

⁵ On a 12-grade scale.

⁶ Stefanyshyna assessed Ukraine's European integration. – Korrespondent.net, 17 November 2020, – <https://ua.korrespondent.net/ukraine/4296519-stefanyshyna-dala-otsinku-yevrointehratsii-ukrainy>. (in Ukrainian).

⁷ In particular, the dissolution of Parliament has led to a sharp confrontation between the branches of government. The Verkhovna Rada twice (on 6 June and 11 July) refused to dismiss Foreign Minister Pavlo Klimkin and appoint the presidential nominee – Vadym Prystaiko. The leadership of the Ministry of Foreign Affairs was in fact "in limbo" for three months, which could not but affect the effectiveness of the European integration policy.

⁸ Henceforth the document presents findings of the expert survey, also included in this publication.

⁹ For more detail, see the Razumkov Centre's analytical report "Ukraine's European Integration: the Russian Factor". National Security and Defence, No. 1-2, 2020, p. 21, – https://razumkov.org.ua/uploads/journal/eng/NSD181-182_2020_eng.pdf.

¹⁰ In March 2020, GRECO criticised the state of fight against corruption in Ukraine, as Kyiv completed 5, partially completed 15 and failed to complete 11 of the organisation's recommendations, issued in 2017.

However, despite certain achievements, one has to acknowledge that the European integration is not a linear process with steady pace – instead, it has pauses, challenging situations, conflicts and the like. The movement towards the EU is affected by external influences and internal problems with emerging inhibiting factors. In this context, one should look at some *objective circumstances* that hindered the progress towards the EU during 2019-2020.

On the one hand, the pace of European integration in 2019 was slowed down by the domestic political situation related to election campaigns in Ukraine.⁷ The new government "triangle" of the President – the Parliament – the Cabinet started working only in September 2019.

On the other hand, the nature and efficiency of relations between Kyiv and Brussels were negatively affected by the global COVID-19 pandemic, which complicated the socio-economic situation in the EU, redounded on the Ukrainian economy and caused certain "hiatus" in the EU-Ukraine dialogue.

It should be added that the European integration is definitely important but not the top priority in the government's hierarchy of primacies, given the long-lasting Russian aggression. For the incumbent President, resistance to Russia's hybrid aggression, settlement of the Donbas conflict and de-occupation of Crimea are number one tasks, at least in the short term.

Expert opinion⁸

In general, the expert community is rather critical about the pace of European integration. During the period under study (December 2006 - October 2020) most Ukrainian experts viewed Ukraine's movement towards the EU as slow. Similar critical assessments also prevailed in October 2020, as 50% of surveyed experts described the pace of European integration as low, 36% – as medium, and only 6% as high.

In the meantime, Brussels-Kyiv relations are further complicated by the "mixture" of unfavourable factors – both chronic and long-term problems, and new challenges and threats. When assessing the internal conditions hindering the European integration process, it is necessary to dwell on some of them in greater detail.⁹

Ukraine's chronic problems with combating corruption and reforming the judiciary have not disappeared from the EU-Ukraine agenda.¹⁰ Quite the

contrary, amidst the difficult socio-economic situation, ongoing “oligarchization”, the spread of shadow economy and the influence of corporate interests, these problems have aggravated recently, undermining the climate, state and prospects of Brussels-Kyiv relations.¹¹

For example, in October 2020, the Venice Commission released a critical report about the government’s plans to “reset” the High Council of Justice, stressing that the “issue of the integrity of HCJ members is urgent and must be addressed without delay”.¹²

In the meantime, in addition to sensitive judicial reform issues, one could observe permanent high-profile conflicts and confrontations between the “anti-corruption infrastructure” entities – NABU, SAP, NAZK and DBR,¹³ suggesting dangerous politicisation of their activities. In addition, in August 2020, the Constitutional Court of Ukraine declared unconstitutional both the appointment of Artem Sytnyk as the NABU director and the norms of law under which he was appointed.¹⁴ At the same time, SAP’s Nazar Kholodnytskyi resigned, while the procedure for appointing the commission to select his successor was heavily criticised by the EU institutions.¹⁵ In other words, the system of Ukraine’s anti-corruption agencies ended up unbalanced.

Finally, on 27 October 2020, the Constitutional Court declared unconstitutional certain provisions of anti-corruption laws, and abolished some of the NAZK powers.¹⁶ This provoked sharp response and concerns from the European Commissions, members of the European Parliament, the G-7 ambassadors, the EU Delegation to Ukraine and others.¹⁷

Such biased decision of the Constitutional Court has slowed down the anti-corruption reform and aggravated domestic political situation. On the other hand, it affected relations with Brussels, threatened the visa-free travel and created negative background for further negotiations with the EU on issues that are critical for

Ukraine, such as macro-financial assistance programme worth EUR 1.2 billion, updating of the Association Agreement, introduction of “industrial visa-free regime” and the like. Therefore, the Court’s act poses considerable risks for Ukraine’s European integration course enshrined in its Constitution.

Expert opinion

When assessing factors that are most likely to hinder Ukraine’s European integration, the experts primarily note the high level of corruption – 4.2 points.¹⁸ Other factors include insufficient economic development (3.5), and the lack of European strategy in the current government (3.4). Experts also mention some external factors that decelerate the country’s movement towards the EU, such as Russia’s hybrid aggression (3.2), unfavourable geopolitical trends (2.8), the lack of the EU’s guarantees for Ukraine’s full membership (2.8), etc.

Lack of strategic vision remains a problem.¹⁴ On 14 September 2020, the President approved an important conceptual document – the National Security Strategy.¹⁹ However, Ukraine still lacks (at least as of December 2020) a comprehensive foreign policy strategy that should include the European integration.²⁰

Unfortunately, strategic foreign policy issues also remain beyond the Parliament’s attention, which could not dedicate time to update the basic law “On the Principles of Domestic and Foreign Policy”, which is outdated and does not meet modern reality.

Controversial structural and personnel reorganisations have affected the efficiency of state institutions, including in the area of European integration. This primarily concerns mergers and subsequent separations of individual ministries, the resignation of the government, the inconsistency of personnel policy. For example, in November 2020, a conflict with the European Commission erupted over the planned changes in the staffing structure of the central office of Ukraine’s Ministry of Education

¹¹ On 12 December 2019, the European Commission published its Annual Association Implementation Report on Ukraine. It stresses the urgency of continuing reforms to fight against corruption and criticises steps of the new government to reform the judiciary and judicial self-government bodies.

¹² The Venice Commission told Ukraine about the need to clean up the High Council of Justice – “Ukrayinska Pravda”, 11 October 2020, – <https://www.pravda.com.ua/news/2020/10/11/7269552/>. (in Ukrainian).

¹³ The National Anti-Corruption Bureau of Ukraine (NABU), the Specialised Anti-Corruption Prosecutor’s Office (SAP), the National Agency for Corruption Prevention (NAZK), the State Bureau of Investigations (DBR).

¹⁴ The CGU declared Sytnyk’s appointment to the post of NABU head unconstitutional. Ukrinform. August 28, 2020, – <https://www.ukrinform.ua/rubric-polytics/3089553-ksu-viznav-nekonstitucijnim-priznacenna-sitnika-na-posadu-glavi-nabu.html>.

¹⁵ As personnel changes in the tender commission for SAP threaten visa-free travel. DW dated September 18, 2020, – <https://www.dw.com/uk/yaknovakomisiiizobraniaholovysapzahrozhuiebevizovomurezhymu/a-54981663>.

¹⁶ The Constitutional Court abolished e-declarations, illegal enrichment and a number of other anti-corruption norms – the media. – Ukrainian Pravda, October 27, 2020, – <https://www.pravda.com.ua/news/2020/10/27/7271451>.

¹⁷ Specifically, the European Union Spokesperson for Foreign Affairs and Security Policy Peter Stano urged Ukraine to reinstate the anti-corruption infrastructure as soon as possible, as this is the condition for financial assistance and visa-free travel with the EU. See the EU statement: Anti-corruption infrastructure should be restored promptly as this is the condition for visa-free travel and financial assistance – “Ukrayinska Pravda”, 3 November 2020, – <https://www.euointegration.com.ua/news/2020/11/3/7116079/>. (in Ukrainian).

¹⁸ On a five-point scale, where “5” means “hinders the most” and “0” – “does not hinder at all”.

¹⁹ The Presidential Decree “On Urgent Measures for Reform Implementation and Strengthening of the State” of 8 November 2019 only generally outlines certain areas of government actions in foreign policy. See the Decree of the President of Ukraine No. 837/2019 dated 8 November 2019 “On Urgent Measures for Reform Implementation and Strengthening of the State”, – <https://www.president.gov.ua/documents/8372019-30389> (in Ukrainian).

²⁰ As of December 2020, the foreign policy strategy is still under development.

and Science, which, according to European partners, “threaten to disrupt the reforms of vocational and higher education... reduce the ministry’s capacity to implement joint projects with the EU”.²¹ Meanwhile, the position of Director of the Government Office for Coordination of European and Euro-Atlantic Integration, the key agency responsible for the Association Agreement implementation, remains vacant since November 2019.

European integration policy was often carried out in a manual and “turbo” mode, amidst conflicts and disagreements in the ruling team. This can explain the problems, shortcomings and miscalculations on the way to the EU. The “turbo” mode in adopting European integration laws affected the quality of legislation, stirring criticism from the EU.²² The government’s innovations in reforming the judiciary and the SBU¹⁸ have also come under fire from the West.²³

Draft laws “On Media” and “On Amendments to Some Legislative Acts of Ukraine on Ensuring National Information Security and the Right to Access Reliable Information” also caused mixed reactions among Western partners.²⁴ The bill on “localization” was strongly criticised by the EU.²⁵ At the same time, conflicts and disagreements between various members of the ruling team on important issues of relations with the EU added to unfavourable background.²⁶

There is an ongoing heavy confrontation – literally a “war of annihilation” – among political parties that share European values and support the movement towards the EU. More importantly, this occurs against strengthening of pro-Russian forces that seek to resume the dialogue and contacts with the aggressor. Such confrontation among European integrators, which spills into the national information space and becomes a leading topic in public discourse, weakens Ukraine’s position in the European direction and undermines public support for the European integration.

This list of problems can be further expanded by the lack of communication, as relevant ministries and agencies did not have much public activity regarding European integration issues.

Expert opinion

Experts are quite critical of the current leadership’s European integration policy. Specifically, 64% of experts do not consider it clear to the public; 59% stress that this policy is ineffective. 57% are convinced that the government’s policy in the European direction lacks a clear strategy for action. Moreover, 50% do not consider this policy transparent and open.

Regional aspect of European integration. Relations with some neighbours that are EU members show complex dynamics. The lengthy conflict with Hungary over Ukraine’s Law on Education (2017) is accompanied by permanent political and diplomatic démarches, false accusations by the Hungarian side of alleged violations of the rights of the Hungarian minority in Ukraine, and clearly unfriendly actions. Official Budapest has been consistently blocking meetings of the NATO-Ukraine Commission.

Ukraine has taken some steps to settle the conflict²⁷ and initiated contacts at different levels. In September 2020, the Foreign Ministers of Ukraine and Hungary reached an agreement to hold a joint business forum and meetings of three Ukrainian-Hungarian commissions – on national minorities, on education and on cross-border cooperation.

However, the conflict was not fully extinguished. On 25 October 2020, Ukraine’s Ministry of Foreign Affairs considered some statements of Hungarian officials as meddling in the election and banned the entry of two Hungarian high-ranking officials. The situation with the high-level meeting remains uncertain, while the Hungarian side does not abandon its faulty policy of blocking Ukraine-NATO contacts.²⁸

Quite intensive were Ukraine’s multi-level political and diplomatic contacts with Poland. Both countries agreed on the development of trade and economic relations, energy sector and cross-border cooperation, etc. The progress in the Ukrainian-Polish partnership

²¹ The EU issued second warning to Ukraine over attempts to disrupt reforms in the Ministry of Education – “Ukrayinska Pravda”, 20 November 2020, - <https://www.pravda.com.ua/news/2020/11/20/7274296/> (in Ukrainian).

²² Ukraine 2019-2020: Broad Opportunities, contradictory Results, p. 10.

²³ Speaking of the judiciary, the West’s criticism, among other things, concerned reduction of the size of the Supreme Court from 200 to 100 judges. As for the SBU reform, the EU insists on limiting the agency’s functions to counterintelligence, anti-terrorism and protection of state secrets.

²⁴ Ukraine’s European integration: the Russian factor. Analytical report of the Razumkov Center. - National Security and Defense, 2020, -21-2, p.19, razumkov.org.ua/uploads/journal/ukr/NSD181-182_2020_ukr.pdf.

²⁵ The EU warned the Council about the inadmissibility of supporting Ukrainian engineering. Correspondent.net July 4, 2020, – <https://ua.korrespondent.net/business/economics/4248144-yes-poperedyv-radu-pro-neprypustymist-pidtrymky-ukrainskoho-mashynobuduvannia>.

²⁶ There was much negative publicity around the statement made by David Arakhamia, the Head of the Servant of the People parliamentary faction at the Davos Forum on 22 January 2020 regarding Ukraine, which should temporarily abandon the policy of harmonising its legislation with EU law. Vice Prime Minister Kuleba had to refute this thesis.

²⁷ In particular, the Verkhovna Rada appropriately amended the Law “On Education” by extending the transition period of teaching in the languages of national minorities in general secondary education until 2023. At the same time, in January 2020, the Verkhovna Rada passed the Law “On Complete Secondary Education”, which, according to Dmytro Kuleba, should encourage better relations with Hungary. See: Kuleba: The law on secondary education should help in relations with Hungary – “Ukrayinska Pravda”, 16 January 2020, – <https://www.pravda.com.ua/news/2020/01/16/7237556/> (in Ukrainian).

²⁸ Hungarian Foreign Minister Peter Szijjarto stated that Hungary will stop the blockade as soon as “Zakarpattia Hungarians inform us that the issues with the language law and the law on education have been resolved positively for them”. See: The Hungarian Foreign Minister listed the conditions for the meeting of Orban and Zelenskyy – “Ukrayinska Pravda”, 23 September 2020, – <https://www.pravda.com.ua/news/2020/09/23/7267407/>. (in Ukrainian).



in various spheres is obvious, just like Poland's solidarity in the face of Russian aggression. This was highlighted by the meeting of Presidents Zelenskyy and Duda in Kyiv on 12 October 2020 and their signing of the Joint Statement, which emphasised “the need to ensure that victims [of conflicts and political repressions] can be found and exhumed in Ukraine and Poland” and condemned “acts of desecration of Ukrainian cultural monuments and places of remembrance in Poland and Polish cultural monuments and places of remembrance in Ukraine”.²⁹

However, it is clearly premature to say that sensitive historical issues that aggravate bilateral relations should be permanently removed from the agenda.

Therefore, actions of the ruling team in the European direction can be characterised both by achievements and attempts to accelerate integration processes, and by miscalculations, contradictory steps and decisions. One of key persistent problems is that the European integration course has not yet been effectively converted into positive and tangible socio-economic changes for citizens. At the same time, some unfavourable factors, the burden of internal problems and conflicts hindered Ukraine's movement towards the EU, discredited the European idea inside the country and hampered the development of the Brussels-Kyiv partnership.

²⁹ Joint statement by President of Ukraine Volodymyr Zelenskyy and president of Poland Andrzej Duda of 12 October 2020, – <https://www.president.gov.ua/en/news/spilna-zayava-prezidenta-ukrayini-volodimira-zelenskogo-ta-p-64453>.

³⁰ More on the specifics and peculiarities of Russian blocking of Ukraine's European integration see: the Razumkov Centre's analytical report “Ukraine's European Integration: the Russian Factor”. National Security and Defence, No. 1-2, 2020, pp.55-65, – https://razumkov.org.ua/uploads/journal/eng/NSD181-182_2020_eng.pdf.

1.2. EXTERNAL FACTORS

In the context of globalisation, the state and prospects of relations between Brussels and Kyiv are influenced by divergent geopolitical factors and processes, both directly and indirectly. For example, signing of the ECAA agreement between Ukraine and the EU has long been blocked due to the Spanish-British conflict over the status of Gibraltar airport. The situation with the construction of Nord Stream-2 bypassing Ukraine has a transcontinental dimension, causing problems both within the EU and between Brussels and Washington. The US-China trade war has also somewhat affected relations between Europe and Ukraine. In addition, the planetary COVID-19 pandemic has changed priorities and agenda of the entire global community.

The growing conflict, unpredictability and turbulence around the world and in Europe is the common negative factor. Recent confrontations between the world's major players (the United States, China, Russia) affected the global political and economic situation. However, one may expect that Joe Biden's victory in the US presidential election will contribute to the normalisation and development of partnership within NATO and US-EU relations, which is a positive factor for Ukraine.

On the other hand, Europe has faced new challenges and threats. These primarily concern the permanent intensification of “frozen” conflicts in the post-Soviet space, such as the recent outbreak around Nagorno-Karabakh that has now entered a latent phase, causing destabilisation in Armenia. There is ongoing deep conflict in Belarus – a mass civil protest against the bankrupt dictatorial regime of Alexander Lukashenko. The new pro-European President of Moldova Maia Sandu is to face multiple internal and external challenges. It is worth mentioning that these countries are participants in the EU's Eastern Partnership programme.

Russian factor.³⁰ Russia's aggressive imperial policy is one of the most dangerous threats to Ukraine's European integration and to Europe in general. Ukraine drifting towards the EU and NATO is the main reason and motive for the Kremlin's hybrid aggression. Russian leaders understand that Ukraine's successful integration would mean weakening of the Kremlin's geopolitical standing in the CIS, also serving as an encouraging example for other post-Soviet countries and, most importantly, being a threat to the ruling Russian regime and its Eurasian integration ideas. Paradoxically, EU integration is both the cause of Russian aggression and the main weapon to fight it.

Russia is using all available “hybrid warfare” tools to block and prevent Kyiv’s movement to the European community on the one hand, and to weaken and disintegrate the EU with the goal of reformatting the geopolitical system on the European continent on Russian terms on the other.

The Kremlin’s main methods of blocking Ukraine’s European aspirations include the following:

- a) force – a hybrid aggression against Ukraine, namely the annexation of Crimea and the occupation of the Donbas;
- b) destabilisation of internal situation in Ukraine, including by using the “agents of influence” and pro-Russian political forces;
- c) political and economic pressure, trade and gas blockade, attempts to oust Ukraine from third country markets;
- d) information and propaganda expansion in the Ukrainian media space to compromise the idea of European integration;
- e) political and economic pressure on individual EU countries, as well as propaganda campaigns in the European Union to discredit Ukraine and its European course.

As for the current situation, despite the declared ceasefire on the Donbas front from 27 July 2020, the threat of escalation in eastern Ukraine remains real. The issue of annexed Crimea is *de facto* frozen with a potential conflict looming over the Azov-Black Sea area. Due to the aggressor’s confrontational and destructive position, the negotiation processes within the Normandy Four and the Trilateral Contact Group are essentially blocked.

In general, Russia’ “hybrid war” against Ukraine is diverting enormous political, financial, material and human resources that could have been used in the European direction to accelerate Ukraine’s movement towards the EU.

Internal European factors. The relations between Brussels and Kyiv are affected by complex, contradictory internal trends and processes inside the EU, which to some extent influence the specifics and atmosphere of the EU-Ukraine partnership, as well as the pace and prospects of Ukraine’ European integration.

In general, there exist several mutually reinforcing factors that together pose a threat to the unity and effectiveness of the European Union.

Recently, along with noticeable intensification of activities of right-wing parties and movements, one

could observe the spread of Euroscepticism, accompanied by the nations’ economic and political egoism, separatism trends and closing off within national borders. In addition, the global pandemic became a “catalyst” of these processes.

Permanent outbreaks of terrorism also threaten the EU, given the radicalisation of Muslim diasporas in the EU countries. At the same time, the massive influx of immigrants to Europe has created a number of longstanding problems. Conflicts in the immigrants’ countries of origin have increasingly been “transferred” to the EU territory. The migration crisis has been affecting the policy of multiculturalism and distressing the development of a common European identity.

On the other hand, the tangible consequences of the EU’s enlargement in 2004-2013 include enduring “internal burden” on the socio-economic and financial system, coupled with problems and conflicts with “new” EU members, such as tough response of the EU institutions to violations of democracy in Poland and Hungary.³¹ One can also observe social and economic inequality in member states.

The combination of economic crises, socio-cultural challenges and direct security risks presents a mix of problems that creates a fertile environment for ethnic nationalism, xenophobia and historical revanchism,³² which together pose a threat to the EU.

One cannot ignore the factor of Russian expansion on the European continent. As already mentioned, Moscow is exerting a large-scale and targeted hybrid influence on the EU to weaken (break up) the European Union. The Kremlin’s policy is aimed at discrediting and eroding basic European values, exporting corruption, disorienting public opinion, forming an influential pro-Russian lobby within the European elites, supporting radical extremist movements, and deepening differences between European states.

Europe’s chronic, complex vulnerability is its consensus decision-making mechanism, which slows down, hinders and often dilutes important decisions of the European Union, including in foreign policy. The complexity of consensus-based decisions is explained by different positions of EU members, caused by domestic policies conditions, geopolitical orientations, external influences, and the like. This problem became particularly evident in September 2020, when Cyprus was long blocking the imposition of sanctions against the Lukashenko regime, demanding the EU’s interference in the conflict between Cyprus and Turkey that explored gas fields in the disputed Mediterranean region.

³¹ In 2018 The EU has launched sanctions against Hungary (and previously Poland) for violating the rule of law. In 2020 Poland and Hungary have blocked the adoption of an EU budget linking financial assistance for the COVID-19 pandemic to the rule of law in member states. See Hungary does not approve the EU budget proposals - Orban’s chief of staff. Radio Liberty, December 3, 2020, – <https://www.radiosvoboda.org/a/news-uhorshchyna-blokuje-budzet-es/30982212.html>.

³² New EU members not only turn to history, but often demand its revision. These include, for example, lawsuits from Greece and Poland demanding reparations from Germany for Nazi crimes in World War II. Controversies over the interpretation of certain historical events and figures in national histories are exacerbated. Therefore, Bulgaria has clashes with Serbia and North Macedonia, Poland – with Belarus, Lithuania and Germany, and Slovenia – with Croatia.



It is no coincidence that Ursula von der Leyen, the President of the European Commission, stated the following in her Address to the European Parliament on 16 September 2020: “Why are even simple statements on EU values delayed, watered down or held hostage for other motives? [let us] move to qualified majority voting – at least on human rights and sanctions implementation”.³³

However, the centripetal movement in the EU is still prevalent, as the 2019 European Parliament elections asserted the victory of Euro-optimists and proved that there is no “legitimacy crisis” in the EU, while the leaders of key EU nations continue supporting the idea of European integration.

It is clear, however, that the EU’s focus on internal problems and threats in the wake of the economic downturn due to the pandemic limits Europe’s interest, activity and resources towards Ukraine, as its priority for official Brussels is diminishing.

1.3. UPDATING THE ASSOCIATION AGREEMENT AND PROSPECTS OF THE EU-UKRAINE RELATIONS

It is safe to say that after signing the Association Agreement and introducing the visa-free travel, current relations between Brussels and Kyiv lack common strategic goals. On the one hand, the future of the EU-Ukraine relations focuses entirely on the

implementation of the Agreement and its updating, which, for all its significance for Kyiv, is in fact a short-term perspective. On the other hand, Ukraine’s apparent priority is to resist Russian expansion and to earn political and diplomatic solidarity, as well as economic assistance from Europe.

The Association Agreement is the guide and the programme for Ukrainian reforms in various sectors and industries, while its implementation is an indicator of the government’s performance in European direction. The overall dynamics of the Agreement implementation in 2017-2019 does not look optimistic. According to the government annual reports, the overall progress in 2017 was estimated at 41%. In 2018, the situation with the Agreement implementation somewhat improved, with the overall level of completion of tasks reaching 52%. In 2019, however, the implementation slowed to 37%, with the Cabinet of Ministers completing 53% of tasks, the Parliament – only 12%, and other government agencies – 21%.³⁴

It is clear that the generalised assessments of the Agreement implementation, especially as percentages, are largely illustrative, but they still give an idea of the nature, pace and productivity of the European integration process as a whole and the state of affairs in various integration areas.

The dynamics of the Agreement implementation can be seen on Figure *Progress of the EU Association Agreement implementation by Ukraine in 2017-2019*

It is obvious that the process of the Agreement implementation in different areas is multispeed. This is due to the scope and timing of tasks, as well as the scale of planned reforms. The state of affairs is available online on the official website “Agreement Pulse”. Therefore, as of December 2020, the most problematic areas included transport, financial sector, social policy, public health, agriculture, customs, etc.³⁵

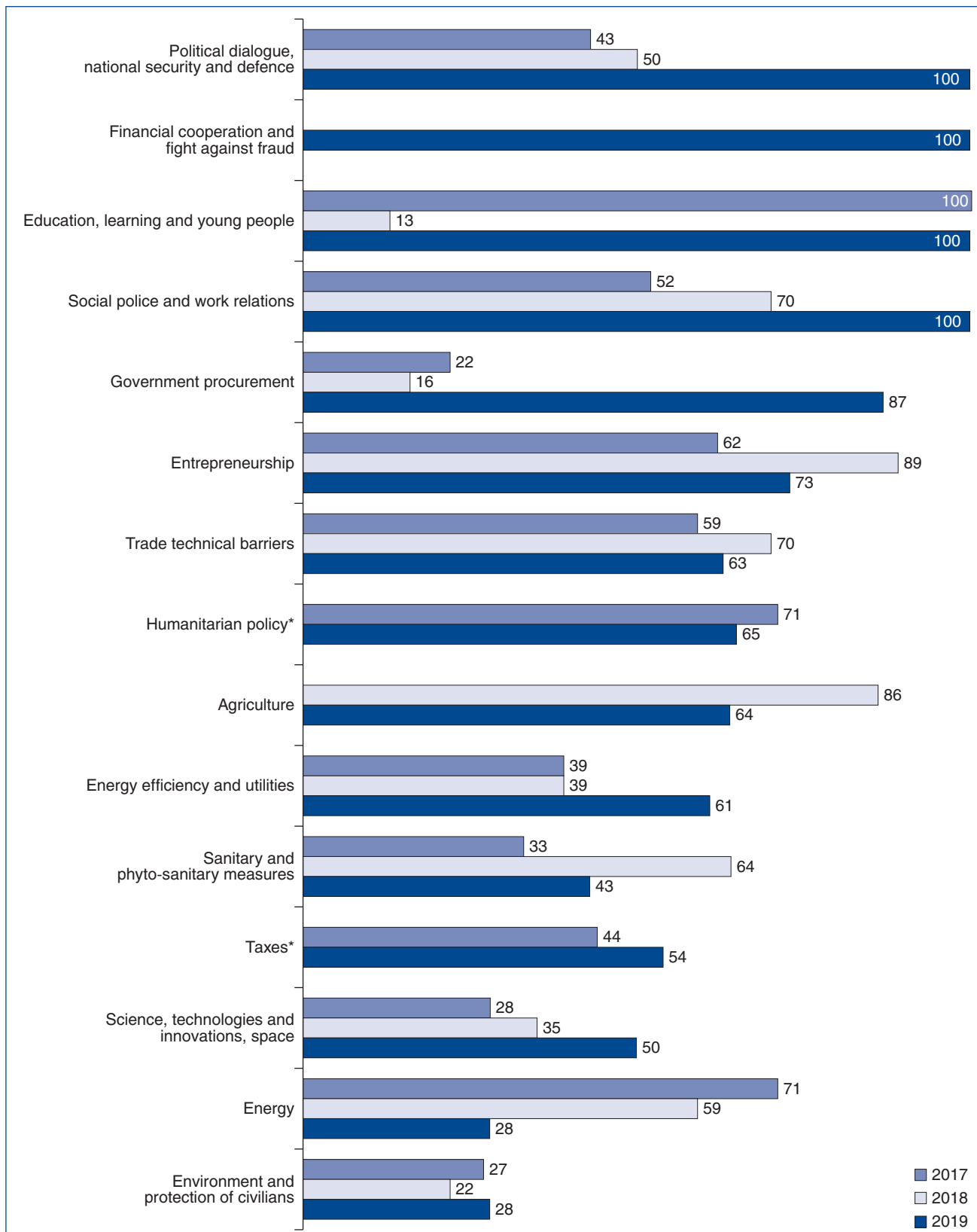
Slow completion of the Agreement tasks can be explained by many factors. These include the general problems mentioned above, such as inadequate fight against corruption, difficult socio-economic situation, imperfect European integration policy, unfavourable external factors. On the other hand, the Agreement implementation is also affected by certain specific factors directly linked to the execution. This primarily concerns the quality and professionalism of agencies’ actions in the area of European integration, coordination of their efforts, effectiveness planning and enterprise management, and many others.

³³ The President of the European Commission suggests to forego consensus in sanctions voting – “Ukrayinska Pravda”, 16 September 2020, - <https://www.pravda.com.ua/news/2020/09/16/7266569/>. (in Ukrainian).

³⁴ See: Reports on the implementation of the Association Agreement between Ukraine and the EU – website of the Cabinet of Ministers of Ukraine, - <https://www.kmu.gov.ua/en/yevropejska-integraciya/vikonannya-ugodi-pro-asociaciyu/zviti-pro-vikonannya-ugodi-pro-asociaciyu>.

³⁵ For more detail on the state of the Agreement implementation see the Razumkov Centre’s analytical report “Ukraine’s European Integration: the Russian Factor”. National Security and Defence, No. 1-2, 2020, pp. 7-11, – https://razumkov.org.ua/uploads/journal/eng/NSD181-182_2020_eng.pdf.

Progress of the EU Association Agreement implementation by Ukraine in 2017-2019, %³⁶



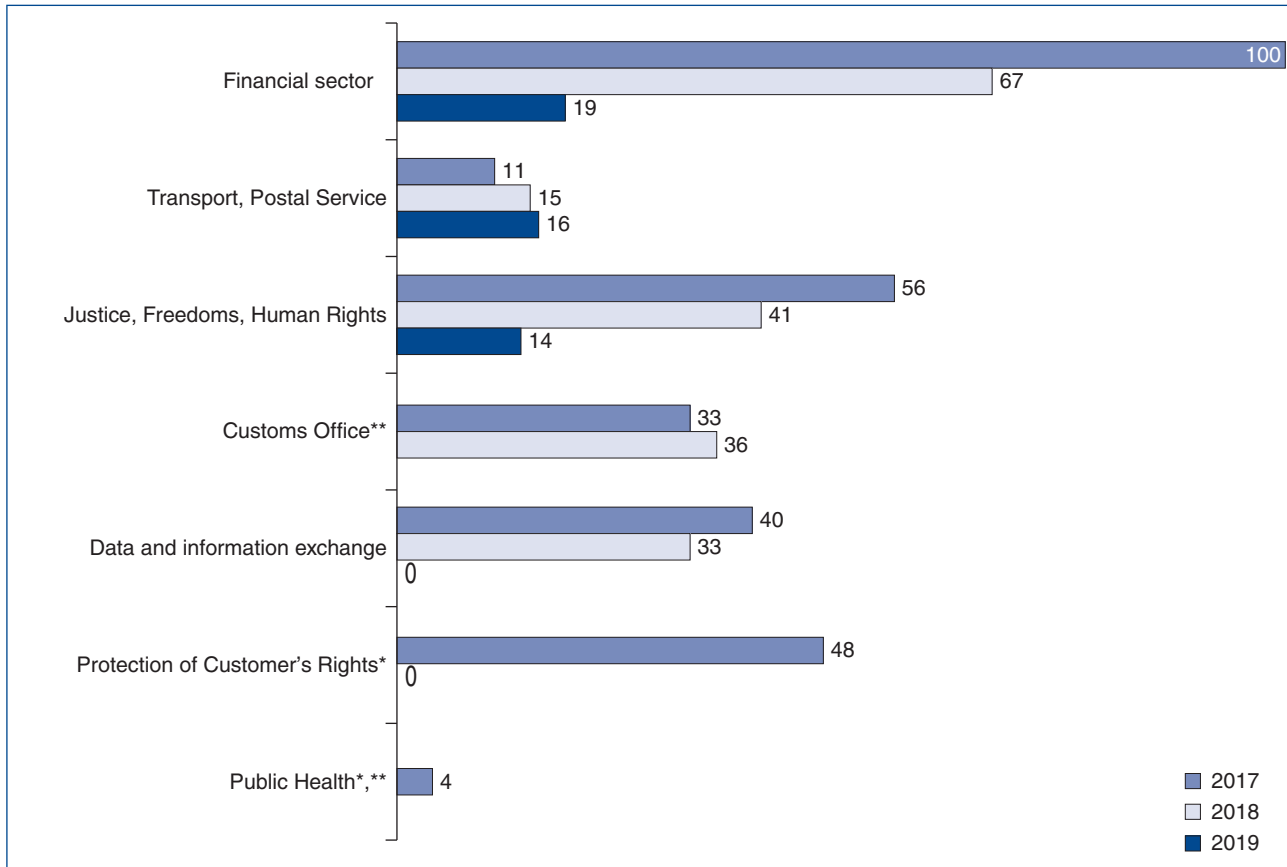
³⁶ There is a descending order of the highest percentage obligations fulfilment in 2019.

* In 2018 there are no obligations under the Association Agreement.

Source: Uryadoviy Portal, – <https://www.kmu.gov.ua/torage/app/media/uploaded-files/pro-vikonannya-ugodi-pro-asotsiatsiyu-mizh-ukrainoyu-ta-evropeyskim-soyuzom-za-2017-rik.pdf>; https://www.kmu.gov.ua/torage/app/sites/1/55-GOEEI/AA_report-UA.pdf, <https://www.kmu.gov.ua/storage/app/sites/1/55-GOEEI/aa-implementation-2019-4.pdf>.

Progress of the EU Association Agreement implementation by Ukraine
in 2017-2019, %

(continued)



* In 2018 there are no obligations under the Association Agreement.
** In 2019 there are no obligations under the Association Agreement.

Expert opinion.

Members of the expert community are rather conservative in assessing the overall level of the Agreement implementation – a total of 3.1 points on a five-point scale.³⁷ Experts identify specific issues that complicate the implementation. Above all, it is low efficiency of the public administration system, inadequate interagency coordination and personnel problems (76%). Other unfavourable factors include the lack of optimal planning of the implementation process and inconsistency of this process with domestic reforms (39% each). Respondents also mention systemic shortcomings in enterprise management (36%) and low awareness about the Agreement (28%).

According to the “Agreement Pulse”, political dialogue, national security and defence is the most effectively implemented set of tasks. It is evidenced by Ukraine’s intensive contacts at the higher and high levels with the EU institutions and leaders, productive annual EU-Ukraine summits. In the meantime, official Kyiv traditionally continues to accede to

EU political statements and decisions (indeed, since 2005, Ukraine supported the EU position about 6,000 times). Therefore, in November 2020, Ukraine has officially joined EU sanctions against Belarus and related sanctions against Transdnstrian leaders.

There is also some progress in the field of security. A new law “On Intelligence” entered into force. In September 2020, the President approved the new Strategy of National Security and Defence of Ukraine.³⁸ The North Atlantic Council’s recognition of Ukraine as NATO’s Enhanced Opportunities Partner in June 2020 was another important positive development contributing to partnerships with EU countries in the field of security.³⁹

Without a doubt, for Ukraine, which is fighting off Russia’s hybrid aggression, the issues of security and joint response to threats is an important component of relations with Europe.

However, there is a “reverse” problem with the EU-Ukraine political and security partnership. In the Association Agreement, this topic is set out in

³⁷ Where “5” is “very effective”, “1” – “ineffective”, and “6” – “hard to say”.

³⁸ Decree of the President of Ukraine No. 392/2020 “On the Decision of the National Security and Defence Council of Ukraine dated 14 September 2020 ‘On the Strategy of the National Security of Ukraine,’ – <https://www.president.gov.ua/documents/3922020-35037>.

³⁹ Ukraine becomes a member of NATO Program on Extended Capacities, Yevropeyska Pravda, June 12, 2020, – <https://www.euointegration.com.ua/news/2020/06/12/7111037>.

Title II “Political Dialogue and Reforms, Political Association, Cooperation and Convergence in the Field of Foreign and Security Policy”. Unlike other parts of said document, this section is extremely concise and purely declarative, setting only general, framework provisions such as “to promote international stability and security based on effective multilateralism”. The term “political association” has no clear legal definition in the text of the Agreement.

Unlike the economic block, the political part of the Agreement does not envisage clear commitments of the parties, specific plans and performance indicators. The Ukrainian experts are correct by saying that Title II of the Agreement, which was agreed upon long before the onset of Russian aggression, needs to be updated and made more specific through relevant annexes – “plans of action” or “roadmaps”.

Expert opinion

Most experts generally agree that, given the current reality, it is necessary to update and specify Title II of the EU-Ukraine Association Agreement, dedicated to cooperation in foreign and security policy. More specifically, 47% of respondents answer “yes”, and 29% - “likely yes” to this question.

At the same time, experts also support the idea of updating the entire document – “yes” and “likely yes” answers were given respectively by 37% and 49% of experts.

It is clear that the Agreement falls behind the modern-day reality, it is outdated and requires a comprehensive and systematic renovation. It is worth reminding that the last 21st round of negotiations, when all provisions in the text of the Agreement were finally settled, took place in Brussels back on 11 November 2011. Since then, many things have changed in Ukraine, in Europe and in the world, which cannot be ignored, and which have to be reflected in the system of EU-Ukraine relations.

In particular, serious changes occurred in Ukraine’s socio-political situation, the economic structure and foreign policy (e.g. the prospects of EU membership are enshrined in the Constitution). In the meantime, the European Union renewed its legal framework, deepened financial integration and started creating the Digital Single Market (no mentions of digital economy in the Agreement). Recently introduced European Green Deal⁴⁰ will definitely affect multiple sectors of the economy. On the other hand, Russia has waged war on Ukraine, which has radically changed the situation on the European continent. And lastly, the global COVID-19 pandemic forced significant adjustments to the European and global agendas.



The Ukrainian government has declared its intention to update the Agreement, and the 22nd EU-Ukraine Summit in 2020 has greenlit this process. Starting from January 2021, Ukraine and the EU may launch a comprehensive review of progress towards the Agreement goals, thus paving the way for its updating.

According to Olha Stefanyshyna, Vice Prime Minister for European and Euro-Atlantic Integration, “The purpose of updating the Association Agreement is to lay a solid foundation for Ukraine’s gradual integration into the EU internal market with its four freedoms: movement of capital, goods, services and citizens”.⁴¹

As seen by government officials, steps in this direction should include a) updating the annexes to deepen sectoral integration, reviewing the basis of dialogue with the EU, in particular in the areas of electronic communications, technical regulation, business start-up and trade in services, environment, etc.; and b) updating trade (tariff) parameters to increase trade. The agreement provides for a gradual mutual lowering to zero of import duties for most imported commodity items originating from the other party.⁴²

In this context, the following circumstances should be taken into account. **First**, the negotiations on updating the Agreement is a complicated and ambiguous process, given different positions of various EU members, changes in European markets and interests of local producers. **Second**, the depth and scope of updates depend not only on the parties’ political will, but also on internal processes in Ukraine, such as settlement of the situation around the Constitutional Court’s controversial resolution and establishment of effective anti-corruption bodies. **Third**, the Agreement offers the opportunity to achieve a high level of parties cooperation subject to mutual fulfilment of

⁴⁰ See: <https://ukraine-eu.mfa.gov.ua/posolstvo/galuzeve-spivrobitnictvo/klimat-yevropejska-zelena-ugoda>.

⁴¹ European integration 2.0: what does the updated Association Agreement with the EU offer to Ukraine? – “European Pravda”, 29 July 2020, – <https://www.euointegration.com.ua/rus/experts/2020/07/29/7112658/>. (in Ukrainian).

⁴² Ibid.

obligations. However, the Agreement does not stipulate prospects for EU membership. Moreover, it is still unclear, on what foundation Brussels and Kyiv will build their relations after the expiration of current document.

Recently, the question of prospects of Ukraine's European integration increasingly surfaces in the President of Ukraine's public statements. Specifically, on 23 September 2020, President Zelenskyy gave the interview to Slovakian media on the eve of his Bratislava visit and stated the following: "We want to get a clear membership perspective for Ukraine from the EU. It is important for Ukrainians that the European Union recognises and supports our aspirations"⁴³. A few days later, on 3 October, the President reiterated this thesis in his interview to *Politico Europe*: "And when we go to the EU... we must see exactly the "finish flag" for us to understand that after some time, after taking specific steps Ukraine is invited, but not asks to join the EU. And this is what all EU countries should understand"⁴⁴.

Results of expert survey suggest that this approach is generally favoured by the respondents.

Expert opinion

65% of surveyed experts believe that Ukraine, in its negotiations with the EU, should officially ask about the prospects of its membership in the European Union. At the same time, 14% of respondents disagree with this idea, and every fifth (21%) found it difficult to answer this question.

In general, the experts' views are totally understandable. Having clear prospects and conditions for the EU accession would be a powerful incentive for European integration processes, a mobilising stimulus for state institutions, and finally, a strong support for pro-European sentiment in society. However, formally requesting the EU to articulate Ukraine's membership prospects would be dubious given a number of circumstances.

On the one hand, current situation in Ukraine is a strong counterargument in itself, as it causes concerns about the country's ability to maintain the already achieved results of cooperation. On the other hand, Brussels today is not ready for such a dialogue, given the negative attitudes of some influential member states to further EU enlargement and the

burden of internal problems and conflicts plaguing the European Union.

However, it is obvious that the EU membership prospects should remain on the immediate agenda of EU-Ukraine relations. It is necessary to gradually and persistently create favourable conditions – both internal and external – for drafting the EU accession roadmap.

Therefore, one can hardly expect any "breakthroughs" in EU-Ukraine relations in the nearest future. Along with continued implementation of the Agreement, Ukraine should be prepared to difficult negotiations on its updating, which will primarily focus on changes to annexes and on liberalisation of the parameters of mutual trade. There are some grounds for optimism regarding the progress in key areas of sectoral integration, as well as regarding agreements (*ACAA*, *ECAA* and some others) that are crucial for Kyiv.⁴⁵

Preserving Europe's solidarity and support in the face of Russian hybrid aggression is another important factor. However, one can hardly expect from Brussels a tougher stance on the aggressor and strengthening of sanctions.

The current state and prospects of EU-Ukraine relations can be summarised as follows. While continuing the European integration course, the current Ukrainian government tried to focus its efforts on deepening and developing partnerships with the European Union, and on implementing the tasks set out in the Association Agreement. In general, one may talk of certain accomplishments and effective steps in the European direction.

At the same time, Ukraine's movement towards the EU is hampered by a number of dangerous internal and external factors, including acute problems with the fight against corruption, domestic political conflicts, imperfect European integration policy, inadequate public administration and many others. Meanwhile, external negative factors include Russia's ongoing hybrid aggression and complicated processes within the EU.

It is obvious that the pace and effectiveness of Ukraine's European integration in general, and the process of further implementation and updating of the Association Agreement in particular largely depend on successful resolution of domestic problems in Ukraine.

⁴³ Interview of the President of Ukraine to the Slovak economic media *Hospodárske noviny*, 23 September 2020 – Official website of the President of Ukraine, – <https://www.president.gov.ua/en/news/intervyyu-prezidenta-ukrayini-slovackomu-ekonomichnomu-vidann-63881>.

⁴⁴ Interview of the President of Ukraine to *Politico Europe*, 3 October 2020. – Official website of the President of Ukraine, 6 October 2020, – <https://www.president.gov.ua/en/news/intervyyu-prezidenta-ukrayini-yevropejskomu-vidannyu-politico-64289>.

⁴⁵ See: *Ukrayinska Pravda*, December 12, 2020, – <https://www.epravda.com.ua/rus/news/2020/12/12/669113>.

2. GENERAL PRECONDITIONS FOR INTENSIFICATION OF SECTORAL INTEGRATION IN THE ECONOMY

Sectoral integration between Ukraine and the EU cannot but take into account both fundamental innovative changes brought about by the technological revolution, and the reformatting of the global system of economic relations. New prospects and opportunities for business development in the virtual digital space are presenting themselves.

This section outlines some new priorities in the economic cooperation between Ukraine and the EU (including in the situation of fighting COVID-19). In particular, prospects of cooperation in the field of science and technology are identified, importance of expanding cooperation in healthcare and pharmaceuticals is assessed, strengthening cooperation in business and employment is highlighted.

We also analyse the general preconditions and prospects for intensifying sectoral integration in the economy, including, in the context of developing mechanisms to regulate mutual access to markets in the free trade area. Conditions of entering the European agri-food market, ways and prospects of Ukraine's progress to industrial products markets ("industrial visa-free regime") are assessed. We also look at efficiency of some mechanisms and financial instruments that facilitate sectoral integration.

2.1. NEW PRIORITIES IN EU-UKRAINE ECONOMIC COOPERATION IN THE CONTEXT OF FIGHTING COVID-19, AND PROSPECTS OF STRUCTURAL CHANGE OF ECONOMY

The world has entered an era of radical socio-economic change caused by the latest technological revolution, which, as we know, is connected with a number of significant technological innovations, which, inter alia, include:¹ *nanosensors and the Internet of nanothings*, which ensure miniaturisation of connection to networks; *blockchain technologies*, as revolutionary decentralised systems based on trust;² *open AI ecosystems*, which allow to transition from "artificial" to "contextual" intelligence. Central role

in the group of digital technologies is that of *big data analytics* and *artificial intelligence*.³

All of these technological innovations cause profound and extensive *changes in the nature of economic relations, reformatting their very foundation*. On the other hand, they are greatly expedited by the COVID-19 pandemic, which having launched a strong blow on various economic sectors in most countries, simultaneously created unprecedented possibilities for developing business in virtual digital environment, which greatly accelerated formation of new "*low touch economy*".⁴ This global trend, which is unlikely to weaken significantly after the end of the current pandemic is becoming a determining structure-changing factor in development.

¹ World Economic Forum (2016). *Top 10 Emerging Technologies of 2016*. By World Economic Forum's Meta-Council on Emerging Technologies. June 2016, - <http://www.weforum.org>.

² Already over five hundred of top world banks have announced initiatives on introduction of these technologies. Corresponding projects are also being implemented by Microsoft, IBM and Google.

³ OECD (2016). *OECD Science, Technology and Innovation Outlook 2016*, chapter 2. Future Technology Trends. OECD Publishing, Paris. http://dx.doi.org/10.1787/sti_in_outlook-2016-en.

⁴ See: Board of Innovation (2020). *The New Low Touch Economy*. How to navigate the world after COVID-19: Report, - <https://info.boardofinnovation.com/hubfs/Innovate%20low%20touch%20economy.pdf>; *The Winners of the Low Touch Economy*. How companies can recover and grow in the new normal: Strategy Report, - <https://www.boardofinnovation.com/low-touch-economy/>.

These factors must be carefully accounted for in the EU-Ukraine Association Agreement (hereinafter – the Agreement). Otherwise, it may turn into a propagandist document detached from the vital development priorities of Ukrainian society. Unfortunately, real practices of Agreement implementation in 2015–2020 show **very insignificant impact of European integration measures on acceleration of technological progress in the Ukrainian economy**, which lags significantly behind the world's leading countries in scientific and technological progress, as shown by international ratings.

Thus, in the famous *Global Innovation Index* Ukraine was:

63rd in 2014 among 143 countries with the rating of 36.26,
in 2015 – 64th (36.45) among 141 countries,
in 2016– 56th (35.52) among 128 countries,
in 2017– 50th (37.62) among 127 countries,
in 2018– 43rd (38.52) among 126 countries,
in 2019– 47th (37.40) among 129 countries,
in 2020– 45th (36.32) among 131 countries.⁵

Even if the country went up in the ranking, the overall assessment of its innovative capacity remained essentially unchanged; moreover, it went down in 2020 compared to 2018. And if we take into account the lag of statistical data, it turns out that it is during the deployment of the European integration course that the innovative progress of our economy began to decline.

*The Global Competitiveness Report 2019 of the World Economic Forum*⁶ placed Ukraine 44th among 141 countries with 69.9 points on the 100-point scale by the indicator of employee skills, i. a. by the sub-indicator *skills of future workforce* – 26th (72.6). By the *innovation capability* indicator, the country came 60th (40.1), and by *business dynamism* – only 85th (57.2), and by the *growth of innovative companies* sub-index – 109th (42.8).

Thus, the country is wasting its rather high qualification potential. Which means that the *institutional conditions created in the country do not support its actualisation*. It turns out that *reforms in Ukraine are still carried out for the sake of reforms, not to achieve high efficiency and innovation in development*. And given the extremely strong connection of these reforms with Ukraine's international obligations, it is hardly reasonable to explain this state of affairs solely by

internal reasons. Most likely, an important reason is ***the inadequacy of Ukraine's international relations and international integration policy***.

In the implementation of the Agreement, Ukrainian economy demonstrates a structural drift towards simplification and primitivisation, a part of which was the obvious process of deindustrialisation: in the 5 years of Agreement operation (2015–2019), industrial production reduced 5.5%, and given the 2020 collapse, the overall decline might reach 13%.⁷ The share of high-tech exports in the total exports of manufactured goods in Ukraine, which in 2014 reached 7.5% and even in the problem-ridden 2015 increased to 8.5%, in 2018 reduced to 5.4% (the average index for the EU is 15.6%, in the world overall – 20.8%).⁸

In the process of Agreement implementation, *Ukraine predominantly carries out various institutional transformations based on EU templates*, while the issue of creating conditions for broader involvement of Ukrainian businesses and organisations in the cooperation remain in the background. In this situation, there is a pronounced lack of analysis of the real efficiency of reforms that are being implemented, which in many cases (reforms in manufacturing, healthcare, science and education) have *rather progressed in destroying the previously created, than creating new development potential*. We need to bear in mind that the course of reforms that does not bring new quality to socio-economic development, will sooner or later face rejection by the Ukrainian population.

Hence, there is a need to adjust Agreement content in a way for it to gain ***innovative direction*** and start really contributing to raising Ukraine's competitiveness in modern sectors of economic activity. In this context, the following three key priorities should be identified.

First. Deepening cooperation in science and technology and intensifying the introduction of new contactless technologies. We need to admit that despite the *formal* opening of a number of European programmes for Ukrainian participants and access to funds and resources provided by European institutions, *the real access to them is still extremely limited*. Thus, according to *CORDIS EU* system, Ukraine's participation in the broadly publicised programme "Horizon 2020" includes only 286 projects (2.44% of the total quantity for associated countries), in the framework of which 203 grants were signed (2.95% of the total quantity for associated countries) with total funding of €37,573,564 (0.75% of the total volume for associated countries).

⁵ Cornell University, INSEAD, and WIPO. The Global Innovation Index 2014, 2016, 2018, 2019, 2020. – Geneva: WIPO and New Delhi: Confederation of Indian Industry.

⁶ World Economic Forum. The Global Competitiveness Report 2019, ed. Prof. Klaus Schwab. Geneva, 2019, - http://www3.weforum.org/docs/WEF_TheGlobalCompetitivenessReport2019.pdf.

⁷ Calculations based on data of State Statistics Committee of Ukraine "Index of Industrial Products in Ukraine in 2015-2020", - <http://www.ukrstat.gov.ua/>.

⁸ World Bank Database. World Development Indicators, – <https://databank.worldbank.org/source/world-development-indicators>.

This data can be compared to the total quantity of 31,003 of awarded research grants and funding in the volume of €58.39 bn,⁹ – in order to see that Ukraine’s participation in “Horizon 2020” is primarily symbolic and *is essentially unable to have real impact on the development of Ukraine’s science and technology sector*. Clearly, this approach must fundamentally change. A possible solution could be to *fix for Ukraine a certain minimal quota of accessible funds allocated under EU research programmes* at a decent level, and not the 2 or 3% of the total volume for associated countries that Ukraine currently has.

Otherwise, there will be a paradoxical situation, when Ukraine does not return even the expenses on the implementation of institutional transformations according to EU patterns, and thus the very process of approximation to EU standards, detached from expanded access to markets and resources, will become economically unviable.

In a broader context, existing access to other EU programmes related to technological development and raising competitiveness should be reviewed. It is obvious that a formal declaration of “openness” of these EU programmes is not enough, unless it is supported by specific measures to expand the opportunities for inclusion of Ukrainian enterprises and organisations in these programmes.

Second. Expanding cooperation in the field of healthcare and pharmaceuticals. In the context of the above, special emphasis should be placed on creating a qualitatively new mechanism of interaction in the field of healthcare and pharmaceuticals, – in response to the new challenges of COVID-19. Unfortunately, the pandemic has shown the obvious flaws in this interaction. And the problem is not even that specific shipments of medical goods for Ukrainian medical institutions come mainly from other sources,¹⁰ but that Ukrainian organisations and enterprises working in the field of medicine and pharmaceuticals are on the sidelines of the main routes of interaction aimed at developing means of overcoming the coronavirus. Among other things, this is demonstrated by the fact that at the special *European Research Area corona platform* there was not a single Ukrainian project or participant at the end of October 2020.¹¹

Today, as the world is actively discussing the start of production of coronavirus vaccines, we hear almost nothing about the possibility of participation of Ukrainian pharmaceutical companies in the production of such vaccines on the basis of cooperation (co-production) or licensing by leading European pharmaceutical companies. There is also no talk of European companies’ participation in creation of additional *COVID-19* testing laboratories on the

territory of Ukraine, supplying equipment to train specialists for them (meanwhile, Ukraine still lags behind many European countries by the level of testing).

Obviously, this situation has to change. *Interaction in the field of healthcare and pharmaceuticals can become the litmus test, by which Ukrainian people will draw conclusions about the real effectiveness of the country’s European integration course.*

Third. Strengthening cooperation in business and employment guarantees. Interaction at the level of business structures is the Achilles’ heel of Ukraine’s eurointegration course, which still mainly focuses on interaction at the official state level. As a result, *the depth of Ukraine’s eurointegration remains minimal.*

Unlike the experience of European integration of post-socialist Central European countries, *Ukrainian enterprises still have not become part of European value chains* – and this largely explains the decline of industry we currently observe in Ukraine: Russian markets have been lost, production networks – dismantled, and new – European ones – have not been created.

The Association Agreement, despite all political declarations, seems like a clearly asymmetrical construction for Ukraine, under which a policy is being implemented that condemns the Ukrainian economy to the role of a deeply peripheral European zone. Such trends are particularly concerning in connection with new technological challenges of the Fourth Industrial Revolution, i. a. also connected with radical changes in the employment structure, mass dismissal of workers from old industries and creation of jobs in new areas of activity.

In view of the above, Association Agreement provisions must be reviewed to address these issues. In this context, the following actions are desirable:

- to create a *platform for regular cooperation* between Ukrainian business and EU member states’ business as an **integral part of institutions that manage the association process**. Such changes can significantly increase the quality of decision-making on the process of association and European integration, making it more pragmatic and less ideological.
- To develop and introduce into the text of the Agreement *an institutional cooperation framework for training specialists for new professions of the future economy, i. a. based on expanding exchange opportunities in high-tech sectors* to ensure absorption of best practices in organising highly efficient and competitive production in the high-tech sector.

⁹ <https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/opportunities/horizon-dashboard>.

¹⁰ See, for instance: Ukraine received humanitarian aid from the People’s Republic of China. – Government website, – <https://www.kmu.gov.ua/news/ukrayina-otrimala-gumanitarnu-dopomogu-vid-kitajskoyi-narodnoyi-respubliki>.

¹¹ See: <https://ec.europa.eu/info/funding-tenders/opportunities/portal/screen/covid-19?tabId=5>.

In the end, such approach could prove much more productive than the multitude of formal requirements on approximation of Ukrainian legislation to European, which demand a high level of expenditure and are far from always justified by the real goals of economic development.

2.2. DEVELOPING MECHANISMS THAT REGULATE MUTUAL MARKET ACCESS UNDER THE FREE TRADE AREA

Liberalisation of mutual market access has traditionally been considered perhaps the most obvious advantage of the concluded Association Agreement and the EU-Ukraine free trade area created by it. Note that liberalisation schedules specified in the Agreement (Annex I-A (parts 1 and 2) to Chapter 1 of Title IV of the Agreement) were stretched in time, and moreover, were more extensive and long-term regarding EU exports to Ukraine – which is generally considered advantageous for Ukraine, as it gives it some time to adapt to competitive conditions in a number of sensitive sectors.¹²

However, this certain formal asymmetry of liberalisation schedule in Ukraine's favour, is more than outweighed by two regimes unfavourable for Ukraine: application of tariff quotas to a significant number of items (overall, in 32 product groups) in Ukraine's agri-food exports to the EU, and high technical barriers to EU market access for industrial products from Ukraine. And while the first one of these obstacles is only somewhat deterring to the development of Ukrainian exports to the European market, the second one – has truly created a situation, where advantages of tariff liberalisation of trade for Ukraine are largely neutralised due to impossibility or difficulty of entering the EU market because of technical regulations.

As a result of such asymmetrical influence of trade liberalisation on various sectors of Ukrainian economy, the dynamics of Ukrainian exports to the EU in the period between 2013 and 2019 was quite different by sectors (*see diagram "EU-27 Imports from Ukraine"*).¹³

Data in the diagram shows that *sectors that took most advantage of European market opening are*

representatives of Ukraine's agricultural business and food industry, who were able to double the volume of their exports in food products and increase exports in animal and vegetable oils and fats almost 2.5 times (mainly, on account of sunflower oil). At the same time, representatives of Ukraine's ferrous metal industry ("manufactured goods classified chiefly by material") used tariff opening of EU market only partially, which is foremost explained by structural imbalance (supply exceeding demand) in the global market of ferrous metals. Although it looks like success of Ukrainian manufacturers of machinery and equipment, and miscellaneous manufactured articles in the European market is steadily increasing, the overall volume is rather modest: it is far from compensating for Ukraine's Russian market losses, caused by long-lasting trade wars and policy of purposeful expelling of Ukraine from Russian markets.

The impact of trade liberalisation on European exports to Ukraine (*see diagram "EU-27 Exports to Ukraine"*)¹⁴ was pronouncedly different: essentially, all major groups of EU exports in goods experienced a period of significant decline under the influence of the avalanche-like devaluation of hryvnia in 2014-2015, a significant decline in incomes and a contraction of purchasing power in this period. This factor turned out to be much stronger than the effects of tariff liberalisation.

However, with partial restoration of macroeconomic stability and the start of certain growth in production and income, also began the recovery of the volume of EU exports to Ukraine, which in 2019 totalled at pre-crisis 2013 levels or even slightly exceeded them. Yet, overall, as shown in the diagram, *the Agreement still has not led to a significant increase in imports of EU goods to Ukraine.*

Contrary to fears of many experts and representatives of Ukrainian business, creation of FTA with the EU *has not become a systemic factor that suppresses Ukrainian production*, as overall EU-27 exports in 2019 exceeded the same indicator in 2013 (when there was no FTA) only by 3.6%.

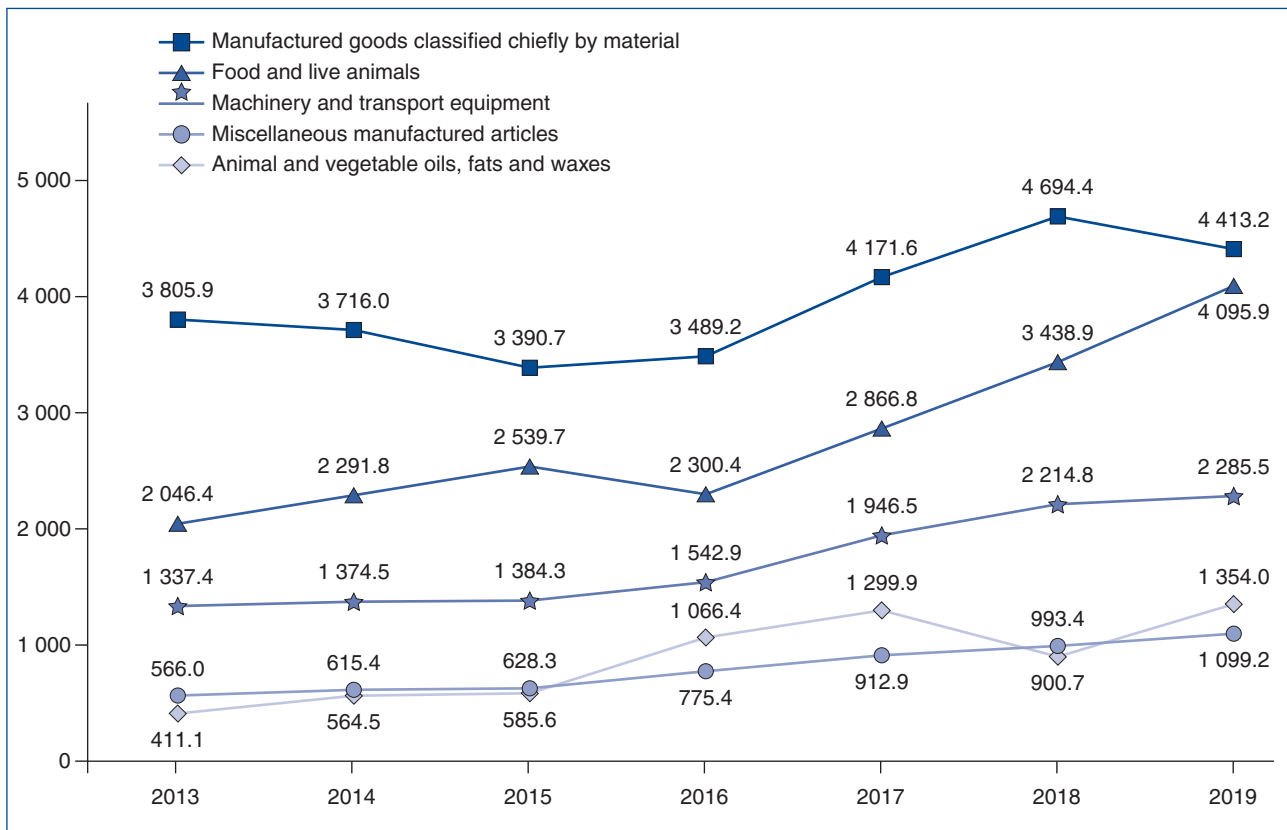
However, on the other side, *FTA with the EU has neither managed to become a systemic factor contributing to the development of most sectors of Ukraine's*

¹² In the defined tariff schedule for Ukraine, transition period for certain products sensitive for Ukraine – mainly agri-foods group, certain types of machines and equipment – was 5, 7 or even 10 (motor transport) years, and for some tariff positions – not full, but partial liberalisation was planned (mostly 50% or 20% in 5, 7 or 10 years). As for the supply of pork, certain types of poultry meat, and sugar to the Ukrainian market, a tariff quota was set, outside which the rate of duty is 10-15% and even 50% (sugar). For imports to the EU, transition periods (3, 5 or 7 years) are much less common (e.g. certain fish products and canned fish, certain chemicals and compounds, dyes, pharmaceuticals, mineral fertilisers, some wood products, footwear, some ceramic products, articles of glass and glassware, certain non-ferrous and rare earth metals and articles thereof, certain instruments and cutlery of base metals, certain types of electrical appliances and video and sound reproducing equipment, electronic devices, motor vehicles, bicycles, photographic equipment and certain devices and firearms), which, however, is offset by a significant number of agri-food items and certain chemicals and compounds, as well as tobacco products that are subject to tariff quotas, as well as by the introduction of the free ad valorem duty rate (entry price) on certain fruit and fruit juices, and some other tariff items.

¹³ Created on the basis of Eurostat data "EU Trade Since 1988 By SITC" (by Standard International Trade Classification (SITC), - <http://epp.eurostat.ec.europa.eu/newxtweb/>).

¹⁴ Created on the basis of Eurostat data "EU Trade Since 1988 By SITC" (by Standard International Trade Classification (SITC), - <http://epp.eurostat.ec.europa.eu/newxtweb/>).

EU-27 Imports from Ukraine.
€ million



economy, which could facilitate the improvement of its structure, overall strengthening of competitive capacity, diversification of economic activity, and expansion of the range of market presence. This situation requires us to revise certain points of focus of trade policy in relations with the EU.

Terms of accessing European agri-food market: tariff quotas

The popular perception in Ukraine is that the EU’s tariff quota regime significantly limits potential of Ukraine’s agri-food exports. The argument is that for many items of the agri-food nomenclature, where Ukraine has a comparative advantage, the size of quotas has been set at a level that allows duty-free imports of goods only during a short period – several months of the year.

Although, it should be noted that in general, the Agreement provided for a schedule of gradually increasing volume of tariff quotas,¹⁵ which, however, has different consequences for Ukrainian exports in different product groups. For instance, in 2019, Ukrainian exporters used the opportunities in 32 out

of 40 established tariff quotas, 11 of which were fully used and 2 – over 95%. Only 11 tariff quotas have been fully used – on corn, wheat, barley, honey, sugar, grape and apple juices, processed tomatoes, processed starch, butter, poultry meat and starch.

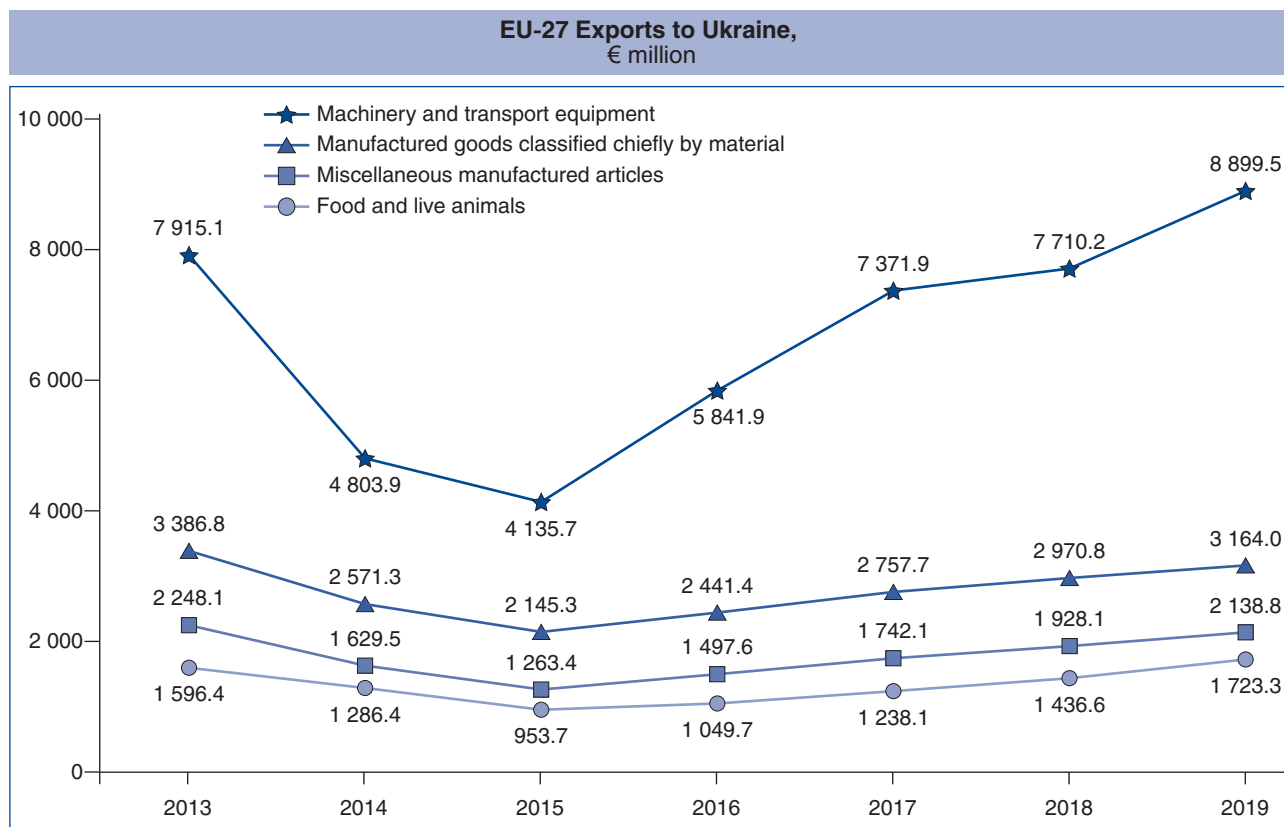
Tariff quotas have a particularly restrictive effect on Ukrainian poultry meat exports. However, we should note that in 2019 Annex I-A to the Agreement was amended regarding EU commitments to increase the volume of tariff quotas for poultry meat. On 17 January 2020, Agreement in the form of an exchange of letters between the European Union and Ukraine amending the trade preferences for poultry meat and poultry meat preparations provided for by the Association Agreement entered into force, which entered into force on 1 February 2020.¹⁶

According to European Commission data for 2020,¹⁷ as of 12 November 2020, Ukraine has fully used tariff quotas on 18 items out of 51. Thus, for most tariff items, most likely, the provided volumes of tariff quotas will not be used at all. So the problem of tariff quotas, despite wide publicity in media and from some experts, is not really so painful for many

15 See: Ministry of Economic Development. Volume of tariff quotas in 2017-2021 under DCFTA, – <https://me.gov.ua/Documents/Detail?lang=uk-UA&isSpecial=True&id=f5cea3c3-d7e0-4e49-994d-f87089e3d3fc&title=TarifniKvotiVRamkakhPvztv>.

16 European Integration Portal. Duty-free tariff quotas and their use, - <http://eu-ua.org/zona-vilnoi-torhivli/bezmytni-taryfni-kvoty-ta-yihnie-vykorystannia>.

17 European Commission. Tariff quota consultation, – https://ec.europa.eu/taxation_customs/dds2/taric/quota_consultation.jsp?Lang=en&Origin=UA&Code=&Year=2020&Critical=&Status=&Expand=true.



Ukrainian exporters of agri-food products: it has significance only for certain sectors of the agri-food complex.

Despite the fact that the issue of further expansion of tariff quotas for certain types of Ukrainian exports may be put on the agenda, this very issue, from the point of view of economic development strategy, *is not unequivocally positive for Ukraine*, although it is certainly in the interest of large Ukrainian agricultural holdings that export grain and poultry meat to the EU market. The thing is that increasing Ukraine's agri-food export opportunities in a narrow segment of nomenclature – out of the context of general strengthening of EU market access mechanisms – may *further increase the trend towards agrarianisation and primitivisation of the structure of Ukrainian economy*.

What is important for Ukraine is not so much further expansion of exports within their current already distorted structure typical for underdeveloped countries, as the implementation of a far-reaching structural adjustment of economic development – with several high-tech industries designated as “locomotives” for economic development. For the agri-foods sector, this should mean *increasing quotas not for exports of traditional products, but primarily – for organic*

products. This is how our position should be formulated in the process of possible revision of certain Association Agreement provisions.

Technical barriers to trade and conditions for accessing manufactured goods markets (“industrial visa-free regime”)

The most extensive task in this context is to create preconditions for *entering the EU market ahead of schedule with high value added products that have a high level of manufacturability*. One of the most important preconditions in this context is Ukraine's participation in the European system of certification and acceptance of conformity of industrial products (*Agreement on Conformity Assessment and Acceptance of Industrial Products – ACAA*). It is this mechanism, captured in Article 57 of the Agreement that can significantly simplify entry into the EU single market for Ukrainian manufacturers, as it will replace certification and confirmation procedures on the territory of the EU with corresponding procedures that will be carried out in Ukraine. It is no coincidence that the name of this mechanism is simplified to “industrial visa-free regime”, although this term does not seem entirely appropriate.¹⁸

¹⁸ Unlike the free movement of persons regime, where visa liberalisation does mean repealing visa formalities, the “industrial visa-free regime” does not repeal any requirements for exported products, only brings them closer to exporting producers by transferring the relevant procedures to national authorities of Ukraine, which will have to act on the basis of European standards for assessment of compliance with technical regulations. As opposed to the free movement of persons regime, which truly reduces travel expenditure, the so-called “industrial visa-free regime”, on the contrary, may at first lead to an increase in Ukraine's total expenditure due to the need to set up the necessary infrastructure for certification and confirmation of compliance with applicable technical regulations.

Although Ukraine was taking appropriate measures for adaptation to European technical regulation norms, which in the past years were being implemented in line with Strategy of Development of Technical Regulation System for the Period Until 2020 (approved by the Order of the Cabinet of Ministers of 19 August 2015 No 844), *it was generally overly slow in resolving issues arising in this context*. As a result, having started corresponding preparations 15 years ago,¹⁹ we only now start preparing for the beginning of official negotiations on this matter.²⁰ The lack of proper dynamics has led to wasting of time and slowed down the process of entering the European market with engineering products and other manufactured products.

Work on joining the European conformity assessment system (in the form of a protocol to the Association Agreement) requires not only the adoption of a number of legislative acts on standardisation, certification, conformity assessment, metrology, market supervision, harmonised with the *acquis*, but also the creation of an *extensive infrastructure*, which will be able to perform practical conformity assessment functions. This means the need for significant government spending on creation of a network of organisations responsible for assessment, staff training, deployment of modern information networks, including with information on specific aspects of technical regulation not only at the communitarian level, but also at the level of EU member states (because not all issues are regulated by common norms).

In general, Annex III to the Agreement (“List of legislation for alignment, with a timetable for its implementation”) defined 27 groups of industrial products – foremost, engineering. They are included in the schedule of alignment of the so-called *vertical (sectoral) legislation*, most of which had to be accomplished within 2–3 from the date the Agreement came into effect, and only in some cases within 4 (radio equipment and telecommunications terminal equipment, vessels for pleasure) or 5 years (weighing instruments, high-speed railways, labelling and

marking standard information on energy consumption and other resources related to energy products).

Regarding general (intersectoral) issues of technical regulation (the so-called *horizontal or framework legislation*), the timetables provided for their implementation within just one year from the date the Agreement came into force. These original timetables were largely not fulfilled. The actual practices of implementing these timetables showed that they require a much more complex set of necessary transformations than expected. First of all, it is a question of significant lack of resources in Ukraine for such extensive adaptation. Therefore, as a rule, the fulfilment of these obligations by Ukraine was doomed to a significant lag in advance.

In this situation, Ukraine has little choice but to *concentrate its efforts in those areas of horizontal technical regulation that have the greatest export potential in the EU market and require relatively fewer resources for adaptation* – with the gradual extension of this regime to other industrial production sectors.²¹

A special problem is that due to the lengthy process of adapting Ukrainian legislation to European in the field of technical regulation during the period of Agreement implementation, significant changes in legal regulation of this sector are taking place within the EU itself, which further complicates Ukraine’s tasks. A good example of evolution of European law in market surveillance is the adoption on 20 June 2019 (comes into effect on 16 July 2021) of a new Regulation 2019/1020 on market surveillance and compliance of products,²² which significantly strengthens the powers of market surveillance authorities and market surveillance mechanisms themselves, in particular, in connection with the accelerated development of e-commerce. Another example of an important regulatory innovation is the adoption of a new act on persistent organic pollutants.²³ Thus, we can state that in the near future yet again Ukraine

¹⁹ Action Plan to prepare for ACAA was signed by Ukraine and the EU back in December 2015.

²⁰ On 29.10.2020, the launch of a “preparatory mission” for Ukraine’s accession to the abovementioned EU agreement was announced in Ukraine. – See: EU mission for preparation of “industrial visa-free regime” started its work in Ukraine, Economic Truth, 29.10.2020, – <https://www.epravda.com.ua/news/2020/10/29/666756/>.

²¹ In this context, Action Plan 2005 defined 4 priority sectors for vertical (sectoral) legislation adaptation – low-voltage equipment, electromagnetic compatibility, engineering products and simple pressure vessels. As for the first three, corresponding technical regulations have been implemented in Ukraine back in 2012–2015 (with necessary corrections in 2018). And as of October 2019, technical regulations have been adopted based on new EU directives and regulations in such sectors: simple pressure vessels; mobile pressure equipment; appliances burning gaseous fuels; elevators; toys; non-automatic weighing devices; measuring instruments; equipment for work in potentially explosive atmosphere; personal protective equipment, cable cars; explosives for industrial purposes; pressure equipment; energy efficiency requirements (ecodesign) and energy consumption labelling requirements for most types of household appliances and other electrical appliances, for which such requirements exist at EU level. Thus, they are also formally ready for ACAA accession. – See: “Civic Synergy” Project. Integration within Association: Implementation Dynamics of the EU-Ukraine Agreement. Analytical Report. – Kyiv, December 2019, p.24, – <https://www.civic-synergy.org.ua/wp-content/uploads/2018/04/Integratsiya-u-ramkah-asotsiatsiyi-dynamika-vykonannya-Ugody-mizh-Ukrayinoyu-i-YES-3-e-vydannya-1.pdf>.

²² Regulation (EU) 2019/1020 of the European Parliament and of the Council of 20 June 2019 on market surveillance and compliance of products and amending Directive 2004/42/EC and Regulations (EC) No 765/2008 and (EU) No 305/2011, Official Journal of the European Union, L169/1, Volume 62, 25 June 2019 – https://eur-lex.europa.eu/legal-content/EN/AUTO/?uri=uriserv:OJ.L_.2019.169.01.0001.01.ENG&toc=OJ.L:2019:169:TOC.

²³ Regulation (EU) 2019/1021 of the European Parliament and of the Council of 20 June 2019 on persistent organic pollutants, Official Journal of the European Union, L169/45, Volume 62, 25 June 2019 – https://eur-lex.europa.eu/legal-content/EN/AUTO/?uri=uriserv:OJ.L_.2019.169.01.0001.01.ENG&toc=OJ.L:2019:169:TOC.

will be faced with the task of changing its legislation on market surveillance and other aspects of technical regulation.

Finally, it should be noted that the whole process of Ukraine's preparation for the so-called "industrial visa-free regime" is taking place in an openly *asymmetric mode*, in which virtually all obligations are concentrated on the side of Ukraine, while the EU, playing the role of a strict and demanding teacher, usually limits itself to general declarative statements, *avoiding specific deadlines for potential granting of access to the single market to Ukraine under ACAA*. Moreover, this process is being executed with rather *feeble technical assistance* from the EU in these issues, which can hardly be compared to the volume of assistance provided to Central and Eastern European countries in the process of their preparation for EU accession.

In this situation, Ukraine is forced to agree to rather burdensome expenses on adapting its entire system of technical regulation to EU rules, without receiving a proper return on this investment. This asymmetry is becoming especially noticeable and increasingly less socially acceptable in conditions of significant stress on Ukrainian economy, which is trying to overcome the consequences of the COVID-19 pandemic. It is clear that now *is the high time to introduce major changes to the text of the Association Agreement in order to correct this asymmetry*.

2.3. MECHANISMS FOR FACILITATING SECTORAL DEVELOPMENT AND SECTORAL INTEGRATION (FACILITATION INSTITUTIONS AND FINANCIAL INSTRUMENTS)

A problem factor in Ukraine's eurointegration policy is the *underdeveloped incentive mechanisms for achieving goals set by the European integration policy*. As a result, a number of policy benchmarks set at the central level are simply not tied to interests and action plans of market participants. We are talking about both – the lack of technical assistance for relevant structural reforms, and the outright lack of

financial resources needed to build infrastructure and invest in the necessary areas.

A simple analysis of Ukrainian official data on such assistance²⁴ shows that, for instance, today the so-called *sector budget support to Ukraine from the EU* includes only two programmes in the portfolio of Ukraine's Ministry of Economic Development:²⁵

- Programme "Support to Comprehensive Reform of Public Administration in Ukraine" (funding agreement of 19 December 2016), which provides for allocation of €104 million during the period of the programme (8 years), i. e. an average of €13 million per year – in order to „improve professionalism, accountability, efficiency and effectiveness of public administration in Ukraine”;
- Programme "Continued Support to the Implementation of the Energy Strategy of Ukraine" (funding agreement of 20 December 2013), which provides for the allocation of €45 million during the period of the programme (9 years), i. e. an average of €5 million per year – in order to “reduce environmental pollution associated with the electric energy sector; improve the quality of petroleum products and introduce a quality control system; increase energy security”.

This, in fact, is the whole achievement in the field of technical assistance for Ukraine's sectoral development.

Obviously, if we analyse the full list of registered international assistance projects in Ukraine²⁶ as of 1 December 2019, and “fish out” all projects that influence development of individual sectors of Ukrainian economy,²⁷ the situation may emerge as somewhat better. Inter alia, this includes Strategic Programme of EU Assistance to Ukraine 2018-2020 (table “Sectoral Profile of EU Assistance to Ukraine in 2018-2020”).

However, as we see, dispersing the already small funds (€430-530 million) between different so-called strategic sectors (while only 20% of this amount is allocated for economic development) makes these

²⁴ There is no official detailed statistics in this area, but fragmentary data, not too regularly published by the Ministry of Economic Development and the Ministry of Finance, is not the foundation that can ensure effective management of Ukraine's sectoral integration into the EU. In general, the quality of Ukraine's statistical database is much lower than the Eurostat statistical database.

²⁵ Ministry of Economic Development of Ukraine. Registry of EU sector budget support programmes. – <https://www.me.gov.ua/Documents/List?lang=uk-UA&id=2ee7a82d-9c23-4e84-ace8-171831cdaea1&tag=RestrProgramSektoralnoiBiudzhetnoiPidtrimkis>. Slightly earlier, in 2017, informational materials of the Ministry of Economic Development (<https://www.me.gov.ua/Documents/List?lang=uk-UA&id=df3cf74d-8f6d-44a6-9a9b-e3f154886de1&tag=InformatsiiNodovidkoviMateriali>) indicated existence of a third programme of this type – in the sector of regional development.

²⁶ List of international assistance projects registered at the Ministry of Economic Development, Trade and Agriculture of Ukraine, – <https://www.me.gov.ua/Documents/List?lang=uk-UA&id=500f9d86-3436-4e32-92f5-bf8e2aeaf30f&tag=PerelikiZarestrovaniKhProektivZPlanamiZakupivel>.

²⁷ EU technical assistance to Ukraine is implemented through various channels: national and regional EU assistance programmes, cross-border cooperation programmes, *Twinning* mechanism, *Tempus* educational program, Comprehensive Institution Building Programme, Instrument for Nuclear Safety. In addition to these, there is also funding through the channels of European IFO – EBRD and European Investment Bank.

²⁸ Strategic Programme of EU Assistance to Ukraine (2018-2020), – <https://www.me.gov.ua/Documents/List?lang=uk-UA&id=df3cf74d-8f6d-44a6-9a9b-e3f154886de1&tag=InformatsiiNodovidkoviMateriali>.

Sectoral Profile of EU Assistance to Ukraine in 2018-2020
 (in line with Strategic Programme of EU Assistance to Ukraine 2018-2020)²⁸

Sectors	Approximate volume of allocations	% of the total amount of allocations
Sector 1: Strengthening institutions and good governance, <i>including in the area of the rule of law and security</i>	108.45-132.55	25%
Sector 2: Economic development and market development, <i>including private sector development and improvement of business climate</i>	86.76-106.04	20%
Sector 3: Improving connectivity, energy efficiency, protection of environment and prevention of climate change	65.07-79.53	15%
Sector 4: Mobility and people-to-people contacts, <i>including social inclusion</i>	86.76-106.04	20%
Additional support for institutional capacity building	65.07-79.53	15%
Additional support for civil society	21.69-26.51	5%

technical assistance infusions intangible against huge transformational problems Ukraine faces in the context of sectoral integration with the EU.

Official data indicates that priority in the provision of international technical assistance (ITA) to Ukraine by the EU is given to such sectors as governance and civil society (leader by the volume of assistance) and regional development (second by the volume of assistance), and by the overall number of ITA projects – education, science and regional development are in the top. The top five recipient sectors also include energy, energy efficiency, and environment.

Assessing the overall volume of EU technical assistance, – in 2018, EU share in the total number of ITA projects in Ukraine was 236 projects, or 38% (46% – with EBRD and EIB projects), however, the cost of this assistance was at 8 (20)% respectively. And as of mid-2019 (unfortunately, this is the last period with available data), EU's share was only 14% of the total volume of ITA provided to Ukraine (another 2% – EBRD and 10% – Germany), while the USA share was 63%.²⁹

It is obvious that the existing mechanisms of reform support in Ukraine are insufficient in terms of accelerating sectoral integration. They need to be expanded and enriched with new elements that would address modern challenges. Moreover,

such improvement of reform support mechanisms in Ukraine should be carried out taking into account the European experience in the deployment of reform support system within the EU itself.

This foremost includes: *Reform Support Programme* created in 2018³⁰ with the total budget of €25 billion and *European Investment Stabilisation Function*, which foresees a possibility of mobilising loans of up to €30 billion; measures for structural reforms and building economic capacity through the mechanism of *EU structural and investment funds*; as well as the experience of implementation of *Structural Reform Support Programme*,³¹ launched in May 2017.³²

In this case, we are not talking about Ukraine's accession to these mechanisms (which is hardly possible given their intended use exclusively for EU members, and in some aspects – only for eurozone members), but about establishing similar structures in bilateral EU-Ukraine association relations in order to facilitate structural reforms and effective sectoral development. We are talking about the need to *facilitate investment and implementation of national economic development programmes* – in a way similar to that taken in the context of formation of the EU Banking Union, Capital Markets Union and Fiscal Union, as well as operation of structural and investment funds of the Union.

²⁹ Information on international technical assistance provided to Ukraine based on 2018 project monitoring performed by the Ministry of Economic Development; Information on international technical assistance provided to Ukraine based on results of project monitoring conducted by the Ministry of Economic Development, Trade and Agriculture of Ukraine in the first half of 2019, – <https://www.me.gov.ua/Documents/List?lang=uk-UA&id=df3cf74d-8f6d-44a6-9a9b-e3f154886de1&tag=InformatsiinodovidkoviMateriali>.

³⁰ This programme includes *Reform Delivery Tool, Technical Support Instrument and Convergence Facility*.

³¹ Regulation (EU) No 2017/825 on the establishment of the Structural Reform Support Programme for the period 2017 to 2020 and amending Regulations (EU) No 1303/2013 and (EU) No 1305/2013 (Official Journal, L 19.05.2017, p.129).

³² This Programme is coordinated by the *Structural Reform Support Service* created in 2015, which provides technical support for planning and implementation of reforms and overall capacity-building to conduct reforms.

3. INDIVIDUAL AREAS OF SECTORAL INTEGRATION: CURRENT STATE, PROBLEMS, PROSPECTS

Sectoral integration in the framework of the Association Agreement encompasses a broad range of Kyiv-Brussels cooperation areas – from energy and digital market to environment. Clearly, there are no “unimportant”, “secondary” issues on this list. But it is also obvious that we need to set priorities in our sectoral cooperation, i.e. identify directions that can become the “locomotives” for the country's socio-economic development, bring fast and tangible results.

This section looks at the current state, trends and prospects of EU-Ukraine integration in a number of specific sectors. Namely, it covers cooperation in the sector of energy, integration into the EU digital market, joining the European Union transport system, and using Ukraine's transit potential. We also outline specific aspects and trends of EU-Ukraine cooperation in the banking sector. An undoubtedly important area is partnership and cooperation in the environment sector, given the launch of EU's Green Deal and Brussels' strategic plans to make Europe into a “climate-neutral continent”.

At the same time, there are reasons to state that certain general issues that slow down integration in the sectors above are also characteristic of other areas of EU-Ukraine sectoral integration.

3.1. EU-UKRAINE INTEGRATION IN THE ENERGY SECTOR

Contractual-Legal Bases of European Integration in the Energy Sector

The fundamental documents that lay the ground for integration processes in the sector of energy are the Treaty Establishing the Energy Community¹ and the EU-Ukraine Association Agreement.² A certain role is also played by the Eastern Partnership³ – a European Union foreign policy initiative, which covers the EU and its Eastern European neighbours – Ukraine, Moldova, Belarus and Georgia, as well as Armenia and Azerbaijan.

Ukraine's sectoral integration into the EU in the energy sector means supplying energy products through a fixed infrastructure⁴ for transportation and

distribution. The EU-Ukraine Association Agreement (Chapter 11 “Trade-Related energy”) clearly defines energy goods: natural gas (HS code⁵ 27.11), electrical energy (HS code 27.16) and crude oil (HS code: 27.09). Accordingly, the main directions include cooperation in network sectors of energy – gas and electrical energy, distribution of which to consumers is impossible without the necessary networks of pipelines and electricity transmission lines. Cooperation in the oil sector focuses on creating minimal reserves of crude oil and petroleum products in case of emergencies.

Ukraine is implementing EU energy legislation not synchronously, but ex post facto. Prior to signing the Association Agreement, in 2011, Ukraine joined the Treaty Establishing Energy Community (ECT), also used by Europe as a framework for implementing its energy legislation, however, with different mechanisms

¹ Treaty Establishing the Energy Community as of 25 October 2005. – Verkhovna Rada of Ukraine, – https://zakon.rada.gov.ua/laws/show/994_926#Text.

² Association Agreement Between the European Union and Ukraine, Title IV, – [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0529\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0529(01)&from=EN).

³ Eastern Partnership, – Government website, – <https://www.kmu.gov.ua/diyalnist/yevropejska-integraciya/shidne-partnerstvo>.

⁴ Fixed infrastructure includes transmission and distribution networks, facilities and storage.

⁵ International Convention on the Harmonized Commodity Description and Coding System, – http://www.wcoomd.org/-/media/wco/public/global/pdf/topics/nomenclature/instruments-and-tools/hs-convention/hs-5_1_hs-convention_en.pdf?la=en.

than those of the EU. For instance, at the moment, ECT countries are implementing directives and regulations on gas and electrical energy different from those implemented in EU member states (table “Main Legislative Acts of the EU on Natural Gas Market Implemented under ECT”).

EU energy legislation is constantly updated and improved. To stay on track with the evolution of European Union law, Articles 24 and 25 of ECT allow the adaptation of the *acquis* and implementing of possible amendments.

Main Legislative Acts of the EU on Natural Gas Market Implemented under ECT

EU Document	ECT Decision on Adaptation
Directive 2009/73/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules for the internal market in natural gas and repealing Directive 2003/55/EC	Decision 2011/02/MC-EnC*
Regulation (EC) 715/2009 of the European Parliament and of the Council of 13 July 2009 on conditions for access to the natural gas transmission networks	Decision 2018/01/PHLG-EnC**
Commission Regulation (EU) 703/2015 of 30 April 2015 establishing a network code on interoperability and data exchange rules	Decision 2018/02/PHLG-EnC
Commission Regulation (EU) 2017/459 of 16 March 2017 establishing a network code on capacity allocation mechanisms in gas transmission systems and repealing Regulation (EU) 984/2013	Decision 2018/06/PHLG-EnC
Commission Regulation (EU) 2017/460 of 16 March 2017 establishing a network code on harmonised transmission tariff structures for gas	Decision 2018/07/PHLG-EnC
Regulation (EU) 1227/2011 of 25 October 2011 on wholesale energy market integrity and transparency (<i>REMIT, Regulation on Market Integrity and Transparency</i>)	Decision 2018/10/MC-EnC
Commission Regulation (EU) 312/2014 of 26 March 2014 establishing a network code on gas balancing of transmission networks	Decision 2019/01/PHLG-EnC

* Ministerial Council (MC) decisions

** Permanent High Level Group (PHLG) decisions

Decisions on adaptation of directives and regulations and on amending the existing legal commitments are approved by the Ministerial Council of Energy Community (MC-EnC) or the Permanent High Level Group (PHLG) following a proposal from the European Commission. As a contract party to ECT, Ukraine implements the “Gas Directive” (Directive 2009/73/EC of the European Parliament and of the Council), which was adapted by the Energy Community in 2011 by MC-EnC decision.⁶

Cooperation to ensure the security of supply for the internal natural gas market in case of an emergency situation, which can cause termination of gas supply, is carried out according to Directive 2004/67/EC of 26 April 2004 concerning measures to safeguard security of natural gas supply. This document was repealed in the EU and substituted with Regulation (EU) 1938/2017 of 25 October 2017, which creates an EU security system. It regulates crisis prevention and response plans, procedures for involving companies of various forms of ownership in responding to crises, defining crisis criteria and setting requirements for the application of different response mechanisms, depending on the level of crisis, mutual assistance

procedures of countries, industries in the sector, consumers at all EU levels.

After adaptation for the Energy Community, from Regulation (EC) 715/2009 on conditions for access to the natural gas transmission networks were excluded articles on operation of the European Network of Transmission System Operators for Gas (*ENTSO*⁷). Namely, Article 8 “Tasks of the ENTSO for Gas” regulating long-term planning of infrastructure development.

According to p.10 Article 8 of the non-adapted Regulation 715/2009, *ENTSO* adopts and publishes a Community-wide gas network development plan every two years. The Community-wide network development plan shall include the modelling of the integrated network, scenario development, a European supply adequacy outlook and an assessment of the resilience of the system.

Thus, it can be concluded that Ukraine, the EU and the Energy Community are developing energy markets that are based on the same legislation, but exist in parallel. However, the work of *ENTSO* does not fully take into account Ukraine’s interests and capacities.

⁶ Decision of the Ministerial Council of the Energy Community, 9th MC/06/10/2011-Annex 11/05.10.2011 – Energy Community, – <https://www.energy-community.org/legal/acquis.html>.

⁷ International Non-Profit Association (AISBL) European Network of Transmission System Operators for Gas – *ENTSO*, – <https://www.entsog.eu>.

For full sectoral integration between Ukraine and the EU, a decision must be approved on Ukraine's right to implement EU energy legislation not in the adapted, but in the original form, with obligations and rights identical to those of EU member states. Even more so, given that the Energy Community may undergo a significant transformation in the process of Brussels' integration of Western Balkan states into the EU. As a result, these countries will be implementing EU energy legislation in its original form. Essentially, after accession of the Balkan states to the EU, Energy Community will be narrowed down to three Eastern Partnership countries – Ukraine, Moldova and Georgia, all of which have Association Agreements with the EU. Taking this into account, it is important to insist that the EU approves Ukraine's transition to implementing energy legislation in its original form to create a homogeneous energy space in Eastern Europe.

In part, this objective can be achieved through the mechanisms in Annex XXVII⁸ to the Association Agreement, which was updated and approved by the Verkhovna Rada of Ukraine on 6 June 2019. The Annex was updated following a Decision of the Association Council, which was a reminder that “the goal of invigorating energy cooperation and reforms in the energy sector is full integration of EU and Ukrainian energy markets”.⁹

The Annex provides for enhanced monitoring of just Ukraine's activities in the energy sector, but importantly, the EC has to “promptly inform Ukraine” about any proposals to amend legal acts cited in Annex XXVII-B. Ukraine's commitments to reflect in legislation future changes in EU law are being strengthened. These changes also similarly concern member states.

Note that Article 475(1) of the Agreement defines monitoring as “continuous appraisal of progress in implementing and enforcing measures covered by this Agreement”. Thus, the Agreement provides for monitoring of both Ukraine's and EU's commitments.

It also provides for EU-Ukraine consultations on assessing compatibility of Ukraine's legislative initiatives and acts with EU *acquis* (acts are not to be enacted without EC opinion). This is important as it provides an opportunity for direct relations with the European Commission, instead of just through the Energy Community Secretariat as it is now. This approach provides an opportunity to Ukrainian companies for full-fledged participation in the EU gas and electricity markets. Regular contacts and consultations may/

to be used to prepare decisions on implementation of requirements of energy legislation by Agreement parties – both the EU and Ukraine.

Of paramount importance is the provision on accommodation of Ukraine's interests in Ten-Year Network Development Plans and preventing the implementation of network projects that harm gas transportation and storage infrastructure of Ukraine and the EU. For instance, Nord Stream-2 and Turkish Stream promoted by Russia and *Gazprom* with support of some member states' governments and their companies, go against European law.

Simultaneously, according to Annex XXVII-B, the list of directives and regulations Ukraine has to implement is divided into two sections: (a) under ECT with deadlines defined in it (p.1) and (b) outside of the scope of Ukraine's commitments under ECT (p.2).

It is important to document provisions on EU member states' obligation to abide by EU legislative requirements in relation to Ukraine in the same way as to other EU countries. And there are difficulties here. For example, at the moment, transmission system operators for gas have the right to freely sign technical agreements (*interconnection agreements*) on operation and interconnection of transmission systems with operators in third countries. But this is just a right, not an obligation, which creates a collision in treatment of TSO for gas in Ukraine (GTSOU) by similar operators in EU countries.

As a result of the review of relations with *Gazprom* after the signing of agreement on gas transportation on 30 December 2019, representatives of *Gazpromexport* terminated their presence on EU-Ukraine border on 1 January 2020. It also became possible to sign new cooperation agreements under EU Network Code on Interoperability and Data Exchange Rules.¹⁰

Such agreements already exist between Ukrainian operators and operators in Hungary and Poland. However, the matter is complicated by the fact that Ukraine is implementing the Regulation **adapted** for ECT (Decision 2018/02/PHLG-EnC of 12 January 2018), which is used at points of interstate connection between contracting parties of the Energy Community. While EU members use the **original** version of the Regulation, which does not impose obligations regarding third countries, only voluntarily, subject to national Regulator's decision.

As a result, Slovak TSO Eustream holds that it should not apply the Code in relations with GTSOU. Thus, there is a legal gap in relation to trans-border

⁸ Decision of the EU-Ukraine Association Council of 8 July 2019 as regards the amendment of Annex XXVII to the Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Ukraine, of the other part, – <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22019D1599&from=EN>.

⁹ Ibid.

¹⁰ Commission Regulation (EU) 2015/703 of 30 April 2015 establishing a network code on interoperability and data exchange rules, – <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32015R0703&from=EN>.

points between contracting parties of ECT and EU member states due to the absence of requirement on mandatory application of the network code. This causes the following situation: at interconnection point Uzhhorod – Velke Kapusany, the volume of ordered capacity will be only a part of the technically available capacities. This is just one example of the inconsistencies. There are others: regarding gas supply security measures and infrastructure development plans/strategies mentioned above.

Creation of the Energy Community and signing of EU association agreements with Ukraine, Georgia, and Moldova have caused the space covered by European legislation to expand much wider than the territory of the EU itself.

By successfully implementing European energy rules, Ukraine is also becoming a part of the European market. And is entitled to demand that its interests be accounted for in the process of planning and implementation of infrastructural projects with potential international influence. Legally mutually binding requirements regarding this are defined by the EU-Ukraine Association Agreement, namely, Article 274 “Cooperation on infrastructure”.

Thus, we can make the following conclusions.

First. The process of updating the Association Agreement has to be used to deepen integration in the gas and electricity sectors in order to ensure Ukraine’s full-fledged participation in EU markets. Operating under Energy Community, in parallel to the EU market, is a preparatory stage before full integration, which must be finished.

Second. Ukraine, which is not yet a member of the EU, organises its energy markets as required by European legislation, and its companies can be full-fledged participants of the EU gas and electricity markets even prior to EU accession. This is the goal of sectoral integration in the energy sector – full-fledged participation in the markets.

Benefits of Entering the EU Market. New European Market Tools

Natural gas

The EU gas market is being established since 1999 with the goal of increasing efficiency, achieving competitive prices, improving service quality, and facilitating supply security and stability. The main document for natural gas is the Directive concerning common rules for the internal market in natural gas.¹¹

Unbundling of transmission networks and production and supply of gas is acknowledged as a mandatory stage of building the market. This means

creating an independent transmission/storage operator to ensure full independence of network operation from the interests of supply and production. It is important that the unbundling requirements also apply to entities from third countries, such as *Gazprom*. They may be allowed to control the gas transmission system in the EU only upon effective unbundling and compliance with other requirements in EU legislation.

Thus, participation in the EU market provides one more **advantage** to Ukraine – **protection against discriminatory actions of monopolies**. We already have examples from 2019, when the transit contract between Naftogaz and *Gazprom* was about to expire, actions of the Russian monopolist caused another gas supply crisis. The main negotiating format was the trilateral negotiations involving the EC and Ukraine, which generally formed a consolidated position, as well as Russia. Ukraine’s position was strengthened by a number of factors – the long-lasting rejection of Russian gas imports, positive Stockholm arbitration results, the threat of another lawsuit against *Gazprom* by Naftogaz of Ukraine, US sanctions regarding Nord Stream-2, availability of significant gas reserves in UGS and LNG supplies. Previously, in May 2019, the European Commission accepted for consideration a complaint from Naftogaz of Ukraine on violation of antimonopoly legislation by Russian *Gazprom*. The document states that *Gazprom* is abusing its dominant position in the European market and is limiting competition, namely through building Nord Stream-2, through control over gas companies in EU countries, and blocking of virtual reverse and other operations.

In 2018, a similar EC investigation against *Gazprom* that lasted years was finished, and *Gazprom* managed to avoid billion dollar fines, but had to sign a commitment to implement EU rules regarding eight Eastern European countries.

Reference: Bulgaria, which is dependent on Russian gas imports, was buying it at a price almost 50% higher than other European clients of *Gazprom*. But on 3 March 2020, it achieved a 40% reduction of the price of natural gas,¹² which it imports under a long-term contract. Price reduction was achieved based on *Gazprom* commitments to the EC on a review of prices as a result of the anti-monopoly case. *Gazprom* agreed that a part of the price be tied to European gas hub prices, and only a part - to oil prices.¹³ The new agreement has retroactive effect, and Bulgarian gas consumers will be compensated for the difference in gas prices between August 2019 and March 2020.

Thus, the EU is using effective mechanisms of influencing the Russian monopolist. Naftogaz of

¹¹ Directive 2009/73/EC concerning common rules for the internal market in natural gas, – <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32009L0073&from=EN>.

¹² UPDATE 2-Bulgaria agrees deal to cut price of Russian gas imports by 40% – Reuters, -<https://www.reuters.com/article/bulgaria-russia-gas-prices/update-2-bulgaria-agrees-deal-to-cut-price-of-russian-gas-imports-by-40-idUSL8N2AW22T>.

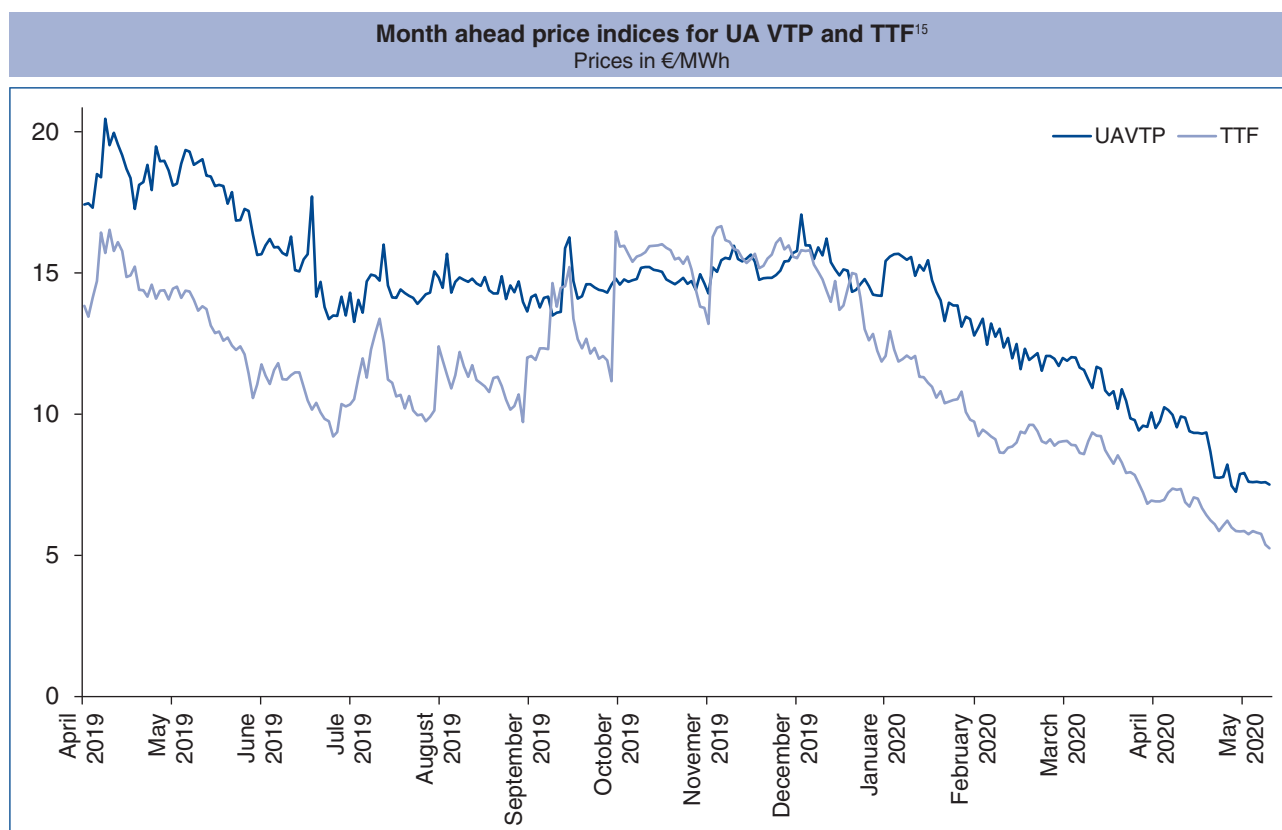
¹³ Quarterly report on European Gas Markets, 1Q/2020, -https://ec.europa.eu/energy/sites/ener/files/quarterly_report_on_european_gas_markets_q1_2020.pdf.

Ukraine, which unlike *Bulgargaz*, is not an EU company, could justify its right to appeal to the European Commission against the actions of Gazprom only by the fact that Ukraine is implementing European energy legislation based on its agreements with the EU, and is thus becoming a part of the EU market. *As a result, it follows that implementation of EU energy legislation is already providing major advantages for Ukraine.*

It is noteworthy that the Association Agreement, the text of which was being prepared several years before its signing, contains provisions on “Unauthorised taking of energy goods” (Article 275), “Interruption” (Article 276). This includes “unauthorised taking of energy goods transited or transported”. It is specifically defined that “a Party shall not be held liable for an interruption or reduction pursuant to this Article where that Party is in an impossibility to supply ... energy goods as a result of actions attributable to a third country or an entity under the control or jurisdiction of a third

country”. All of this is an echo of Russia’s actions in 2006 and 2009, when it stopped its natural gas exports to Europe through the territory of Ukraine. Note that the term „transit“ is already an anachronism, because according to EU law, between the countries of the single gas market there can be only “transportation”.

EU’s attitude towards Ukraine is changing. Our country is appearing in documents and reports of European institutions increasingly more often. In particular, data on Ukraine’s gas market is regularly published on *ENTSO-G Transparency Platform*¹⁴ and *Gas Infrastructure Europe (GIE)* platform. Leading price agencies are publishing price indices of Ukraine’s gas market. The diagram presents the dynamic of month ahead price indices for *UA VTP and TTF* in 2019-2020; data provided by *ICIS*, which is a global source of market data. It is noted that the recent drop of prices at European hubs helped reduce the price difference.



Ukraine is included in the quarterly monitoring by the European Commission.¹⁶

New relations with the Russian gas monopolist were established on the basis of European gas rules. This is a powerful impulse for Ukraine’s further sectoral integration into the EU in the gas sector, which

helps strengthen the pan-European market by enabling free gas flows, reducing market distortions created by Gazprom, in particular in five EU member states (Bulgaria, Estonia, Latvia, Lithuania, Poland) and Ukraine, and, ultimately, contributes to security of gas supply in Central and Eastern Europe.

¹⁴ Data from the ENTSO-G Transparency Platform.

¹⁵ Ask ICIS: Ukraine’s role in balancing the European gas market, ICIS, – https://s3-eu-west-1.amazonaws.com/cjp-rbi-icis/wp-content/uploads/sites/7/2020/05/19143114/ICIS_UAWebinar_mergedslides_15052020.pdf.

¹⁶ Quarterly Report Energy on European Gas Markets, – https://ec.europa.eu/energy/sites/ener/files/quarterly_report_on_european_gas_markets_q1_2020.pdf.

By signing a transport agreement with *Gazprom*, new interconnection agreements between GTSOU and *Gazprom*, as well as neighbouring European operators at the end of 2019, Ukraine received an

opportunity to use significant gas transport capacities previously blocked by the Russian monopoly, carry out gas swaps, as well as use other new transport services for Ukrainian and foreign clients.

Comparison of short-haul tariffs with alternative route tariffs

Direction	Short-haul tariffs on Ukrainian route, €/MW	Tariffs on alternative EU routes, €/MW	Capacities of Ukrainian route MW/day	Capacities of alternative EU routes, MW/day
PL – RO RO – PL	1.75 ↓ -44% 2.45 ↓ -39%	3.14 4.04	95.4 ↑ +313% 145.2 ↑ +675%	30.5 21.5
SK – RO RO – SK	1.69 ↓ -7% 1.8 ↓ -1%	1.82 1.81	145.2 ↑ +187% 145.2 ↑ +675%	77.5 21.5
HU – PL PL – HU	2.05 ↓ -29% 1.57 ↓ -27%	2.88 2.15	178.1 ↑ +584% 95.4 ↑ +313%	30.5 30.5
SK – PL PL – SK	2.19 = 1.58 ↑ +22%	2.19 1.29	178.1 ↑ +584% 95.4 ↑ +313%	30.5 30.5
HU – RO RO – HU	1.56 ↑ +58% 1.76 ↑ +50%	0.99 1.17	145.2 ↑ +187% 145.2 ↑ +675%	77.5 21.5
HU – SK SK – HU	1.59 ↑ +148% 1.5 ↑ +83%	0.64 0.82	517.3 ↑ +1 018% 771.7 ↑ +595%	50.8 129.1

Source: GTSOU, – <https://tsoua.com/wp-content/uploads/2020/02/brochure-short-haul-2020.pdf>.

Short-haul service provided by GTSOU is an opportunity of transportation between interstate points of entry/exit without provision of access to the Ukrainian *VTP* (virtual trading point) and internal market. It can be used together with UGS Operator service “Customs Warehouse”. This allows to involve European gas companies to store gas in Ukraine’s UGS. Overall, in three quarters of 2020, GTSOU sent 9.8 bn cu. m of gas to UGS Operator for storing in the “Customs Warehouse”, including the *short-haul* volumes.

When transporting gas between EU countries (Poland, Romania, Slovakia, Hungary) via the Ukrainian GTS, tariffs may be more attractive than in alternative EU routes. This opens up capacities that by far exceed the existing alternative routes. So there is a choice – there is competition and the possibility of additional load for Ukraine’s gas infrastructure.

Another important European market tool is **natural gas exchange trading** – an important sign of market competitiveness. The EU market is divided into gas trading area centres – hubs with gas exchange markets. The most liquid and important for Ukraine are *NCG*, *Gaspool*, *CEGH*. A similar exchange can be created in Ukraine on the basis of CE “Ukrainian Energy Exchange”. The process is supported by the Energy Community and the EBRD, regarding which on 30 July 2020, parties signed a multilateral Memorandum on the development of gas exchange in Ukraine with the purpose of supporting the restructuring of the Ukrainian gas sector in line with EU legislation to enable

competition and deliver benefits to Ukrainian energy consumers.

Development of a single European gas market creates goods prospects for accessing the global liquefied natural gas market (*LNG*) and getting it in the regasified form from *LNG* terminals in Poland, Lithuania, Greece, Turkey, Croatia. Projects for construction/reconstruction of *LNG* reception terminals in the EU have been awarded the status of Projects of Common Interest (PCI). Thus, they can be funded from *CEF* – a €30-bn EU fund created for improving energy, transport and digital infrastructure.

In 2020, *CEF* planned for €979.6 mln to fund common interest projects aimed at increasing the security of supply, eliminating isolated markets, cooperation between gas networks and achieving the goals of the *European Green Deal*.

An important *LNG* project is a terminal that is being built on the Adriatic coast of Croatia, island of Krk. However, this will not be a fixed complex, as for example in Poland. *LNG* tanker *Golar Viking* is being converted according to a project by a Finnish company Wärtsilä into a Floating Storage Regasification Unit (FSRU). Following commissioning, *FSRU* will start receiving liquefied natural gas and after regasification – supply it to GTS, similar to Lithuanian *LNG* reception scheme. In June 2020, Croatia’s Minister for Energy and Environment Tomislav Coric announced that the terminal will commence operations on 1 January 2021, with full capacity booked for

the next few years.¹⁷ And this potentially creates some opportunities for Ukraine to expand its existing import potential from the Polish terminal in the Baltic Sea, Turkish in the Marmara Sea and Greek in the Aegean Sea.

Electrical Energy

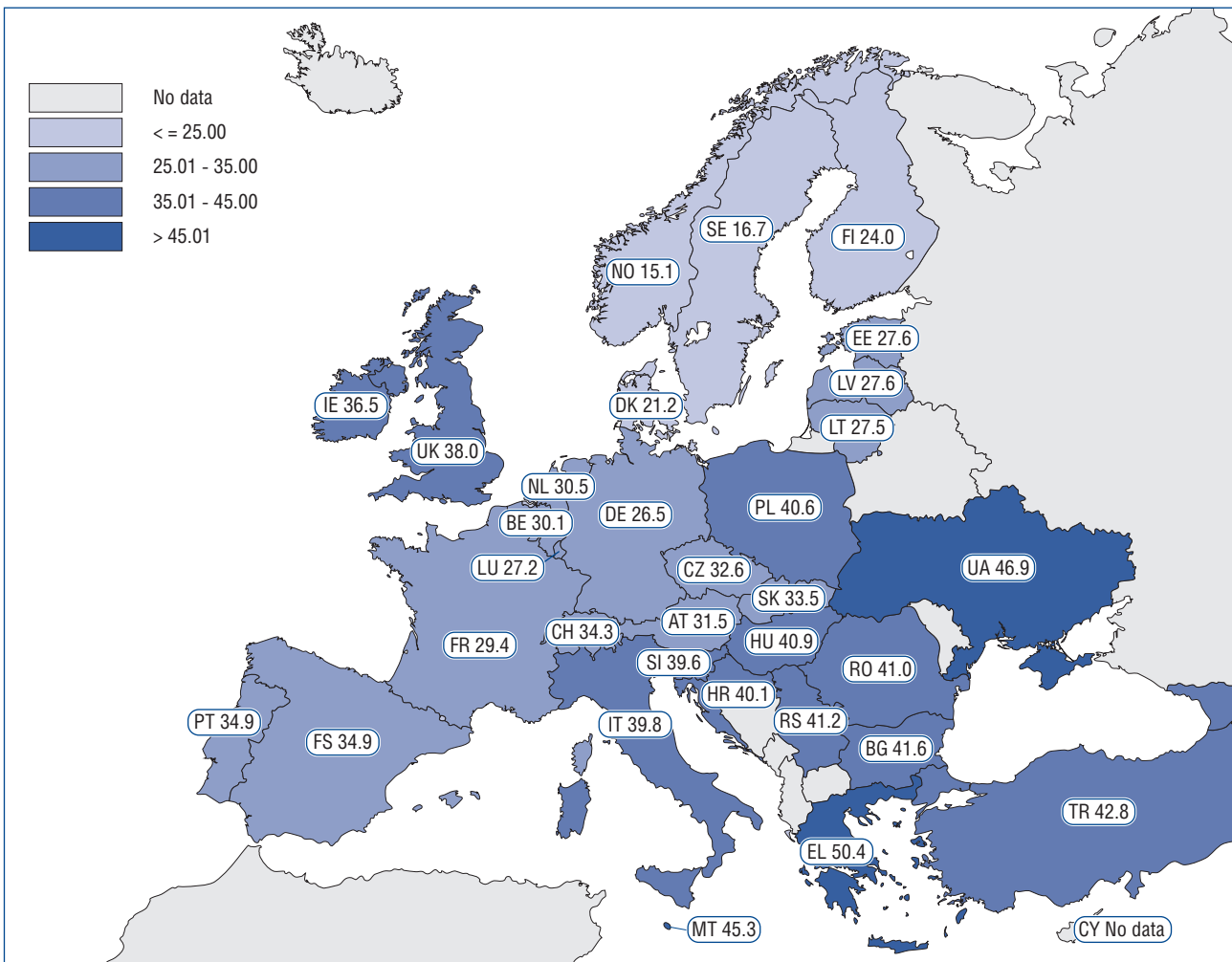
According to the Law of Ukraine “On Electricity Market”, on 1 July 2019 started working a new model of electricity market, which potentially creates a lot of new opportunities for consumers. One of them is an opportunity to choose one’s electricity supplier. Organisation of purchase and sale of electricity in the day ahead market and intraday market is done by SE “Market Operator” (MO). It is important that the MO operates transparently based on exchange principle, electricity is sold around the clock without

weekends using the automatic mode, which eliminates interference in the process.

This increased market transparency and was marked by the EU. Starting from the 3rd quarter of 2019, Ukrainian market data is presented next to EU countries (map „Comparison of average wholesale baseload electricity prices in the day ahead market”) in the Quarterly Report on European Electricity Markets¹⁸ prepared by the Directorate General for Energy (DG Energy), which is responsible for EU energy policy. This aspect is positive, brings us closer to the EU market, and provides an opportunity for comparison.

Ukraine intends to join four EU countries that have a common market space¹⁹ – Hungary, Slovakia, Czech Republic and Romania, and then – the single European system. However, this will become possible upon technical connection, which currently only Burshtyn Energy Island has.

Comparison of average wholesale baseload electricity prices in the day ahead market, 1st quarter of 2020, €/MWh



Source: DG ENER.

¹⁷ Krk LNG Terminal, – https://www.gem.wiki/Krk_LNG_Terminal.

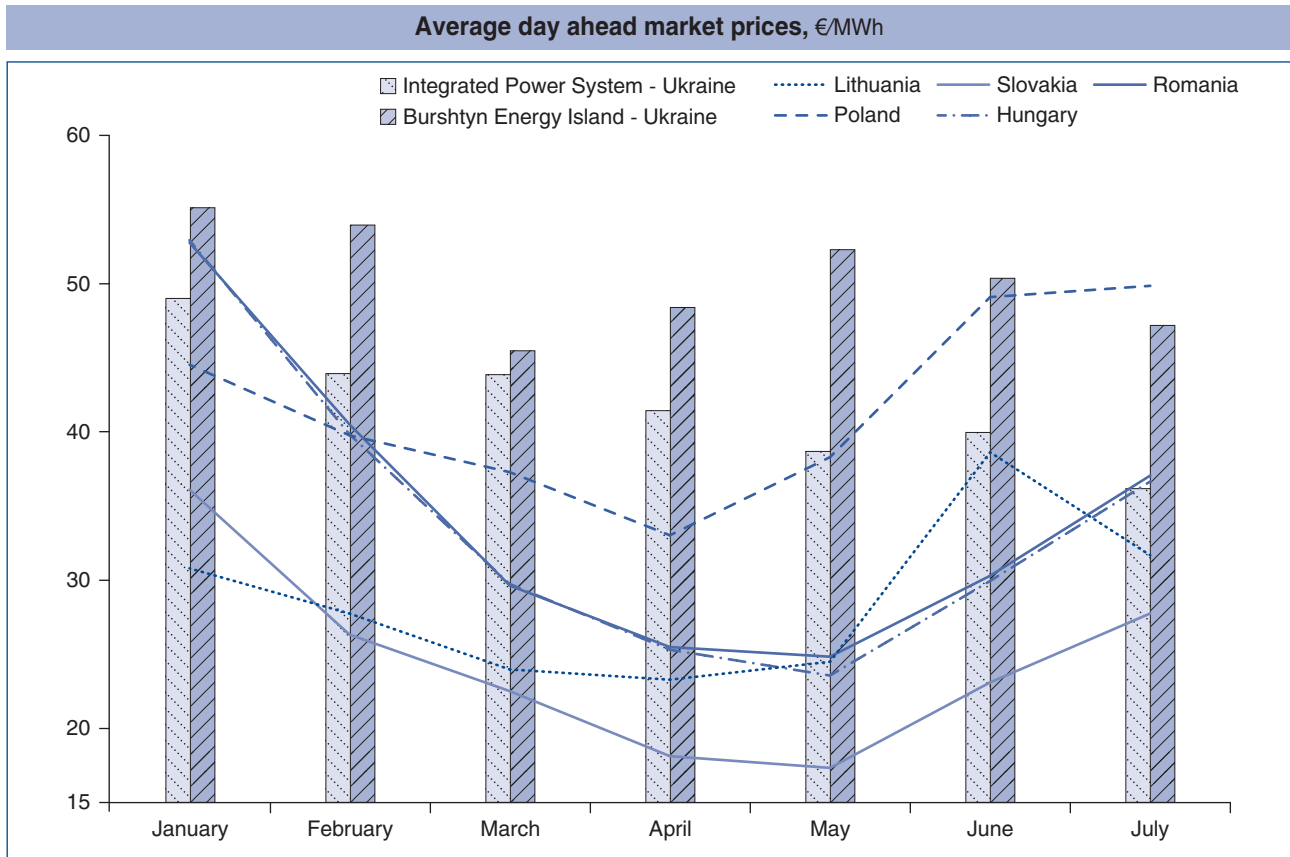
¹⁸ Quarterly report on European Electricity Markets with special focus on the impact of the pandemic/1Q_2020, – https://ec.europa.eu/energy/sites/ener/files/qr_electricity_q1_2020.pdf?fbclid=IwAR3dU4j2i3wJ-96V3xqm2BA6K4JKWxcST4s5V7WhdPrkpZJwbyJEDs7DqVM.

¹⁹ Volodymyr Yevdokimov: “Philosophy of the day ahead and intraday market operation is the same as in the EU – maximising the volume, minimising the price” – Expo Consulting, 21 January 2020, – <https://expro.com.ua/statti/volodimir-vdokmov-filosofya-roboti-rdn-ta-vdr-taka-j-yak-v-s--maksimzacya-obsyagv-nmzacya-cni>.

According to the 1st quarter of 2020, Ukraine’s wholesale energy price (day ahead market) was higher than anywhere among EU neighbour states (diagram “Average day ahead market prices in 2020”). The range of factors that cause this situation includes the fact that the market is not sufficiently competitive as of yet. Market competition is significantly strengthened by a country’s accession to the European Network

of Transmission System Operators for Electricity (ENTSOE),²⁰ which is expected to be completed by 2023.

Strengthening cooperation/coordination/harmonisation of actions and data with DG ENER, European regulators and other EU organisations continues to be on the agenda, and the Association Agreement contains corresponding instruments to achieve this.



Source: SE “Market Operator” (MO)

On 29 July 2020, our Government approved a number of Eurointegration decisions. Namely, with the purpose of integrating into EU electricity market, SE “Market Operator” (MO) will transform into a joint-stock company (100% owned by the state). A strategic development plan has been approved for SE MO. It was declared that through these decisions:

- consumers get more opportunities to choose their electricity provider;
- competitive mechanisms for electricity market operation are being introduced;
- operator work will be controlled by the state.

Oil Reserve

Association Agreement with the EU and membership in the Energy Community require Ukraine to gradually implement EU energy legislation concerning an

obligation to maintain minimum stocks of crude oil and/or petroleum products (Directive 2009/119/EC).

Each country should maintain the total stocks that correspond to 90 days of average daily net imports or 61 days of average daily inland consumption, and an additional 10% stock of each type of products. Directive stipulates that at least one-third of the total stock is held in the form of petroleum products. An emergency response algorithm should also be developed and approved in the form of a special plan.

Compliance with stock requirements is also important from the point of view of energy security. Ukraine’s annual spending on petroleum products import is several billion dollars. Imported petroleum products make up approximately 3/4 of total consumption. And the largest part comes from Russia – the aggressor.

Together with foreign experts and with support of the Energy Community, the State Reserve calculated

²⁰ ENTSO-E – European Network of Transmission System Operators for Electricity is an international non-profit association (AISBL) established according to Belgian law, – <https://www.entsoe.eu/about/>.

the minimum amount of oil and petroleum products, as well as developed a plan of measures for the work plan on implementation of Directive 2009/119/EC. Calculations in 2018 showed that Ukraine's minimal stock should consist of: 25-30% crude oil and 70% petroleum products, including motor gasoline – 38%, and diesel fuel – 62%. The total volume of necessary 90-day average daily import was calculated in oil equivalent at over 2 mln ton, incl. 1.4 mln ton petroleum products.²¹

Although the history of the issue of creating an oil reserve has been going on since 2005, when the first concept was developed by the corporate efforts of Ukrtransnafta with support of the European Commission, yet progress in solving the problem has not transformed into practical actions. In 2019, Energy Community Secretariat evaluated Ukraine's compliance with Directive requirements on stocks at 10%, which is relatively better than in Moldova and Georgia, where the indicator was 8%, but is extremely unsatisfactory in absolute terms. The Ukrainian side is explaining it by the lack of storage capacities, which only partially reflects the real state of things. Thus, the issue of creating minimal reserves of oil and petroleum products will remain on the agenda of our implementation of the EU-Ukraine Association Agreement provisions.

European Green Deal: Energy Sector

The European Commission has approved a Green Deal, which provides for a range of measures to bring the EU to become climate-neutral by 2050. To achieve this objective, all sectors have to be decarbonised, and foremost – energy, given that 75% of greenhouse gas emissions in the EU are generated by the energy sector.

Energy sector decarbonisation will be carried out using the following instruments:

- cessation of coal use;
- proliferation of use of hydrogen and other decarbonised gases;
- development of marine based wind energy generation;
- development of fixed energy infrastructure.

Besides this, *Green Deal* investment plan does not provide for allocation of funding for nuclear energy development, which seems a rather dubious decision.

International Gas Union predicts²² that global natural gas consumption may decline by about 4%

in 2020 due to the *COVID-19* pandemic, which has resulted in a global reduction of energy consumption. However, low prices and decarbonisation policy will encourage further transition to both natural gas and hydrogen, and abandonment of more harmful primary energy sources – coal and oil.

This applies to electricity generation and various modes of transport. Using liquefied and compressed gas for sea, river, railway and road cargo transport is a stable European trend. The same goes for manufacturing industry. During the transition period, natural gas should become a strategic addition to renewable energy sources. After all, there is already a developed infrastructure for gas storage and transmission, and gas is much more environmentally friendly than other fossil fuels. Thus, it is predicted that in the medium term gas infrastructure (transportation, storage, as well as *LNG* infrastructure) will likely develop very fast.

For the sixth year in a row, the volume of *LNG* trade has been growing. In 2019, it grew 13% compared to 2018 – to 354.7 mln ton, or 482 bn cu.m. Moreover, liquefied gas is becoming a major factor in the growth of consumption, which can quickly recover, depending on the duration of the pandemic.

Ukraine 2050 Low Emission Development Strategy (LEDS)²³ provides that, according to an optimistic scenario, by 2050 greenhouse gas emissions will make up 31% of the 1990 level or 260-285 mln ton of CO₂-equivalent, granted that the country implements policies and measures for decarbonisation of its economy. The task is being set to transition to an energy system that involves the use of low-carbon energy sources, development of clean electricity and heat, improving energy efficiency and energy saving in all sectors of economy and housing infrastructure, stimulating the use of alternative energy.

The EU plans to achieve net-zero greenhouse gas emissions by 2050. Ukraine 2050 Low Emission Development Strategy²⁴ was developed to execute Ukraine's international commitments as per p.19 Art.4 of the Paris Agreement, p.35 of Decision 1/CP.21 of the Conference of Parties to United Nations Framework Convention on Climate Change. The strategy defines a national vision agreed upon by the stakeholders to separate Ukraine's further economic growth and social development from increasing the volume of greenhouse gas emissions. According to Protocol Decision as of 18 July 2018 of the session of the Cabinet of Ministers of Ukraine,²⁵ LEDS was sent

²¹ Determining the model of maintaining minimal reserves of oil and petroleum products (MROOP) and its funding in Ukraine - EU Technical Assistance Project "Assistance to Ukraine in the process of implementing reforms in the energy sector", - <http://kompek.rada.gov.ua/uploads/documents/30300.pdf>.

²² The Global Gas Report 2020, 6 August 2020, <https://igu.org/resources/global-gas-report-2020/>.

²³ Ukraine 2050 Low Emission Development Strategy. – Ministry for Ecology and Natural Resources of Ukraine, – <https://menr.gov.ua/news/31815.html>. (<https://mepr.gov.ua/news/31815.html>)

²⁴ Ibid.

²⁵ Ibid.

to Secretariat of the UN Framework Convention on Climate Change.²⁶

Ukraine has to join EU efforts in the implementation of the Green Deal. It is necessary to achieve integration of Ukraine's energy policy with that of the EU, which can also increase the efficiency of energy use and the use of energy and gas infrastructure. Further integration and regional cooperation continue to be the priorities in the field of energy and in the context of implementing the Green Deal.

So it is important that Ukraine continues reforming its energy sector in line with commitments it undertook and walking alongside the EU in its development.

A key element of the Green Deal is production of hydrogen for the purpose of maximising its use in energy instead of fossil fuels. Hydrogen production projects using RES are being developed in various EU countries and its close and distant neighbour-states. Of course, there should be no illusions as to simple implementation of such projects, as well as to the ease of mass use of hydrogen – the lightest, most flammable and explosive gas. Nevertheless, having a surplus of generating capacities, Ukraine has the opportunity to implement projects for hydrogen production and supply to the EU using the surplus capacities of its gas transmission system. In this context, intentions of Energoatom and Naftogaz of Ukraine to work together on the issues of production, transportation, and use of hydrogen are rather pragmatic and long-term. Memorandums signed by Energoatom, Naftogaz of Ukraine, and the Federation of Employers of Oil and Gas Industry on 24 September 2020 is in full harmony with Ukraine's national interests and EU's Green Deal.

Ukraine already enjoys the advantages of implementing EU energy legislation. Namely, we receive stable gas imports based on transparent market conditions. Ukraine's new relations with the Russian monopolist are clear, in line with Ukrainian and EU legislation and, most importantly, – do not require any political concessions or sacrificing sovereignty.

The process of updating the Association Agreement has to be used to deepen integration in the gas and electricity sectors in order to ensure Ukraine's full-fledged participation in EU markets.

Ukraine has to join EU efforts in the implement of the Green Deal. Natural gas and hydrogen will be playing an important role in energy transition. Thus, energy infrastructure (gas and electricity) of both Ukraine and the EU as a whole will be playing an important role in Eastern Europe.

3.2. DEVELOPMENT OF DIGITAL ECONOMY AND ITS SECTORS

Development of the digital economy has become one of the most important trends in global economy and is part of the Fourth Industrial Revolution. This complex and ambivalent process, associated with both unprecedented opportunities and significant risks will be greatly affecting the overall economic dynamics and structural changes in various areas of global economy. Thus, it has to become the *key priority* in Ukraine's cooperation with the EU.

Currently, these issues are covered by Title IV of the Agreement "Trade and trade-related matters", in particular Chapter 6 "Establishment, trade in services and electronic commerce" (especially Art.108 "Understanding on computer services", Articles 115-124 on electronic communications, Articles 139-140 on electronic commerce, Articles 185-189 on protection of databases). Also, by Chapter 14 "Information society" (Articles 389-395), especially Art.391, which determines a cooperation area that covers the issues below.

First. Promotion of broadband access, improvement of network security and more widespread use of ICT by citizens, business and administrations by developing local content for the Internet and introducing online services, in particular e-business, e-government, e-health and e-learning.

Second. Coordination of electronic communication policies with a view to making optimal use of the radio spectrum and interoperability of networks in Ukraine and the EU. In particular, Appendix XVII-3 in Annex XVII to the Agreement identifies specific commitments on approximation (within 2-4 year of the entry into force of the Agreement) of Ukrainian legislation to EU law in telecommunication services (eight EU directives and other regulatory acts).

At the same time, the text of the Agreement does not contain the phrase "digital economy", which is not surprising, as in the period of Agreement development, this wording has not existed yet.

Thus, *in the context of digital development, Agreement text is outdated and requires fundamental modernisation.* The main priority of cooperation in this area must become the development of mechanisms for Ukraine's inclusion in processes taking place in the framework of **formation of EU Digital Single Market (DSM)**, which is actively developing since 2015, when the European Commission came forward with "*A Digital Single Market Strategy for Europe*".²⁷

²⁶ Communication of long-term strategies. – United Nations Climate Change, – <https://unfccc.int/process/the-paris-agreement/long-term-strategies>.

²⁷ European Commission. *A Digital Single Market Strategy for Europe*: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels, 6.5.2015 COM(2015) 192 final.



This means possibility of Ukraine's active participation in events implemented in three key areas of this strategy:

1. *Building a data economy*, based on the following European initiatives: "Free flow of data", "European Cloud", which includes research open science cloud, and introduction of the Internet of Things technology. In a more general sense, we are talking about participation in developing European Data Economy, which aims to provide constant availability and free movement of data in the presence of high-efficiency ability to analyse this data.

2. *Boosting competitiveness through interoperability and standardisation*, including ensuring interconnectivity and interoperability of e-government services in different countries based on "European Interoperability Framework".

3. *Development of an inclusive e-society*: creating conditions which all citizens and businesses have the necessary skills and can benefit from interlinked and multi-lingual e-services, from e-government, e-justice, e-health, e-energy and e-transport, including through implementation of EU-level initiatives: "Grand Coalition for digital jobs", "Opening up Education", etc.

Ukraine also needs to gain a wider access to investment resources allocated for digitalisation sector, including, besides EBRD and EIB resources, also access to funds from the *European Fund for Strategic Investment*.

An important priority in the overall context of access to DSM should be the involvement of Ukrainian organisations in creation and development of online platforms, which in a broader sense become

the foundation for organising the so-called *internet ecosystems*.

A specific and critically important task within our cooperation in the digital sector has to become *joint counteraction against growing challenges in cybersecurity* according to basic strategic and regulatory EU documents in this sector: *EU Cybersecurity Strategy (2013)*, *Directive on Security of Network and Information Systems – NIS Directive or Directive (EU) 2016/1148*, Cybersecurity programme package of 2017.²⁸ In this context, it is important to establish cooperation between Ukrainian authorised cybersecurity agencies and *The European Union Agency for Network and Information Security – ENISA*, including on the issues of certification of cybersecurity products, services and processes, introduction of the principle of "mandatory screening" to reduce the vulnerability of products and software, a plan of action in case of a large-scale cross-border cyber-incident or crisis, etc.

An important task in cooperation with the EU in digital economy is active facilitation of development of start-ups and digitalisation of manufacturing and services based on a comprehensive strategy of "*Digitising European Industry*" and introduction of new technologies for financial services (the so-called *FinTech*).²⁹ In this context, European initiative "*Digital solutions throughout a company's lifecycle*" is of interest to Ukraine, as it is aimed at providing opportunities for companies to carry out all their administrative procedures online throughout the entire period of their operation.

A new high-potential area of cooperation, which gained much more relevance due to healthcare challenges – a drastic change of the model of providing healthcare services based on transition to an integrated patient-centred model, which allows to keep basic medical data in electronic form and transfer them to other healthcare institutions, incl. abroad, writing electronic prescriptions for medicines, and in the more distant future – possibility of transferring a patient's entire medical history using the big data technology. We should also study the possibility of Ukraine's participation in the work of *European Reference Networks*, which are being created since 2017 and allow to bring together processes of conducting medical examination.

For Ukraine, these opportunities for cooperation on digitalisation mean a drastic increase of investment in digital technologies and digital infrastructure. In the EU, the overall volume of investment allocated

²⁸ European Commission and High Representative of the European Union for Foreign Affairs and Security Policy. *Cybersecurity Strategy of the European Union: An Open, Safe and Secure Cyberspace*: Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, Brussels, 7.2.2013 JOIN(2013) 1 final.

²⁹ Digitising European Industry. – European Commission, – <https://ec.europa.eu/digital-single-market/en/policies/digitising-european-industry>.

for research and innovation in 2016-2020 is €5.5 bn, and €21.4 bn from European structural and investment funds are allocated for developing digital technologies and broadband internet.³⁰

It is telling that currently Ukraine is ahead of the EU's average rate by the total number of mobile communication users expressed per 100 persons (127.8³¹ vs 122.7 in 2018), while by the total number of internet users (% of population) – it lags significantly behind (62.6 vs 81.6 in 2018), whereas in a number of EU countries (Austria, Belgium, Estonia, Finland, Germany, Spain, Sweden) this percentage is almost 90%, and in Denmark, Luxembourg, the Netherlands and Sweden – 93-98%.

An even bigger gap is observed in the quality of used ICT, although intensive positive changes are taking place in this area: by the number of broadband internet users calculated per 100 persons (12.8 in 2018 and 16.2 in 2019) Ukraine places significantly below the average EU rate (34.7 in 2018). The gap with the leading EU countries in this field is even greater: in Denmark, France, Malta, Germany, the Netherlands – this figure in 2018-2019 was 41.1-45.69.

By the number of secure internet servers per 1 mln people, in 2019, Ukraine placed below the average EU rate by 5.3 times, below Germany – by 9.9 times, Estonia – 10.6 times, Ireland – 12.1 times, Netherlands – 16.6 times, Denmark – 35.2 times.³² Such dramatic gap in security parameters calls into question the prospects of rapid spread of e-commerce and e-banking in the country, and must be overcome in the framework of EU-Ukraine cooperation in the field of digitalisation. Without this, involvement in EU DSM can be only partial as an area of cooperation and hardly noticeable by the volume of operations.

Thus, *the text of the Agreement must be appended with new provisions on Ukraine's integration into EU Digital Single Market*, and Annex XVII to the Agreement – with a new Appendix that would define *commitments on approximation of Ukrainian legislation in the field of digital economy and trade to EU law*. This appendix must include not just the already adopted EU regulatory acts on

digital single market, but also those that are currently being approved and will soon become part of the current EU regulatory framework, which is rapidly developing.³³

3.3 EU-UKRAINE COOPERATION: TRANSPORT INFRASTRUCTURE

Restructuring and modernisation of Ukraine's transport sector and gradual approximation towards operating standards and policies comparable to those in the EU is Ukraine's important priority according to Article 368 of the Association Agreement. Currently, transport is among the basic sectors of economy, which in 2019 made up 6.7% of the GDP and involved 6% of the total employed population.³⁴

The Agreement provides for achieving interoperability of transport systems through implementation of EU directives and technical regulations, elimination of administrative and technical barriers, modernisation of infrastructure and technical equipment, integration in all modes of transport, establishing and strengthening cooperation with European transport agencies. Integration in this sector can contribute to the development of exports of transport services and efficient use of Ukraine's transit potential.

However, according to data from the online monitoring system "Agreement Pulse", since 2014, the level of implementation of Agreement tasks has been the lowest compared to other sectors – only 27%.³⁵ This result is not accidental given that integration of Ukraine's transport system into the European one is a long-term process due to the underdevelopment of domestic transport sector (low level of innovation, safety, provision of high-quality transport services) and the need for technological modernisation of available infrastructure, as well as the slow pace of institutional and legislative changes (none of the basic eurointegration laws have been adopted).

Progress in this sector is analysed from the point of view of integration of Ukraine's transport and logistics infrastructure into *Trans-European Transport Network (TEN-T)* and the details of implementation of European standards and requirements.

³⁰ European Commission. A Connected Digital Single Market for All: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions on the Mid-Term Review on the implementation of the Digital Single Market Strategy, Brussels, 10.5.2017 COM(2017) 228 final, pp.19-20.

³¹ 130.6 in 2019.

³² All calculations are based on *World Development Indicators* database of the World Bank, which uses data from *International Telecommunications Union and Netcraft* (<http://netcraft.com>).

³³ This can include the package of norms on e-services (*Digital Services Act*), intended primarily to regulate activity of digital trading platforms, strengthen security of transactions in the digital environment, and ensure observance of rights of parties to such transactions. EC proposal for a Regulation of the European Parliament and of the Council concerning the respect for private life and the protection of personal data in electronic communications (document COM/2017/010 final of 10 January 2017) is currently being considered, which strengthens regulations foreseen in the so-called *ePrivacy Directive* of 12 July 2002. A new *European strategy for data* proposed by the EC on 19 February 2020 in its Communication COM(2020) 66 final will soon become a key strategic reference point.

³⁴ Source: Official website of the State Statistics Service of Ukraine, – <http://ukrstat.gov.ua>.

³⁵ For more information, see: Transport, transport infrastructure, postal and courier services. – Agreement Pulse. Monitoring of the implementation plan of the Agreement, – <http://pulse.eu-ua.org/en/streams/transport>.

Ukraine's Integration into TEN-T

In 2018, Ukraine joined *TEN-T*³⁶ and became a participant in the development of a strategic transport corridor between Europe and Asia, while Ukrainian transport network became a part of EU's strategic transport and logistics corridors. Becoming a part of *TEN-T* is a step towards Ukraine's infrastructural eurointegration, as a result of which Ukrainian infrastructure is being modernised and the European Commission now views it as an integral component of EU transport and logistics system. Regulation (EU) No 1315/2013 defines that cooperation with neighbour-states is necessary to ensure connection between corresponding elements of member states' infrastructure.

Development of multimodal transport network interconnected with *TEN-T*, and improvement of infrastructural policy with the goal of better identification and assessment of infrastructural projects for different types of transport is defined by the Agreement (Art.369). Regarding this, the following bills were submitted to the Verkhovna Rada "On Accession to the "Agreement on Development of Multimodal Transport TRACECA" (reg. No 0010 of 21 November 2019) and "On Multimodal Transport Services" (reg. No 2685 of 27 December 2019). The latter provides for implementation of Directive 92/106/EEC on the establishment of common rules for certain types of combined transport of goods between Member States.

Development of multimodal transportation services will allow to significantly increase the volume of cargo transportation done by national transport companies, facilitating an increase of the country's competitiveness in the global market of transport services, development of the existing network of transport corridors, integration of Ukraine's transport infrastructure into the global one.

For the implementation of *TEN-T* infrastructural projects, on 15 October 2018, Foreign Ministers of the Eastern Partnership countries approved an Indicative *TEN-T* Investment Action Plan.³⁷ In the framework of funding programme "*Ukraine Indicative TEN-T*

Investment Action Plan Projects", implementation of 39 projects was started with the total cost of €4,378.9 mln. Most of them – 14 projects (56% of the total cost) are long-term (until 2030); at the moment, three motor vehicle, two railway and two air transport projects for the sum of €1.3 bn are being implemented (30%). Another 18 short-term projects (14% of the *TEN-T* investment programme cost) are being prepared for launch in the near future.³⁸

In March 2019, Ukraine joined projects in the framework of *Connecting Europe Facility (CEF)*,³⁹ which allows us to take part in joint projects alongside EU member states related to cross-border infrastructure and focusing on digitalisation, security and environmental safety.

Sectoral Integration in Transport

According to Article 369 of the Agreement, development and adoption of a strategic comprehensive document in the area of transport is a key requirement. CMU Order No 430 of 30 May 2018 approved National Transport Strategy of Ukraine 2030, the main task of which is adaptation of national legislation to EU law, which will facilitate liberalisation and mutual access to EU and Ukrainian markets.

We have not yet adopted legislation on regulation of **road transport** services in order to harmonise them with EU legislation. Only in early 2020, a bill was developed "On Amendments to Certain Legislative Acts of Ukraine On Regulation of Road Transport Services Market in Ukraine with the Goal of Harmonising Them with the EU Act",⁴⁰ which defines conditions for provision of road transport licences (in line with Regulation No 1071/2009 of 21 October 2009) and ensuring security of transport services.⁴¹

To raise the quality of road maintenance, we are harmonising our national laws and regulations with principles and standards of the International Federation of Consulting Engineers (*FIDIC*). To optimise road construction, on 5 February 2020, the Cabinet

³⁶ On 23 June 1996, Community guidelines were adopted, approved by Decision No 1692/96 EU for the development of the trans-European network in transport (*TEN-T*), which interconnected national networks of all modes of transport. The goal of *TEN-T* is to stimulate economic growth and competitiveness in the single European Economic Area through efficient multimodal high-speed routes and barrier-free transit of goods through the territory of member states and neighbour states of the project. In 2017, EC decision on geographical expansion of *TEN-T* to Eastern Europe countries and the possibility of including Eastern Partnership members in the network was announced. The planning of core and comprehensive networks has to comply with requirements and criteria to transport infrastructure sectors outlined in Regulation (EU) No 1315/2013.

³⁷ Used to manage future investment aimed at extension of the core *TEN-T* network by 2030, as well as to facilitate digitalisation and decarbonisation of transport.

³⁸ See: Reforms in Ukraine 2016-2019: Irreversibility of Changes, – <https://www.kmu.gov.ua/storage/app/sites/1/reform%20office/ukraine-reform-conference-2019-09-eng.pdf>.

³⁹ *CEF* budget for transport sector is approximately €23.5 bn. See: Ukraine joined projects in the framework of *Connecting Europe Facility*, – Volodymyr Omelian. – Ministry of Infrastructure of Ukraine, 28 March 2019, – <https://mtu.gov.ua/news/30792.html>.

⁴⁰ Draft Law "On Amendments to Certain Legislative Acts of Ukraine On Regulation of Road Transport Services Market in Ukraine with the Goal of Harmonising Them with the European Union Act". – Ministry of Infrastructure of Ukraine, – <https://mtu.gov.ua/projects/261>.

⁴¹ It is planned to introduce: a system for obtaining certificates of professional competence of transport services managers, a mechanism for confirmation of business reputation, measures to influence road carriers, and norms to regulate all aspects of operation in the context of administrative offences in provision of domestic and international road services carrying passengers and goods.

of Ministers approved a Resolution,⁴² according to which, in a test mode (until 1 January 2022), it is required to involve an independent consulting engineer⁴³, who carries out supervision at all stages of procurement, work execution and warranty maintenance. At the same time, in Ukraine, the supervision procedure is defined as “mandatory technical control” as opposed to the European one – “operational suitability testing”.⁴⁴ EU examinations check not only the technical state, but also the appropriateness of design of technical equipment. So far, Ukraine has not made progress in harmonising national legislation with European law in mandatory technical control of technical equipment.

In the road transport sector, there is currently a conflict with Poland regarding permits for international road freight. At the time of signing the Agreement, permit quota was 200 thousand/year. In the past years, it was reduced by the Polish side to 160 thousand/year. This step has negative economic consequences not only for the economies of Ukraine and Poland (lack of permits has an extremely negative impact on the trade turnover in both countries), but also for other EU member states, as Poland is a transit country for routes going to Central and Western Europe.

There is no practical progress in de-monopolisation of *railway* passenger and freight transport sector (this type of transport has the highest cargo turnover, namely, in 2019, its share was almost 54%). Since September 2019, under consideration of the Verkhovna Rada is the bill “On Ukrainian Railway Transport” (reg. No. 1196-1 of 6 September 2019), which provides for the introduction of a new model of the railway services market, which ensures transparency and non-discriminatory access to the infrastructure of all railway transport enterprises, taking into account requirements of EU legislation and further integration of Ukraine’s railway system into the EU. We should introduce new licensing conditions,⁴⁵ safety certification, authorisation of engine drivers.

In line with European standards, at the end of December 2019, a plan of measures was adopted for railway transport reform: restructuring of JSC Ukrzaliznytsia (Ukrainian Railways) and dividing it into three operators: infrastructure, cargo transport and passenger transport services. Despite the complexity of this reform, Government approved a Resolution



“On Implementation of a Pilot Project regarding Admission of Private Locomotives to Operating on Separate Routes of Public Railway Tracks”.⁴⁶ Giving access to private traction operations can solve the issue of traction rolling stock deficit of JSC “Ukrzaliznytsia”, and allow to practice technical and safety features of providing railway infrastructure access for private train formations on public railway network. Project implementation will allow to liberalise the market of railway services.

An important aspect is technical and technological interoperability of Ukrainian and European systems. There are certain “bottlenecks” – incompatibility of European and Ukrainian railroad tracks (1,435 mm and 1,520 mm, respectively), which causes train delays on the border as they change wheel pairs. To form an effective mechanism of conformity assessment of railway systems for implementation of Directive 2008/57/EC on the interoperability of the rail system within the Community, on 3 October 2018, the CMU adopted a Resolution “On approval of conformity assessment modules in railway transport” No 797. Also, there is regular cooperation with the European Union Agency for Railways (*ERA*) on the issues of railway tracks interoperability.⁴⁷

⁴² CMU Resolution “On Implementation of Experimental Project on Capital Repairs of Public Highways” No.192 of 5 February 2020.

⁴³ *FIDIC* – International Federation of Consulting Engineers, which regulates relations between parties of construction projects. For more information, see: Deregulation During Road Repairs. Why Do This and What Result Will It Yield? – Ministry of Infrastructure of Ukraine, 11 February 2020, – <https://mtu.gov.ua/news/31575.html>.

⁴⁴ See: Transport Component of the Association Agreement: State of Implementations and Prospects. December 2019, – https://www.civic-synergy.org.ua/wp-content/uploads/2020/03/Web_Dopovid_Transportna_2020.pdf.

⁴⁵ Draft Licensing conditions for railway transport services (carrier license) in line with Directive 95/18/EC on the licensing of railway undertakings.

⁴⁶ Government approved railway access for private locomotives, – Economic Truth, 4 December 2019, – <https://www.epravda.com.ua/news/2019/12/4/654493>

⁴⁷ Parties created a contact group, which is working on introducing 1,520-mm track data into EU technical specifications on interoperability.

Results of EU-Ukraine cooperation include the long-term loan agreement within the framework of the freight car fleet renewal project signed in the fall of 2018 between JSC Ukrzaliznytsia and EBRD. On 24 May 2018, a new Beskidy railway tunnel was brought into operation (capacity doubled – from 47 to 100 trains per day), which is a part of the pan-European transport network Corridor V (Italy-Slovenia-Hungary-Slovakia-Ukraine), which was implemented with the support of the EBRD and the European Investment Bank.

In the past several years, over 20 railway routes to the EU were launched from Ukraine. From 28 September 2018, the “four-capital” train was launched from Kyiv, going to Riga via Minsk and Vilnius.

Development of *inland water transport* is one of the most promising areas, given its ecological safety and low cost, although the level of cargo transportation by river, despite having risen since 2014 by 21% – from 3,144.8 thousand ton to 3,990.2 thousand ton in 2019, still remains extremely low. In this sector, a bill was registered “On Inland Water Transport” (reg. No 1182-1-d of 17 January 2020), prepared in line with EU standards foreseen in the Agreement, and including implementation norms of EU directives in the area of inland water transport. Integration of inland waterways into the intermodal logistical scheme will allow to strengthen Ukraine’s competitive position, stimulate development of ship-building sector (resulting in creation of 5,000 new workplaces), as well as to decrease the load on roads and rail and lower expenditure on their maintenance and modernisation.⁴⁸

In December 2018, Ministry of Infrastructure of Ukraine signed a memorandum with ministries of 13 countries in the framework of cooperation under EU Strategy for the Danube Region.⁴⁹ There is ongoing work on joining rivers Dnieper, Southern Buh, Danube⁵⁰ to the European network of inland waterways and restoring international waterway *E-40*.

As for **maritime transport**, Order No 747 of 11 October 2017 approved the Strategy for implementation of provisions of EU directives and regulations in the field of international maritime and inland water transport, and approved an action plan for implementation of EU law in this area.

In 2018, Ukraine was audited by the International Maritime Organization and started implementing a corrective action plan.⁵¹ Ukraine needs to harmonise its legislation with international legal framework in maritime safety and technical and operational rules. Currently, Ukraine is blacklisted by the Paris Memorandum of Understanding on Port State Control, which indicates a low level of safety and environmental standards for Ukrainian ships.⁵²

In *air transport*, a draft of Air Transport Strategy of Ukraine 2030 was developed, which is currently under consideration of the Cabinet of Ministers. Its approval and implementation will facilitate Ukraine’s gradual integration into common aviation area. Among key Strategy principles is ensuring environmental safety and energy preservation on civil aviation facilities. Ukraine is taking part in *Carbon Offsetting Scheme for International Aviation (CORSLIA)* aimed at offsetting and reducing CO2 emissions.

One of the most relevant issues for the near future in the transport sector is joining European Common Aviation Area (ECAA). Despite the lack of clarity with the date of signing the ECAA agreement, (as per Article 137 of the Agreement)⁵³, Ukraine operates in accordance with principles enshrined in the Agreement, and is constantly working with representatives of aviation industry of EU member states to establish more liberal conditions for scheduled air service.

In February 2017, an Action plan for preparation for the introduction of common aviation area between Ukraine, the EU and its member states was approved, based on Government Order No 88 of 8 February 2017.⁵⁴ Today, we are actively working on libe-

⁴⁸ It is planned to increase the volume of cargo transportation from the current 12 mln ton/year to 30 mln ton/year by 2030, which will allow to increase budget revenue by UAH 13-16 bn/year. For more information, see: EU supports approval of the Law “On Internal Water Transport” in Ukraine – Ministry of Infrastructure of Ukraine, 27 May 2020, – <https://www.kmu.gov.ua/news/yes-pidtrimuye-shvalennya-zakonu-pro-vnutrishnij-vodnij-transport-v-ukrayini>.

⁴⁹ See: Transport Component of the Association Agreement:: State of Implementations and Prospects. December 2019, – https://www.civic-synergy.org.ua/wp-content/uploads/2020/03/Web_Dopovid_Transportna_2020.pdf.

⁵⁰ One of the target formats of cooperation with the EU are annual minister-level meetings on the development of Danube. Latest, Fourth meeting took place on 3 December 2018 in Brussels, where parties signed “Conclusions on effective waterway infrastructure rehabilitation and maintenance on the Danube and its navigable tributaries”. For more information, see: With Changes to the Better Future: EU Supports Adoption of the Law “On Inland Water Transport” in Ukraine. – European Pravda, 10 June 2020, – <https://www.eurointegration.com.ua/articles/2020/06/10/7110893>.

⁵¹ See: Joint Staff Working Document. Association Implementation Report on Ukraine. – European Commission, 12 December 2019, – https://eeas.europa.eu/sites/eeas/files/swd_2019_433_f1_joint_staff_working_paper_en_v4_p1_1056243.pdf.

⁵² For more information, see: Ukrainian Flag is on Paris MoU Black List for the Third Year in a Row. – Assol. Charitable Organisation, 23 July 2020, <http://assol.org.ua/2020/07/23/flag-ukrainy-tretij-god-nahoditsya-v-chernom-spiske-parizhskogo-memoranduma>.

⁵³ ECAA agreement between Ukraine and the EU has been initialled on 28 November 2013, however, the fact that it has not been signed slows down harmonisation of Ukrainian legislation with requirements in corresponding EU regulations in this sector. Agreement goal is to gradually form a common aviation area between the EU and its member states and Ukraine, based on identical rules on flight safety, aviation safety (in line with EU Regulation No 300/2008 a member state must ensure common basic safety standards for civil aviation), certification, air traffic control, protection of environment, consumer rights, and social norms in aviation industry, etc.

⁵⁴ State Aviation Administration of Ukraine adopted aviation rules based on Regulation No 1178/2011 (on civil aviation aircrew), Regulation (EU) No 139/2014 (on aerodrome certification), Regulation No. 965/2012 (on air operations).

ralising air transport services between Ukraine and EU member states (including Poland, Bulgaria, Greece and Estonia) in the part of lifting restrictions on the number of designated airlines, departure/destination points, and the number of flights. In October 2018, the largest European low-cost airline *Ryanair DAC* launched its operations in Ukraine; measures are being taken to attract low-cost companies *Eurowings* and *EasyJet* to Ukrainian domestic air transport market.

In summer 2016, a *Twinning* project was launched on “Approximation of Legislation of Ukraine in the Fields of Certification of Aerodromes/Airports of Ukraine and Airworthiness of General Aviation Aircraft with the Relevant EU Norms and Standards, and Their Implementation”. Rules for air operations based on relevant EU legislation entered into force on 1 December 2018.

Signing of the ECAA agreement, as noted by President Volodymyr Zelenskyy at the 22nd EU-Ukraine Summit, may take place in 2021, which will become a powerful step in the development of Ukrainian aviation industry, helping reduce bureaucratic barriers in the process of receiving permits for performing air flights, increasing passenger flow, and the number of flights from the EU. In view of *Brexit*, we are waiting for the final text of the agreement with final adjustments on its territorial application (*Gibraltar airport dispute between Great Britain and Spain essentially will not be an issue*).⁵⁵ However, conditions for national airlines defined by corresponding provisions of the ECAA agreement seem discriminatory against national airlines. In particular, European airlines are allowed to fly freely between points in Ukraine, while Ukrainian airlines are restricted to fly between points within any EU member state. After the signing of the ECAA agreement, Ukrainian airlines will find themselves in unequal conditions compared to European ones.

Ukraine is gradually approximating its legislation to EU requirements in **safe transport services**: according to Directive 2008/96/EC road safety must be ensured. Thus, we have approved Strategy for Improving Road Safety in Ukraine 2020 (CMU Order No 481 of 14 June 2017), which was the basis for State Programme for Improving Road Safety in Ukraine 2020 and corresponding action plan (CMU Order No 231 of 28 March 2017). The Law was adopted “On Amendments to Certain Legislative

Acts of Ukraine on Road Safety Management” (of 17 October 2019) regarding mandatory audit of road safety on international and national highways. Auditing international highways will become mandatory from 1 January 2021, national – from 16 November 2021.⁵⁶

In this area, a draft Law was developed “On Amending Certain Legislative Acts of Ukraine on Operating Safety of Wheeled Transport in Line with Requirements of the Association Agreement between the European Union, European Atomic Energy Community and Their Member States, of the one part, and Ukraine, of the other part”.⁵⁷ The bill provides for the introduction of regular inspections of vehicles for operational integrity, which have a direct impact on road safety; introduction of legislative requirements for installation of control devices (speed limit devices, tachographs) on certain categories of vehicles in order to ensure the safety of road users on Ukrainian roads and reduce the level of fatal road accidents. In the past years, the Government has been discussing introduction of European *Common Accident Data Set (CADaS)*, which entails collection and disclosure of information on each case of traffic accidents with victims.⁵⁸

To implement Directive 2008/68/EC on ensuring proper level of safety during transportation of dangerous cargo by road, railroad and river transport, Ukraine developed a bill “On Amending Certain Laws of Ukraine for Their Harmonisation with EU Legislation on Transportation of Dangerous Cargoes” (reg. No 1193-1 of 20 September 2019). Implementation of this Directive also includes commitments under a number of agreements: *ADR* (European Agreement on International Carriage of Dangerous Goods by Road), *RID* (Regulation concerning the International Carriage of Dangerous Goods by Rail) and *ADN* (European Agreement on International Carriage of Dangerous Goods by Inland Waterways). In the framework of implementing the latter, Ukraine joined the working group of the macro-regional EU strategy for the Danube Region, which plans to synchronise their work on the Danube river, systematise control procedures and passage of cargo between participants.

Today it is crucially important to particularly intensify work on approving transport legislation and implementing its norms, as this is a guarantee of access to sources of funding for infrastructural projects. Implementation of European requirements

⁵⁵ Common Aviation Area Agreement with the EU may be signed next year – Zelenskyy. – Ukrinform, 6 October 2020, – <https://www.ukrinform.ua/rubric-politics/3113085-ugodu-pro-spilnij-aviaprostir-z-es-mozut-pidpisati-nastupnogo-roku-zelenskij.html>.

⁵⁶ Road safety audit will be conducted in the feasibility report stage (prior to conducting project expertise for construction of a new motor way), in project preparation or working design stage, after commissioning. For more information, see: Law of Ukraine “On Amendments to Certain Legislative Acts of Ukraine on Road Safety Management” No 200-IX, – <https://zakon.rada.gov.ua/laws/show/200-20>.

⁵⁷ See: Notice of publication of the draft Law of Ukraine. – Ministry of Infrastructure of Ukraine, 25 February 2020, – <https://mtu.gov.ua/news/31620.html>.

⁵⁸ See: Volodymyr Omelian presented State Programme for Improving Road Safety in Ukraine 2020. – Government website, 25 April 2018, – <https://www.kmu.gov.ua/news/volodymyr-omelian-predstaviv-derzhavnu-programu-pidvishennya-rivnya-bezpeki-dorozhnogo-ruhu-v-ukrayini-do-2020-roku>.



will also allow to remove barriers to cross-border movement of goods and passengers, and thus, will become a stimulus for increasing the volume of passenger and cargo transportation services, allowing to attract additional investment in the development and modernisation of existing and building new transport (incl., intellectual) infrastructure. Further cooperation of parties in the framework of the Agreement will facilitate the restructuring and modernisation of Ukraine's transport sector, development of sustainable, efficient, safe and reliable transport system deeply interconnected with other sectors.⁵⁹

3.4 COOPERATION IN THE BANKING SECTOR

The Association Agreement addresses the issues of cooperation between Ukraine and the EU in the banking sector within the general framework of cooperation on “Financial Services” (Sub-section 6). The most important aspect in this cooperation is defined as (Article 127 of the Agreement) achieving efficient and transparent regulation, including based on “ensuring that internationally agreed standards for regulation⁶⁰ and supervision in the financial services sector and for the fight against tax evasion and avoidance are implemented and applied”. Other priorities in this sector include facilitating the introduction of new financial services (Article 128),

regulation of data processing order (Article 129), and the order of using clearing and payment systems that has to be based on the national treatment principle in case the operators of such systems are public entities, as well as guarantees of access to official funding and refinancing facilities available in the normal course of ordinary business (Article 132).

The most extensive obligations captured in the Agreement are in the area of approximation of Ukrainian banking sector legislation (current and future) to EU *acquis* – in line with the schedule defined in Appendix XVII-2 (“Rules applicable to financial services”) of Annex XVII “Regulatory Approximation”. This process in the banking sector (Sub-section A of the Appendix) was intended for two implementation timeframes – 4 and 6 years from the date of entry into force of the Agreement (1 September 2017) (appendix “List of EU Directives, provisions of which must be implemented in Ukrainian legislation governing the banking sector”).

Adaptation of banking legislation means harmonisation of law in the following areas: requirements for access to the taking up and pursuit of the business of credit institutions; relations with third countries; principles of prudential supervision; definition of own funds; provision on availability of sufficient provisions and capital; provisions against risk in accordance with Basel I (4 years) and Basel II (6 years) and corresponding requirements to the capital of banking institutions, as well as the issue of banking supervision and disclosure of information; supervision of credit institutions, regulation of electronic money; deposit insurance system; procedure for bank reporting and report publication; procedure for reorganisation and liquidation of credit institutions.

In general, Ukraine has been moving quite consistently forward in the implementation of relevant regulatory reforms.⁶¹ Although this process has been quite painful and caused almost half of commercial banks to exit the banking market (mostly small and medium-sized), undoubtedly, regulatory adaptation measures in general have facilitated an improvement of the quality of Ukraine's banking system and brought banking mechanisms closer to international and European standards. Nevertheless, the issue of adapting banking legislation to EU law not only remains rele-

⁵⁹ Currently, new vectors of cooperation with European partners are being created: digital sector, environmentally-friendly transport, development of electric mobility in Ukraine, cybersecurity. For example, in the framework of Eastern Partnership, a pilot multimodal digital transport corridor is being developed between the Baltic and the Black Sea, in order to develop a core digital service platform for all supply chain stakeholders. Also, at the EU-Ukraine Summit on 6 October 2020, a guarantee agreement was signed between the Government of Ukraine and the EIB “Logistics Network (Modernisation and Digitisation of Ukrposhta)”, which, among other things, provides for the introduction of IT infrastructure – automatic cargo tracking systems. The total EU contribution for Project implementation is €30 mln.

⁶⁰ According to p.2 of this article, such standards are, inter alia, the Basel Committee's “Core Principle for Effective Banking Supervision”, the OECD's “Agreement on exchange of information on tax matters”, the G20 “Statement on Transparency and exchange of information for tax purposes” and the Financial Action Task Force's (FATF) “Forty Recommendations on Money Laundering” and “Nine Special Recommendations on Terrorist Financing”.

⁶¹ See: Progress Report on Comprehensive Programme of Ukrainian Financial Sector Development until 2020. – National Bank of Ukraine, – <https://bank.gov.ua/ua/about/develop-strategy>.

vant, but has also become extremely current due to changes within the EU itself.

Implementation of Agreement provisions is taking place while the EU is implementing broad measures aimed at completion of Economic and Monetary Union, with the goal of establishing an *EU Banking Union*. This process, initiated back in 2012,⁶² entails introduction of new communitarian mechanisms: **Single Supervisory Mechanism (SSM)**, which is a system of national bank supervisory bodies integrated around ECB that covers not just the euro area, but is open to all EU member states;⁶³ **Single Resolution Mechanism (SRM)**, which has to ensure direct resolution of crises through *Single Resolution Board* and direct recapitalisation of troubled banks via **the Single Resolution Fund (SRF)**, to be financed by the banking sector; **Single Rules and Standards**, including stricter requirements to commercial bank capital, *Deposit Guarantee Scheme Directive* and rules that prevent bank bankruptcy (*Directive on Bank Recovery and Resolution*).

Through a number of official EU documents⁶⁴ adopted after the Agreement was signed, the content of Banking Union project was significantly extended. In particular, the EU initiated introduction of a *general European deposit insurance scheme within the Banking Union framework*, as well as the development of a *joint loan mechanism – “common backstop”* in order to distribute banking risks between member countries. Work on the introduction of **European Deposit Insurance Scheme (EDIS)** was started in the bank deposits sector.⁶⁵ New mechanisms include instruments for problem loan settlement.

From May 2018, measures are being implemented for strengthening the norms of banking sector regulation, including the approved back in 2013 *Capital Requirements Regulation (CRR) and Capital*

Requirements Directive (CRD), and the adopted in 2014 *Bank Recovery and Resolution Directive (BRRD)*, as well as *Single Resolution Mechanism Regulation (SRMR)*.⁶⁶

For Ukraine, such massive transformations in EU banking sector operation create real prospects of a major **institutional gap** and a systemic lag between official Agreement objectives and the real practices of EU's Single Market, which can undoubtedly undermine our single market integration prospects in the part relating to banking sector provisions. More so, as the *programme of approximation of Ukrainian legislation to the EU law captured in Annex XVII, has largely lost its relevance due to EU's own fundamental revision of its key provisions in banking sector regulation*.

Note that in the situation of an increasing gap between the officially captured provisions of bank legislation adaptation programme and the real composition of current legal norms in the EU, Ukraine decided to *unilaterally* account for new EU laws and regulations in its banking sector reform programmes under the Association Agreement.

One of the most important specific instruments of this policy was the Comprehensive Programme of Ukrainian Financial Sector Development until 2020,⁶⁷ which includes measures for implementation of Ukraine's obligations under the Agreement, including new EU legislation in this sector.

Today, there is already a Strategy of Ukrainian Financial Sector Development until 2025,⁶⁸ which contains “The list of acts of EU legislation in the financial services sector to be implemented in the framework of the roadmap for Strategy 2025 implementation in accordance with the EU-Ukraine Association Agreement and other international legal obligations of Ukraine”. Experts note⁶⁹ that the

⁶² A Roadmap towards a Banking Union: Communication to the European Parliament and the Council, COM(2012) 510 final. – European Commission, 12 September 2012, – <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX:52012DC0510>.

⁶³ This mechanism is foremost aimed at early detection of financial issues and imbalances by the *European Banking Authority*, and identification of banks' resilience prior to potential shocks.

⁶⁴ See: Communication from the Commission to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions “Towards the completion of the Banking Union” COM(2015) 587 final. – European Commission, 24 November 2015, – <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015DC0587&from=EN>; Council Conclusions on a roadmap to complete the Banking Union. – Press release 353/16, 17 June 2016, Council of the EU, –<https://www.consilium.europa.eu/en/press/press-releases/2016/06/17/conclusions-on-banking-union/pdf>; A Roadmap towards a Banking Union, Communication from the Commission to the European Parliament and the Council, COM (2012) 510 final. – European Commission, 12 September 2012, – <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52012DC0510&from=EN>; Communication to the European Parliament, the Council, the European Central Bank, the European Economic and Social Committee and the Committee of the Regions on completing the Banking Union, COM(2017) 592 final. – European Commission, 11 October 2017, – http://ec.europa.eu/finance/docs/law/171011-communication-banking-union_en.pdf.

⁶⁵ See: Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) 806/2014 in order to establish a European Deposit Insurance Scheme, COM(2015) 586 final. – European Commission, 24 November 2015, – <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52015PC0586&from=EN>.

⁶⁶ See: European Commission Press-release, 25 May 2018. – European Commission, http://europa.eu/rapid/press-release_IP-18-3941_en.htm.

⁶⁷ Comprehensive Programme of Ukrainian Financial Sector Development until 2020, approved by the Resolution of Board of the National Bank of Ukraine No 391 of 18 June 2015. – National Bank of Ukraine, – https://bank.gov.ua/admin_uploads/article/CP_finsektor_2020_2015-06-18.pdf?v=4.

⁶⁸ Strategy of Ukrainian Financial Sector Development until 2025, – National Bank of Ukraine, – <https://bank.gov.ua/ua/about/develop-strategy>.

⁶⁹ Project “Civic Synergy”. Integration within Association: Implementation Dynamics of the EU-Ukraine Agreement. Analytical Report, December 2019, p.13, 36, – https://www.civic-synergy.org.ua/wp-content/uploads/2018/04/Integration-within-Association_Implementation-Dynamics-of-the-EU-Ukraine-Agreement-3rd-edition_web.pdf.



combination of these acts can create the basis for obtaining access to the EU's internal market.

In this context, we have a new task – revision of the entire Annex XVII to the Agreement, which must be brought in harmony with the existing realities of the EU legal system. The ultimate goal is to conduct negotiations *on Ukraine's potential participation in separate mechanisms implemented in the framework of EU Banking Union*, documenting this participation in a similar way as applied to *European Economic Area* participants.

This step looks desirable not only in the context of creating preconditions for more effective EU-Ukraine cooperation in the financial sector, but also given the fact that Ukraine is adopting new approaches to further recovery of its banking system and increasing its ability to finance large investment projects and structural transformations in Ukrainian economy.

3.5. ENVIRONMENTAL DIMENSION OF EUROPEAN INTEGRATION

Increasingly more countries are paying attention to environmental protection and gradual greening of all sectors of economic activity.⁷⁰ Greening the economy is also acquiring special significance in the context of integrating Ukrainian economy into European, as Europe is creating new approaches to organisation of environmentally-oriented cooperation.

Under the Association Agreement, Ukraine has a number of commitments in the field of ecology and environmental protection,⁷¹ however, according to online monitoring system Agreement Pulse, the level of implementation of tasks set by the Agreement in “Natural environment and civil protection” in the six months of 2020 was only 19% (in 2019 – 28%, in 2018 – 50%, in 2017 – 72%, in 2016 – 53%).⁷² Sectors with the lowest level of implementation: regulation of industrial pollution and maintaining air cleanliness.

Greening of Legislation under the Association Agreement

The starting point is the greening of legislative framework – formation of legislative and regulatory basis that helps solve environmental problems and takes into account environmental consequences for the state and the population of the adoption and implementation of corresponding documents. Taking into account Agreement requirements, over the past several years Ukraine has intensified its actions and adopted a number of legislative acts:

- Law “On Amendments to Certain Legislative Acts of Ukraine on Implementation of Integrated Approaches to Water Resources Management Based on Basin Principle” of 4 October 2016, which introduces a legal framework for integrated water resources management based on the basin principle in line with the Water Framework Directive 2000/60/EC;
- Law “On Environmental Impact Assessment” of 23 May 2017, which accounts for requirements in Directive 2011/92/EU on the assessment of the effects of certain public and private projects on the environment;
- Law “On Strategic Ecological Assessment” of 20 March 2018, which implements requirements in Directive 2001/42/EC on the assessment of the effects of certain plans and programmes on the environment;
- Law “On Basic Principles (Strategy) of State Environmental Policy of Ukraine 2030” of 28 February 2019, which determines key strategic objectives of state environmental policy taking into account Agreement requirements, stages of its implementation and the expected results;

⁷⁰ Greening means taking into account the environmental component in the development and functioning of various components of the country's economy, which results in reducing the burden on the environment (including reducing CO2 emissions), conservation and reproduction of natural resources, modernisation of industrial production and widespread use of clean technologies, increasing “green” investment in a number of economic sectors and areas of activity.

⁷¹ According to Annex XXX to Chapter 6 “Environment” of Title V “Economic and Sector Cooperation” of the Agreement, Ukraine has an obligation to approximate its legislation to 26 EU directives and three regulations in sectors connected with integration of environment into other policy areas, environmental governance, waste and resources, water quality, industrial pollution issues, climate change, etc.

⁷² Overall progress of implementation in this area from 1 November 2014 is 47%. For more information, see: Natural environment and civil protection. – Agreement Pulse. Monitoring of the implementation plan of the Agreement, – <http://pulse.eu-ua.org/ua/streams/environment>.

- Law “On Monitoring, Reporting and Verification of Greenhouse Gas Emissions” of 19 December 2019, developed to implement certain provisions of Directive 2003/87/EC establishing a scheme for greenhouse gas emission allowance trading;
- Law “On Regulation of Economic Activity with Ozone Depleting Substances and Fluorinated Greenhouse Gases” of 12 December 2019;
- CMU Resolution “On Approval of the Procedure for State Water Monitoring” No 758 of 19 September 2018 aimed at implementing certain provisions of the Water Framework Directive 2000/60/EC (from 1 January 2019, EU standards for water monitoring apply) and others.

Based on principles of environmental sustainability and responsibility to future generations, **circular economy**⁷³ is gaining popularity, replacing the traditional “linear” economy. Under the Agreement, Ukraine has committed itself to harmonising national legislation with European legislation in the direction of circular economy.

This drove the adoption of Ukraine’s National Waste Management Strategy 2030 on 8 November 2017. And on 20 February 2019, Government approved the National Waste Management Plan, which defined practical measures that meet EU standards.

In the draft of Concept for Ukraine’s “Green” Energy Transition by 2050 presented on 21 January 2020, transition to a circular economy and waste reduction, and their rational use – are among key indicators. Adoption of the draft Law “On Waste Management”⁷⁴ of 21 July 2020 in the first reading was an extremely important step in this direction. Its further approval is relevant in view of Ukraine’s commitment to implement provisions of Directive 2008/98/EC of the European Parliament and of the Council of 19 November 2008 “On waste and repealing certain Directives” in the national law.

Ukraine also approved the Concept of Implementation of State Policy on Industrial Pollution (CMU Order No 402 of 22 May 2019), which can implement

provisions of Directive 2010/75/EU on industrial emissions (integrated pollution prevention and control) of 24 November 2010, which will allow to control emissions into air, water and soil, ensure use of “clean” technologies and management methods by business entities.

European Green Deal and Challenges for Ukraine

The European Green Deal is an initiative that calls for decisive and comprehensive action to protect the environment and combat climate change, and is a priority that today sets the strategy for the coming decades, not only for the EU but also for neighbouring countries. Based on statements of representatives of executive and legislative branches of power, Ukraine intends to join this initiative and become EU’s partner in achieving its goals. Thus, we have developed the Concept for Ukraine’s “Green” Energy Transition by 2050 (“*Ukraine Green Deal*”), which aims to reduce the volume of greenhouse gas (GHG) emissions to the degree that will ensure Ukraine’s transition to climate-neutral economy in 2070 in a socially acceptable way. CMU Order of 24 January 2020 created an Interdepartmental working group on coordination of work for overcoming climate change effects under EC initiative “European Green Deal”.⁷⁵

The EU has identified Ukraine as a priority partner in the implementation of the *EU Hydrogen Strategy* and the supply of hydrogen to the European market⁷⁶ (the EU has confirmed its readiness to financially support the creation of an internal hydrogen market in Ukraine⁷⁷). By 2030, Ukraine can produce up to 10 GW of hydrogen capacity (out of 40 GW defined by the Strategy) via electrolysis⁷⁸ and become its main producer on the European continent.

However, we need to pay attention to two aspects: availability of infrastructure and safety issues. As for transportation of gas mixture with hydrogen content, Ukrainian GTS can be used at 25%,⁷⁹ yet the issue of safety during transportation remains open: hydrogen is an extremely explosive gas. Also, producing

⁷³ Circular economy is based on the *3R* principle: *reduce* (the use of resources), *reuse* (most efficient use of products), *recycle* (recovery of by-products and waste for further use). The concept gained widespread popularity after its publication in 2012 report “*Towards the Circular Economy*”, prepared by the Ellen MacArthur Foundation.

⁷⁴ The main goal is to improve waste management system, define legal, organisational, economic principles and control mechanisms to ensure comprehensive protection of people’s health and environment by implementing measures to prevent or reduce waste generation, reduce the negative effects of waste management, help prepare it for recycling and recovery as secondary raw materials and energy resources.

⁷⁵ For more information, see: Markevych K. The “Green” Trend in Modern Structural Changes in European Economy: Details of Implementation and Challenges for Ukraine. – Ukrainian Yearbook of European Integration Studies. Issue V. Ukrainian Association of Professors and Researchers of European Integration, 2020, p.108-126, - <http://yearlybook-aprei.com.ua/wp-content/uploads/2020/11/Ukrayinskyj-SHHorichnyk-z-YEvropejskyh-Integracijnyh-Studij-Vypusk-V.-2020-r..pdf>.

⁷⁶ This allowed Ukrainian GTS operator to join the *European Clean Hydrogen Alliance* in August 2020, which will facilitate the exchange of information and expansion of cooperation in production, transportation and further consumption of hydrogen.

⁷⁷ See: Riepin O. “It’s Better You Come to Us”: Will Ukraine Become a Raw Material Appendage for European Energy Sector. – Mind, 17 July 2020, - <https://mind.ua/openmind/20213391-vzhe-krashche-vi-do-nas-chi-stane-ukrayina-sirovinnim-pridatkom-evropejskoyi-energetiki>.

⁷⁸ Process of using electricity to split water into hydrogen and oxygen.

⁷⁹ For more information, see: Hydrogen for transport, heating and lighting. – Notice of the NAS of Ukraine, 14 June 2019, - <http://www.nas.gov.ua/UA/Messages/Pages/View.aspx?MessageID=5164>.

hydrogen without GHG emissions is expensive. "Green" hydrogen, when using renewable energy sources (RES) for electrolysis, accounts for only 4% of world production, the rest comes from natural gas (48%), oil (30%) and coal (18%),⁸⁰ however, it could help solve the problem of electricity surplus in Ukraine. The price of electrolyzers will play a decisive role: according to International Energy Agency, their cost will be halved by 2040.⁸¹

In order to avoid "environmental dumping"⁸² in the process of trade liberalisation, the EU is introducing a *Carbon border adjustment mechanism* in the framework of its Green Deal, which will apply to imports of certain energy and carbon-intensive goods coming from outside the EU.⁸³ For Ukraine, this mechanism may become an obstacle on the way to further increasing the volume of exports to Europe and their diversification. The mechanism itself aims to stimulate manufacturers to lower their CO₂ emissions, as the price of goods will be immediately raised when crossing the European border. By preliminary calculations,⁸⁴ additional expenses for Ukrainian companies in case of EU exports may increase by almost €600 mln/year. This may be avoided if we adopt and implement European climate standards and carry out an industrial modernisation.

At the moment, Ukraine remains one of the most carbon-intensive economies among the EU countries (table "Carbon Intensity of GDP"⁸⁵) due to: (a) lack of progress in transition from low value-added energy-intensive production to high-tech; (b) slow implementation of "clean" technologies and energy saving measures, in particular in the manufacturing sector; (c) still insignificant, compared to the EU, capacities operating on RES.

Also, Ukraine lacks progress in weakening the link between economic growth and increasing CO₂ emissions (*eco-economic decoupling concept*) (diagram "*Interconnection between GDP and CO₂ emissions in Ukraine*"⁸⁶), despite the fact that alongside a decrease of Ukraine's total GDP in 2019 to the level of 1990 – by 34%, the total volume of CO₂ emissions reduced by 70%.

Due to the inadequate technical condition of fixed assets (in 2019, the degree of depreciation of fixed assets at industrial enterprises was 59.1%⁸⁷), Ukraine remains a CO₂ producer. Although the volume of CO₂ emissions decreased in the past decade by 32% (in 2019, their volume was 185.4 mln CO₂) compared to 2009 (271.5 mln CO₂), this is less due to introduction of energy efficient measures and transition to RES in the manufacturing sector, and more – due to structural changes in the economy. Energy-intensive industries started being partially replaced by the services sector and agriculture, while at the same time a slowdown of GDP growth was observed due to military aggression in the East of the country, where in some years there was a sharp decline (in 2014 – by about 7%, and in 2015 – by more than 10%).⁸⁸

On 23 September 2020, the Government approved the bill "On Prevention, Reduction and Control of Industrial Pollution",⁸⁹ developed by the relevant ministry with the goal of implementing provisions in Directive 2010/75/EC on industrial emissions (integrated pollution prevention and control).

The main idea is to introduce an integrated permit for large enterprises, which are top polluters of the environment.⁹⁰ This permit will set requirements for the amount of pollution and the necessary measures

⁸⁰ For more information, see: Future Possibilities Report 2020. – United Nations and Government of United Arab Emirates, 2020. p. 38, – https://www.un.org/sites/un2.un.org/files/20200720_un75_uae_futurepossibilitiesreport.pdf.

⁸¹ See: Shin J. What is Green Hydrogen? – Earth ORG, 17 September 2020, – <https://earth.org/green-hydrogen>.

⁸² Countries consistently lower their environmental standards in order to gain comparative advantage over competitors in trade or foreign capital attraction.

⁸³ Calculation methods have not been determined yet, but it is possible this will depend on the volume of CO₂ emissions during production. For more information, see: The European Green Deal. – Communication from the Commission to the European Parliament, the European Council, the Council, the European Economic and Social Committee and the Committee of the Regions, European Commission, 22 December 2019, https://ec.europa.eu/info/sites/info/files/european-green-deal-communication_en.pdf.

⁸⁴ See: Riabchyn O. European Green Deal and Ukraine: Are We at the Table or On the Menu? – NV, 15 October 2020, – <https://nv.ua/ukr/opinion/ukrajina-ekologiya-shcho-take-yevropeyskiy-zeleniy-kurs-novini-ukrajini-50117932.html>.

⁸⁵ Based on: CO₂ Emissions from Fuel Combustion 2019 Highlights. – International Energy Agency, <https://webstore.iea.org/co2-emissions-from-fuel-combustion-2019-highlights>.

⁸⁶ Based on: GDP growth (annual %) – Ukraine. The World Bank, – <https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG?locations=EU>; CO₂ emissions. – Our World in Data, <https://ourworldindata.org/co2-emissions#global-co2-emissions>.

⁸⁷ Source: Availability and movement of physical assets by the type of economic activity in 2019. – Official website of the State Statistics Service of Ukraine, – <http://ukrstat.gov.ua>.

⁸⁸ For more information, see: "Green" Investment in Sustainable Development: Global Experience and Ukrainian Context. Analytical Report – Razumkov Centre, 2019, p. 58, – http://razumkov.org.ua/uploads/article/2019_ZELIN_INVEST.pdf.

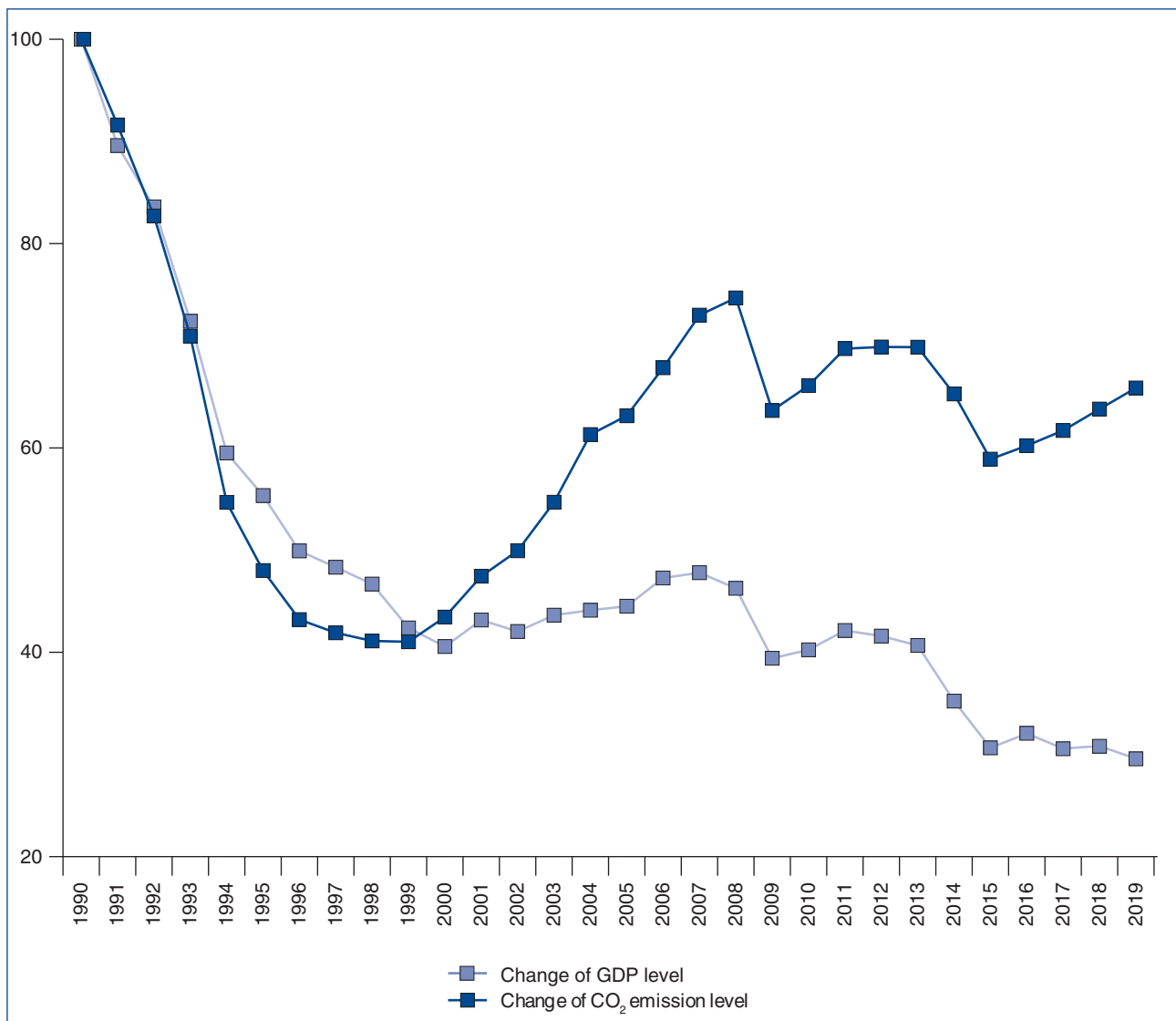
⁸⁹ Adoption of legislation in this area should have happened back in 2019 as indicated in the Agreement Pulse. For more information, see: Government approved the bill "On Prevention, Reduction and Control of Industrial Pollution". – Government website, 23 September 2020, – <https://www.kmu.gov.ua/news/uryad-shvaliv-zakonoproekt-pro-zapobigannya-zmenshennya-ta-kontrol-promislovogo-zabrudnennya>.

Businesses will be required to monitor emissions and report annually on compliance with integrated permit conditions. In case of violation of the conditions, the permit may be revoked, which will result in cessation of enterprise operation until it complies with legal requirements of the state.

Carbon Intensity of GDP
(CO₂/GDP (in purchasing power parity (PPP)))

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
EU	0.22	0.22	0.21	0.21	0.20	0.20	0.19	0.18	0.18	0.17	0.17
France	0.13	0.13	0.13	0.13	0.12	0.12	0.12	0.11	0.11	0.11	0.11
Malta	0.32	0.31	0.30	0.30	0.29	0.30	0.25	0.23	0.15	0.11	0.12
Austria	0.18	0.17	0.16	0.18	0.17	0.16	0.16	0.15	0.15	0.15	0.15
Germany	0.22	0.22	0.22	0.22	0.21	0.21	0.21	0.20	0.20	0.19	0.19
Hungary	0.38	0.37	0.36	0.36	0.35	0.33	0.30	0.29	0.30	0.30	0.30
Czech Republic	0.59	0.55	0.54	0.54	0.52	0.50	0.49	0.46	0.44	0.44	0.42
Poland	0.71	0.67	0.64	0.63	0.64	0.60	0.58	0.56	0.52	0.51	0.51
Ukraine	2.04	1.92	1.91	1.96	1.95	1.91	1.85	1.74	1.55	1.59	1.35

Interconnection between GDP and CO₂ Emissions in Ukraine (1990=100)



to reduce the impact of such enterprises on the environment. Obtaining such a permit will be mandatory for major polluters. The innovations will require businesses to change their approaches to industrial process management (application of latest management approaches and environmental technologies), which will bring the country closer to indicators of Sustainable Development Goals (a UN Programme).

Ukraine, *inter alia*, has committed itself to implement Directive 2003/87/EC establishing a scheme for GHG emission allowance trading, which aims to gradually reduce emissions from enterprises.⁹¹ The Directive entails launching a system of monitoring, reporting and verification of GHG emissions and the launch of an ETS (Emission Trading System). While in the first case, corresponding legislation has already been adopted, the introduction of ETS is being delayed, which increases risks that carbon border adjustment mechanism will be applied to Ukrainian products. Because by-laws and regulations envisioned in the Law “On Monitoring, Reporting and Verification of Greenhouse Gas Emissions” have not been adopted, this document will not be enforced from January 2021.

Ukraine in EU Organic Product Markets

Article 404 of the Agreement defines parties' commitment to ensure “promoting modern and sustainable agricultural production,⁹² respectful of the environment and of animal welfare, including extension of the use of organic production methods and the use of biotechnologies, *inter alia* through the implementation of best practices in those fields.”⁹³ Thus, Ukraine has committed itself to the gradual approximation of domestic legislation to regulations⁹⁴ related to organic farming. One of the main laws in this area is the Law “On Basic Principles and Requirements for Organic Production, Circulation

and Labelling of Organic Products”, which entered into force on 2 August 2019.

Since 2014, Ukraine has been taking confident steps towards entering European economic area, trying to strengthen its own position in the EU. Namely, the country became an important supplier of organic products to the EU market, having used advantaged provided by the Agreement (products have “zero” rates and no quotas, while prices are usually on the average 30% higher than those for their non-organic analogues).⁹⁵ This segment includes Ukrainian companies working in production of concentrated juices, freeze-dried, fresh and frozen fruit, growing and sales of cereals. According to Reform Support Team at the Ministry of Agrarian Policy, in 2018, Ukraine had 635 organic market operators, out of them 501 – agricultural producers.⁹⁶

In the rating of exporters of these products to the EU in 2019, Ukraine was 2nd among 123 countries (in 2018 – 4th among 115 countries).⁹⁷ Its share was 337.86 thousand ton products – 10.4% of total imports – which is 27.1% more, compared to 2018.⁹⁸ In EU imports of organic cereal crops (except rice and wheat), Ukraine's share is 76.9%; wheat – 31.8%, organic oilseeds other than soya – 18.2%; soybean – 13%, fruit – 11%, fruit juices – 5.2%, vegetables (fresh, chilled, dried) – 4.4%. Main importers of Ukrainian organic products are the Netherlands, Germany, Italy, Austria, Poland, Belgium, Czech Republic, Bulgaria and Hungary.⁹⁹

Financial Aspects of Greening

Implementation of EU climate policy provisions requires significant additional funding. New programmes on environment support and climate action, announced in October 2020 during the 22nd EU-Ukraine Summit, can help address environmental

⁹¹ All facilities that perform any type of activity (work in the energy sector, production and processing of iron and steel, mining, production of wood, paper and cardboard) and produce GHG in the process of such work must have permits issued by competent authorities. For more information, see: Directive 2003/87/EC: why ETS operation is impossible without a proper MRV system. – Ecobusiness Group, 7 August 2020, – <https://ecolog-ua.com/news/dyrektyva-200387yes-chomu-funkcionuvannya-stv-nemozhlyve-bez-nalezhnoyi-systemy-mzv>.

⁹² Currently, agriculture provides 10% of the country's GDP.

⁹³ See: Association Agreement between the European Union and the European Atomic Energy Community and their Member States, of the one part, and Ukraine, of the other part, – [https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0529\(01\)&from=EN](https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:22014A0529(01)&from=EN).

⁹⁴ Council Regulation (EC) No 834/2007 of 28 June 2007 on organic production and labelling of organic products; Commission Regulation (EC) No 889/2008 of 5 September 2008 laying down detailed rules for the implementation of Council Regulation (EC) No 834/2007 on organic production, labelling and control; Commission Regulation (EC) No 1235/2008 of 8 December 2008 as regards the arrangements for imports of organic products from third countries.

⁹⁵ See: “Green” Investment in Sustainable Development: Global Experience and Ukrainian Context. Analytical report. – Razumkov Centre, 2019, p.58, – http://razumkov.org.ua/uploads/article/2019_ZELEN_INVEST.pdf.

⁹⁶ For more information, see: Organic Production in Ukraine. – Information and Analytics Portal of the Ukrainian Agro-Industrial Complex, 21 August 2020, – <https://agro.me.gov.ua/ua/napryamki/organichne-virobnictvo/organichne-virobnictvo-v-ukrayini>.

⁹⁷ From October 2017, *Certificate of Inspection*, which tracks each consignment of goods coming into the EU, became electronic. This allowed to track imports of organic products from third countries and create a database of imports of such products.

⁹⁸ Source: EU imports of organic agri-food products. Key developments in 2019. – EU Agricultural Market Briefs №17, June 2020, – https://ec.europa.eu/info/sites/info/files/food-farming-fisheries/farming/documents/market-brief-organic-imports-june2020_en.pdf.

⁹⁹ Overall, in 2019, the EU has imported 3.24 mln ton organic agri-food products – only 2% of total imports of agri-food products to the EU.

issues. Namely, an agreement has been signed on funding of “Climate package for a sustainable economy: (CASE) in Ukraine”, which entails: development and implementation of a policy of transition to climate-neutral, clean, resource-efficient and safe energy supply and consumption; support for climate change mitigation through reducing emissions of GHG and ozone-depleting substances; stimulating transition to a circular economy. EU’s total contribution under the agreement is €10 mln.¹⁰⁰

Greening requires state support. However, declaring its aspirations to join the European Green Deal, the Government resorted to ambiguous decisions: during adjustment of State Budget 2020 in April of this year, a part of environment funds has been redirected to coal sector: expenditure on environmental issues was reduced by UAH 876 million (air monitoring, environmental protection measures, etc.), while the budget for restructuring of coal industry was increased by UAH 1.6 billion – up to UAH 3.56 billion. Also, draft State Budget 2021 does not provide for sufficient funding of environmental protection measures, but the total support for the coal industry has increased to UAH 4.5 billion.¹⁰¹

Illogical seems the statement of the Ministry of Strategic Industries of Ukraine on the need to postpone the implementation of environmental commitments under the Agreement, justified by the multi-billion-dollar cost of modernising the chemical, metallurgical and mining industries.¹⁰² Thus, on the one hand, implementation of norms requires additional amounts of rather risky investments¹⁰³ in measures aimed at reducing industrial pollution and improving air quality. But on the other – losses of domestic businesses in Western markets due to unwillingness to modernise production processes will be much greater.

In addition to budget issues, there is a question of efficiency of use of environmental tax revenue.

Despite the fact that from 1 January 2019, the rate of environmental tax on CO₂ emissions increased 24.4 times – from 0.41 UAH/t to 10 UAH/t, distribution of revenues is irrational.¹⁰⁴ Ecotax should serve as a financial tool to encourage companies to modernise and support environmental measures.¹⁰⁵ Currently, corresponding committees are considering bills No 3543-1, No 3631, No 3632, which provide for changes in reforming the mechanism of environmental tax collection and use.¹⁰⁶

In line with Article 293 of the Agreement, Parties shall strive to facilitate and promote the use of sustainable renewable energy sources. However, at the moment, supporting RES electricity producers in Ukraine is not cheap.

Effective greening of the economy is impossible in the absence of a unified state policy and with inadequate institutional support at the state and local levels, as well as in the presence of attempts to transfer the burden of funding production greening processes to business without introducing state economic mechanisms to stimulate greening.

Joining the European green deal is, on the one hand, an opportunity to strengthen and diversify decarbonisation in various sectors of Ukraine’s economy, an incentive for Ukraine to develop mutually beneficial contacts with the EU, able to unlock the potential of Ukrainian economy, and on the other – a step that requires Ukraine to implement European climate standards and national businesses – to undergo certification of production. Here, the state needs to take care of introducing support programmes for greening processes, and business – of technological modernisation. Introduction of an ecosystem approach in the management of Ukrainian enterprises is crucial.

¹⁰⁰ Source: Joint statement following the 22nd EU-Ukraine Summit. – President of Ukraine. – Official website of the President of Ukraine, 6 October 2020, – <https://www.president.gov.ua/news/spilna-zayava-za-pidsumkami-22-go-samitu-ukrayina-yes-64321>.

¹⁰¹ For more information, see: Draft Law “On the State Budget of Ukraine 2021” (reg. No 4000 of 14 September 2020), – https://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=69938.

¹⁰² Namely, modernisation of glass industry companies can cost \$185 million of investment. For more information, see: Ministry of Industrial Policy wants to change the Association Agreement with the EU. – Economic Truth, 7 December 2020, – <https://www.epravda.com.ua/news/2020/09/7/664813>.

¹⁰³ In the survey of managers of various ranks at Ukrainian enterprises, conducted by the Razumkov Centre in the framework of project “Green” Investment in Sustainable Development: Global Experience and Ukrainian Context, 51.3% of respondents said that real-life implementation of environmental business projects is rather slow and difficult, given the extremely high cost of “green” investments and limited availability of long-term loan resources, as well as the long payback period of such investments and the risk of non-repayment (42.5% of respondents). At the moment, in the midst of economic instability, any company that has free financial resources that can be used on environmental goals, will be cautious about investing its savings.

¹⁰⁴ For more information, see: Ecotax: features of calculation, payment and filling out the declaration for the II quarter. – Visnyk. Officially About Taxes, 17 July 2019, – <http://www.visnuk.com.ua/uk/news/100013413-ekologichnyy-podatok-osoblivosti-obchislennya-splati-ta-zapovnennya-deklaratsiyi-za-ii-kvartal-1>.

¹⁰⁵ The amount of money spent in 2019 on “implementation of environmental measures” was UAH 481 million – only 12.4% of the total tax revenue.

¹⁰⁶ Namely: (1) directing the tax revenue to the special fund in the State Budget, which will be used exclusively for environmental protection measures; (2) compensation of enterprises’ expenses on eco-modernisation and environmental protection measures up to 70%, which will help improve local situation; (3) a gradual increase of ecotax rates, except for the CO₂ and waste disposal tax, by 20% gradually over several years, starting in 2021, etc.

List of EU Directives, provisions of which must be implemented in Ukrainian legislation governing the banking sector

Before 1 September 2021

- Council Directive 86/635/EEC of 8 December 1986 on the annual accounts and consolidated accounts of banks and other financial institutions.
- Council Directive 89/117/EEC of 13 February 1989 on the obligations of branches established in a Member State of credit institutions and financial institutions having their head offices outside that Member State regarding the publication of annual accounting documents.
- Directive 94/19/EC of the European Parliament and of the Council of 30 May 1994 on deposit-guarantee schemes.
- Directive 2001/24/EC of the European Parliament and of the Council of 4 April 2001 on the reorganisation and winding up of credit institutions.
- Directive 2001/65/EC of the European Parliament and of the Council of 27 September 2001 amending Directives 78/660/EEC, 83/349/EEC and 86/635/EEC as regards the valuation rules for the annual and consolidated accounts of certain types of companies as well as of banks and other financial institutions.
- Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council.
- Directive 2003/51/EC of the European Parliament and of the Council of 18 June 2003 amending Directives 78/660/EEC, 83/349/EEC, 86/635/EEC and 91/674/EEC on the annual and consolidated accounts of certain types of companies, banks and other financial institutions and insurance undertakings.
- Directive 2006/46/EC of the European Parliament and of the Council of 14 June 2006 amending Council Directives 78/660/EEC on the annual accounts of certain types of companies, 83/349/EEC on consolidated accounts, 86/635/EEC on the annual accounts and consolidated accounts of banks and other financial institutions and 91/674/EEC on the annual accounts and consolidated accounts of insurance undertakings.
- Directive 2006/48/EC of the European Parliament and of the Council of 14 June 2006 relating to the taking up and pursuit of the business of credit institutions (recast), which regulates: requirements for access to the taking up and pursuit of the business of credit institutions; relations with third countries; principles of prudential supervision; definition of own funds; provisions on availability of sufficient reserves and capital; reserves in case of emergencies in line with Basel I and corresponding capital requirements of credit institutions, as well as issues of bank supervision and disclosure of information.
- Directive 2006/49/EC of the European Parliament and of the Council of 14 June 2006 on the capital adequacy of investment firms and credit institutions (recast), which regulates: initial capital; definition of commodity portfolio; own funds; adjustments/reserves in line with Basel I.
- Commission Directive 2007/18/EC of 27 March 2007 amending Directive 2006/48/EC as regards the exclusion or inclusion of certain institutions from its scope of application and the treatment of exposures to multilateral development banks.
- Directive 2009/110/EC of the European Parliament and of the Council of 16 September 2009 on the taking up, pursuit and prudential supervision of the business of electronic money institutions.

Before 1 September 2023

- Other provisions of Directive 2006/48/EC, in line with Basel II, particularly concerning the following: capital requirements for credit risk; capital requirements for operational risk; capital requirements for position loss risk, calculation risk, counterparty risk, foreign currency and commodity risk; application of order for banking supervision process and requirements for information disclosure.
- Other provisions of Directive 2006/49/EC on capital adequacy of investment firms and credit institutions.
- Directive 2007/44/EC of the European Parliament and of the Council of 5 September 2007 amending Council Directive 92/49/EEC and Directives 2002/83/EC, 2004/39/EC, 2005/68/EC and 2006/48/EC as regards procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of holdings in the financial sector.

4. CONCLUSIONS AND PROPOSALS

Sectoral integration is a multipronged process, which calls for systemic measures coordinated with internal reforms in various areas and requires identification of priority areas of cooperation with the EU, which would become drivers of the country's accelerated socio-economic development and its economic modernisation. Therefore, this study focuses on some priority areas that largely determine the pace and specifics of progress towards the EU in general.

This section outlines some features and trends of Ukraine's European integration, summarises problems and threats on the European path, and explores "bottlenecks" of Brussels-Kyiv cooperation.

The section further includes a set of proposals and recommendations aimed at intensifying and deepening EU-Ukraine cooperation in general and in specific areas. The authors suggest steps in the political and legal sphere to strengthen the institutional support of European integration and offer recommendations for deepening cooperation in the economic sphere, taking into account the growing relevance of digital market, as well as new realities and challenges, including associated with the global pandemic.

Proposed measures are aimed at improving the cooperation efficiency in energy and transport sectors. In turn, it is important to develop contacts and coordinate efforts in the environmental sphere in view of Europe's "green course", which is becoming a priority component of Ukraine's European integration.

4.1. MOVEMENT TOWARDS THE EU: SPECIFICS, LIMITATIONS, CHALLENGES

When describing the state of affairs and trends in Brussels-Kyiv relations, it should be admitted that the current Ukrainian government, while continuing the European integration course, tried to deepen partnership with the EU and move forward with the implementation of the Association Agreement tasks. In general, there is enough evidence of certain achievements and effective actions. Of particular importance are consistency and predictability of European integration policy along with attempts to maintain positive trends in partnership with the European Union and preserve political and diplomatic solidarity and economic support in the face of Russian aggression.

European integration efforts can be credited with the intensity of political dialogue, especially in the framework of the 21st and 22nd EU-Ukraine summits, steps to deepen sectoral integration with the EU, progress in securing negotiations on the "industrial visa-free regime" (ACAA), introduction of a number of European standards that increase the transparency of the gas market, etc.

At the same time, it is distressing that Ukraine's European integration is being slowed down and hampered by a set of dangerous internal and external factors. Against the backdrop of problems linked to

the government's European integration policy and poor efficiency of public administration in general, Ukraine's chronic problems with the fight against corruption have aggravated recently. Moreover, controversial structural and personnel "innovations", lack of strategic vision, permanent conflicts within the ruling team and serious confrontations between major political forces that share European values and support Ukraine's westward movement, have had an adverse effect on EU-Ukraine relations. Another obvious problem is that the European integration course has not yet been effectively converted into positive and tangible socio-economic changes for citizens.

In the meantime, Ukraine's movement to the EU is restricted by external factors, such as difficult processes within the EU, ongoing Russian hybrid aggression, outbreak of the global COVID-19 pandemic and many more.

In general, this "blend" of problems and challenges affects the atmosphere, state and prospects of Brussels-Kyiv relations, also weakening the European idea inside the country. But it is also obvious that the pace and outcomes of Ukraine's European integration in general, and the process of further implementation and updating of the Association Agreement in particular largely depend on Ukraine's ability to address domestic problems.

Outlining the prospects of Ukraine's European integration, it should be admitted that dramatic

“breakthroughs” in relations between Kyiv and Brussels are unlikely in the near future. The complicated process of the Association Agreement implementation will continue.

Therefore, the tactical priorities of the EU-Ukraine agenda will include a) initiating negotiations on updating the Agreement to liberalise mutual trade, deepen sectoral integration, in particular in the areas of electronic communications, technical regulation, entrepreneurship, trade in services, environment, etc.; b) signing of the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA), which is critical for Kyiv. This “industrial visa-free regime” will facilitate access to the EU internal market for Ukrainian producers; c) deepening cooperation in key areas of sectoral integration; d) concluding an agreement on the Common Aviation Area; e) adopting an agreement on mutual recognition of electronic identification and trust services between Ukraine and the EU, etc.

At the same time, new threats and challenges make adjustments to the priorities of the Brussels-Kyiv partnership. For example, the fight against COVID-19 entails expanding cooperation in healthcare and pharmaceuticals, intensifying the introduction of new contactless technologies, strengthening cooperation in business and employment sectors.

4.2. TRENDS AND PROBLEMS IN SOME SPHERES OF EUROPEAN INTEGRATION

Economic cooperation

Practical implementation of the Association Agreement in 2015-2020 revealed a very insignificant impact of European integration measures on the acceleration of technological progress in the Ukrainian economy, which instead shows a structural drift towards simplification and primitivisation, or simply deindustrialization. The ongoing reforms in many sectors, including industry, medicine, science and education, have so far moved towards the demolition of previously created structures rather than led to formation of new development potential.

The Achilles heel of Ukraine's European integration course is its mostly business-level interaction. As a result, the depth of the integration process remains minimal. Ukrainian companies are not entering European value chains, which leads to industry's decline. Moreover, centrally set policy guidelines lack clear links to the interests and programmes of market players.

In the process of structural reforms, Ukraine lacks technical assistance and financial resources necessary to create infrastructure and investment. They are clearly inconsistent with the magnitude of transformation problems that Ukraine faces in sectoral integration into the EU.

Unlike the EU practice, Ukraine's existing mechanisms to support reforms are insufficient to effectively address the growing issues of sectoral integration. EU-Ukraine bilateral relations still lack mechanisms to promote structural reforms and effective sectoral development, including investment and implementation of economic development programmes.

Contrary to many sceptical expectations, the Free Trade Area (FTA) established between the European Union and Ukraine did not inhibit Ukrainian production but failed to become a systemic factor for facilitating the development of most sectors of the Ukrainian economy, improving its structure, increasing its competitiveness and diversifying economic activity. This calls for reviewing some trade policy emphases in Ukraine's relations with the EU.

In the context of possible revision of some FTA parameters, the key issue is not to increase tariff quotas for certain types of Ukrainian agri-food exports (which may push the Ukrainian economy further towards agrarianisation and primitivization), but to make far-reaching structural adjustments in economic development and exports by transforming some high-tech industries into engines of change. As for the agri-food sector, this should mean an increase in export quotas for primarily organic rather than traditional products.

The most important task in this context is to create conditions for forward-looking entry into the EU market with products with high added value and advanced manufacturability. Therefore, Ukraine's accession to the European ACAA system is absolutely critical. At the same time, Ukraine's preparations for this “industrial visa-free regime” should not be asymmetric, when almost all obligations fall on Ukraine, while the EU limits itself to general declarative statements with no specific deadlines for possible granting of the ACAA-based access to the single market and with limited technical assistance. This process has to intensify significantly, as slow consideration of this issue is hindering the entry of Ukrainian engineering and other end products to the European market.

For Ukraine, large-scale transformations in the functioning of the EU banking sector as part of finalisation of the Economic and Monetary Union may create significant institutional gaps and systemic departure of the official tasks in the Agreement from the actual single market practices. This needs to be taken into account when reviewing and updating provisions of the current Association Agreement.

Energy sector

Ukraine has already earned significant advantages for its energy sector from integration and imple-

mentation of EU energy legislation. In this context, the following aspects are worthy of note: a) gas imports are stable and based on transparent market conditions; b) new relations with the Russian gas monopoly are in line Ukrainian and European legislation and, more importantly, do not require political concessions or sacrifices of sovereignty; c) participation in the EU market allows Ukraine to get protection against Russia's discriminatory monopoly actions; d) Ukraine together with the EU can demand on unblocking gas sales operations on the Ukraine-Russia border and on its availability for European traders.

The 22nd EU-Ukraine Summit reaffirmed Ukraine's role as a strategic transit country for gas and welcomed the agreement on gas transit to the EU after. The Summit participants also underlined the importance of further cooperation on strengthening European energy security, Ukraine's integration with the EU energy market based on effective implementation of the updated Annex XXVII to the Association Agreement, as well as coordination of further steps. Therefore, further actions to intensify and deepen the integration of Ukraine and the EU in the energy sector are on the table.

Transport

This promising infrastructure sector should grow at an outperforming rate, allowing Ukraine to improve its foreign trade and increase transit flows by various means of transport, including tourist flows, thus increasing budget revenues. However, despite the importance of this sector, key draft laws are still under consideration.

Therefore, it is necessary to step up the adoption of relevant legislation and implementation of relevant regulations, to gradually remove barriers to cross-border movement of goods and passengers. The EU-Ukraine partnership within the Association Agreement should ensure effective modernisation of Ukraine's transport sector, improve its coordination and interconnection with other sectors.

Environmental component

Going green is gradually becoming an integral and important component of the country's development, leading to more effective nature management, better quality of the environment and more productive international cooperation. Unfortunately, little progress has been made in implementing relevant tasks set out in the Agreement. It is obvious that effective greening of the economy is impossible without common and coordinated government policy and proper institutional

support at the state and local levels. Attempts to shift financing of the greening of production processes to businesses without introduction of economic incentive mechanisms are counterproductive.

Joining the European green course, on the one hand, offers an opportunity to strengthen and diversify the process of decarbonization between sectors and stimulates Ukraine to build mutually beneficial European contacts capable of unlocking the potential of the national economy. But on the other hand, it required a committed implementation of European climate standards along with acquisition of appropriate production certificates. The government has to introduce programmes to support greening processes, while businesses need to think about modernisation. It is essential to introduce an ecosystem approach in the management of Ukrainian enterprises.

4.3. PROPOSALS AND RECOMMENDATIONS FOR CERTAIN AREAS OF EU-UKRAINE COOPERATION

Below are some proposals for improving the institutional mechanisms of Ukraine's European integration, deepening of economic cooperation, building contacts in energy and transport sectors and taking steps to intensify partnerships in environmental sphere.

Steps in political and legal sphere¹

- Ensure effective and coordinated work of the joint parliamentary-governmental platform for European integration, headed by the Chairman of the Verkhovna Rada and the Vice Prime Minister for European and Euro-Atlantic Integration.
- Urgently address the staffing issues of the Government Office for Coordination of European and Euro-Atlantic Integration. Amend Provisions on the Government Office for it to be able to monitor how various ministries and other government agencies draft bills in the field of European integration.
- Introduce the practice of reviewing the government's Report on the Implementation of the Association Agreement at the plenary session of the Verkhovna Rada of Ukraine. Include information on the practical impact of the implementation of EU norms, directives and regulations on the situation in appropriate sectors in annual Government Office reports. Recognise the nature and level of impact of the Agreement implementation on the social well-being of citizens as a core indicator.

¹ For more detailed proposals in this area see the Razumkov Centre's publication "Ukraine After the Elections: Public Expectations, Policy Priorities and Development Prospects", Kyiv, 2019, pp.11-12, – https://razumkov.org.ua/uploads/article/2019_Koalits_Ugoda.pdf (in Ukrainian).

- Provide for increasing the responsibility of government authorities for untimely fulfilment of the tasks set forth in the Action Plan for the Agreement implementation.
- Amend the Rules of Procedure of the Verkhovna Rada, which regulate the process for passing European integration bills. Recognise the conclusion on the inconsistency of bills with the obligations under the Association Agreement as the grounds for returning such drafts without their inclusion in the agenda of the parliament's plenary session.
- Ensure the priority consideration of European integration bills in the Parliament in case of approaching deadlines for their implementation to the national legislation of Ukraine.
- Initiate improvements to the Eastern Partnership format. To propose three Eastern Partnership countries – Ukraine, Georgia and Moldova – to set new ambitious goals of deep sectoral integration into four EU alliances: The Customs Union, the Energy Union, the Schengen Area and the Digital Single Market. Actively lobby among EU member states to give the three Eastern Partnership countries the prospect of EU membership.

Economic cooperation development

It is necessary to adjust the content of the Agreement for it to become more innovation-oriented, truly contributing to Ukraine's improved competitiveness in modern sectors of economy, which are determined by the Fourth Industrial Revolution. The priorities of cooperation in this context should include a) deepening cooperation in science and technology and intensifying the introduction of new contactless technologies; b) expanding cooperation in healthcare and pharmaceuticals; c) strengthening cooperation in business and employment sectors.

Specific measures to implement these priorities include the following:

- Establish a certain minimum quota for Ukraine on funds allocated under EU research programmes and expand the existing opportunities for access to other EU programmes related to technology development and competitiveness.
- Review provisions of the Agreement regarding digital development with full adaptation to the process of establishing Europe's Digital Single Market (DSM), and identify ways and mechanisms for Ukraine's integration into DSM, including new obligations of approximating Ukrainian

legislation to the EU's digital economy and trade legislation and working together to address the growing challenges of cybersecurity. Actively support start-ups and encourage digitalisation of industries and service sectors based on European comprehensive digitalisation strategy and introduction of new technologies for financial services (*FinTech*).

- Elaborate a brand-new mechanism of the EU-Ukraine cooperation in healthcare and pharmaceuticals, including in response to new coronavirus-related challenges. Ensure radical changes in the model of health service provision based on a transition to an integrated patient-centric model and involve Ukraine in the functioning of new European Reference Networks (2017) that allow combining the medical examination processes.
- Set up a platform for permanent interaction of Ukrainian companies with businesses of EU member states as an integral part of the institutions that manage the association process. Such changes should be aimed at significantly raising the quality of decision-making in the association and European integration processes.
- Develop the institutional framework and include it in the text of the Agreement to ensure cooperation for training new professionals in the economy of the future, including based on expanded opportunities for professional exchanges in order to absorb best practices in the organisation of highly efficient and competitive high-tech industries.
- Bring Annex XVII of the Agreement in line with current realities of the EU legal system. Explore the opportunities of negotiating Ukraine's accession to certain mechanisms within the EU Banking Union, in a manner similar to that applicable to countries participating in the European Economic Area. This would help create the preconditions for more effective EU-Ukraine collaboration in the financial sector and the introduction of new approaches in Ukrainian practice to further improve the banking system and increase its ability to finance large-scale investment projects and structural reforms in the Ukrainian economy.

Partnership in energy sector

To deepen Ukraine and Europe's integration in the energy sector, the Ukrainian side² can undertake a number of steps towards developing cooperation with EU bodies and other international partners:

² Includes the Cabinet of Ministers, the Office of the Vice Prime Minister for European and Euro-Atlantic Integration, the Ministry of Foreign Affairs, the Ministry of Energy, the Ministry of Economy with the participation of NJSK Naftogaz of Ukraine, the GTS Operator of Ukraine, Storage System Operator, JSC Ukrtransgaz, NEC Ukrenergo, NNEC Energoatom, other interested companies and government agencies, as well as the Parliamentary Committee of the Association and the Ukrainian Civil Society Platform of the Association Agreement.

- Sectoral integration in the energy sector should enable Ukraine's full participation in EU gas and electricity markets. This process can take place even before Ukraine becomes a member of the EU. Updates/changes to the text of the Association Agreement³ should confirm Ukraine's status as a full participant (at the level of EU member states) of the gas and electricity markets of the European Union.
- Consider Ukraine's presence in the Energy Community's gas and energy markets parallel to the EU as a preparation for sectoral integration into the EU, which should be completed.
- To strengthen sectoral integration of Ukraine and the EU, elaborate appropriate amendments to the Agreement that will allow Ukraine to implement authentic rather than adapted energy legislation of the European Union with rights and obligations identical to EU member states. In turn, EU members must comply with EU legal requirements for Ukraine the same way as for other EU countries.
- Carry out preparations to enable Ukraine's full membership in the *ENTSO*. Activities of the latter should fully take into account the interests and capacities of Ukraine, such as full participation in long-term planning of energy infrastructure development.
- Make use of Article 274 of the Association Agreement to consult on mutual consideration of interests in the Ten-Year Network Development Plans and to work out joint measures for preventing the infrastructure projects such as Nord Stream-2 and Turk Stream, which may be detrimental for the parties to the Agreement. Such consultations occur within the Association Council (Subcommittee on Trade and Sustainable Development) or the Special Subcommittee on Gas, which can be established as per the Agreement.
- Introduce monitoring of energy sector, as envisaged by the Agreement, which should reflect the actions of both sides – Ukrainian and European. In particular, monitoring should track the quality and efficiency of coordination of actions for the development of gas infrastructure and the state of implementation of energy legislation in the relations between Ukraine and the EU members.
- Facilitate regular publication of data on the gas market of Ukraine in the EU information resources, such as quarterly gas and electricity market analysis reports by *DG Energy*, transparency platforms of *ENTSO*, *GIE* and Eurostat.
- Consider the European Commission's antitrust investigations against the Russia / *Gazprom* actions in the gas market as means to protect Ukraine's interests. Initiate Ukraine's participation in joint antitrust investigations of companies and regulatory bodies of individual EU members regarding *Gazprom*'s actions. Take into account the experiences of *Naftogaz* and Poland's *UOKiK*.
- Develop gas exchange trade in Ukraine, together with the European Union and international financial organisations relying on the experience of the best European hubs.
- Make sure that Ukraine's needs for LNG are taken into account in new European liquefied gas projects as a factor of energy security, including through cooperation in the development of EU infrastructure strategies and plans. Ukraine's participation in the European gas market opens up promising opportunities for access to the world LNG market, which would significantly enhance the country's energy security.
- Make Ukraine a part of the EU's "green course" policy implementation. Natural gas and hydrogen will have a significant impact on the energy transition. Therefore, the gas and electricity infrastructure of both Ukraine and the European Union in general will play a pivotal role in the east of Europe. It is worth combining both Ukraine and EU's energy policies in everyone's interest.
- Ensure the necessary impact and consideration of proposals in the development of CBAM (*Carbon Border Adjustment Mechanism*). Take active part in the European Commission-led process to develop the CBAM mechanism seeking a level playing field for the European and Ukrainian companies. Build the EU-Ukraine dialogue about the new mechanism based on the need to find a common position and mutual benefits.
- Consider Ukraine's establishment as a full (equal to the EU member) participant in the EU energy market as one of top government priorities in foreign policy. These are tasks for the Office of the Vice Prime Minister for European and Euro-Atlantic Integration (coordination), Ministry of Foreign Affairs, Ministry of Energy and Ministry of Economy.

³ Information provided by the Vice Prime Minister of Ukraine for European and Euro-Atlantic Integration, 25 August 2020. See: Brussel's proposal: What does the EU offer to increase the Ukrainian exports? – "European Pravda", 27 August 2020, – <https://www.eurointegration.com.ua/experts/2020/08/27/7113608>. (in Ukrainian).

- Achieve this priority goal by participating in different international organisations and initiatives: BSEC (Black Sea Economic Cooperation), GUAM (Organization for Democracy and Economic Development), the Three Seas Initiative (3SI) and the Eastern Partnership, etc.
- Include the issues of energy sector integration, the use of existing energy transportation networks and coordination of new infrastructure projects in relevant documents of international organisations (GUAM,⁴ BSEC, Eastern Partnership). It is worth noting that GUAM's main goals include deepening of European integration and expansion of economic cooperation with the development of transport and energy capacities of the Parties.
- Through dialogue with the UE, step up pressure on Russia, which consistently blocks gas supplies from Central Asia in violation of WTO and European Energy Charter, bans the exports of Russian gas producers independent of Gazprom and, abusing its dominant position in the European market, refuses to transfer gas to European traders on the eastern border of Ukraine. Leverages against such actions may include public awareness campaigns and decisions of EU antitrust authorities.

Transport component of European integration

In order to bolster integration of Ukraine's transport system into the European one, it is expedient to:

- Accelerate the adaptation of Ukrainian transport legislation to European standards by passing the laws on: a) access to the road transport market (implementation of Regulation (EU) 1071/2009) thus introducing a new approach to road transport licensing; b) provision of socially important services for the carriage of passengers by road (implementation of Regulation (EU) 1370/2007); c) safety of operation of wheeled vehicles (implementation of Regulation (EC) 165/2014, Directives 2014/45/EC, 92/6/EEC, 2002/15/EC, 2003/59/EC, 2006/22/EC).
- In line with European standards, develop and adopt legislation for mandatory technical control of technical equipment, which will provide for periodic inspections of vehicles for serviceability.
- Adopt the Law "On Amendments to Some Laws of Ukraine to Bring Them in Compliance with EU Legislation Concerning Transport of Dangerous Goods" in order to adapt relevant Ukrainian norms to EU law.
- Introduce an effective mechanism for transport safety management, state supervision and control; introduce the European *CADaS* standard.
- Address the issue of unimpeded access to international transit of goods by road without restrictions on quotas for permits on the border with Poland.
- Address the issue of unjustified delays by inspection authorities at the borders of Ukraine and insufficient capacity of border crossing points.
- Adopt the Law "On Inland Water Transport" to liberalise inland waterway freight transportation and open inland waterways to foreign vessels.
- Intensify efforts towards possible involvement of Ukraine in the development of legal framework for the introduction of the European Maritime Single Window (*EMSW*) model, which will facilitate Ukraine's entry into a single network of National Single Window (*NSW*) with its single interface and shared user management services.
- Facilitate further adaptation of Ukrainian railway transport legislation to EU regulations by adopting the Law "On Railway Transport of Ukraine", which will liberalise the railway market by granting equal access of carriers of various forms of ownership to railway infrastructure and ensuring fair competition between them.
- Step up cooperation with the EU towards elimination of "bottlenecks" in the rail transport infrastructure, such as addressing the issue of operational incompatibility of European and Ukrainian tracks (1,435 mm and 1,520 mm, respectively).
- Facilitate signing and further implementation of the Common Aviation Area agreement on terms that are non-discriminatory with respect to Ukrainian air carriers, by revising relevant provisions of the Agreement.⁵
- Introduce a simplified procedure for the development and adoption of aviation rules that should be approximated to current EU procedures (amend the Air Code of Ukraine and adopt the Procedure for development, adoption and introduction of aviation rules of Ukraine).
- Increase activities to address infrastructure problems within the *TEN-T*, namely intensify functioning of transport infrastructure that will connect different modes of transport (rail, road, river, sea and air) to freight terminals.

⁴ Joint Statement by the Heads of Government of the GUAM Member States, – <https://guam-organization.org/en/>.

⁵ Specifically, subclause b, clause 1 of Annex II; subclause a, clause 1, Section 4 of Annex III; part 2 of Article 16 of the CAA agreement.

- Support the introduction of intelligent transport systems in all modes of transport.
- Continue efforts aimed at reconstruction of the main road network in line with *TEN-T* standards. Try to address the issue of Ukrainian highways passing through settlements that do not meet international requirements (for *TEN-T* corridors, the EU requires construction of ring roads around cities).
- Adopt legislation on multimodal transportation, which will reorient a significant share of shipments from road to river transport, as well as optimise time and costs by implementing a single contract of multimodal transportation, according to which freight can be transported under one shipping document regardless of changes in modes of transport.
- Seek consultations with the Innovation and Networks Executive Agency (*INEA*) on the opportunities for financial and technical assistance aimed at integrating Ukrainian transport sector into *TEN-T*;
- Promote Ukraine's cooperation with individual European agencies, including the European Union Aviation Safety Agency (*EASA*), the European Union Agency for Railways (*ERA*), and the European Maritime Safety Agency (*EMSA*).

Environmental factor

The following steps should be taken to increase the effectiveness of the government's European integration policy in the direction of greening the economy:

- Make changes to taxation system to bring the environmental tax system in line with EU standards, so that taxes not only replenish the state budget, but also become an effective tool for environmental protection.
- Expand the list of environmental measures that can be covered with ecotax funds. The list of such measures included in the Cabinet of Ministers Resolution "On approval of the list of activities related to environmental measures" needs to be reviewed and updated, as it was made before signing of the Association Agreement.
- Adopt the necessary waste management legislation, taking into account the requirements of European

directives and set up an appropriate waste management infrastructure.

- Develop the National Waste List in line with European standards, revise the forms of waste statistical observations.
- Adopt the necessary bylaws as stipulated by the Law "On Monitoring, Reporting and Verification of Greenhouse Gas Emissions", which will launch the relevant monitoring system for GHG emissions from 1 January 2021.
- Adjust environmental standards and obligate companies to follow environmentally friendly business norms. Ensure mandatory reporting based on ESG factors (Environmental, Social and Corporate Governance) in accordance with Directive 2014/95/EU of 22 October 2014.⁶
- Discontinue subsidisation of loss-making and environmentally hazardous coal mines to redirect funds on pursuing the country's environmental goals.
- Strengthen legal liability for environmental offenses: consistently increase environmental norms and standards, as well as the size of sanctions for their violation by all businesses.
- Encourage transition to nature- and resource-saving management (introduction of environmentally friendly technologies in production) by direct budget financing of investment measures aimed at creating a modern environmentally friendly infrastructure; introducing a tax credit for investments in environmentally friendly projects; stimulating commercial banks to increase the volume and diversify instruments of "green" lending, etc.⁷
- Introduce economic mechanisms to stimulate the development of industrial complexes with full recycling of production, thus leading to transition to a circular economy.
- Initiate active cooperation of Ukraine and the EU for attracting investment in environmental projects and expanding the scope of cooperation in this area.
- Intensify joint EU-Ukraine research and information sharing on clean technologies and innovations.

⁶ This document amends the Directive 2013/34/EU as regards disclosure of non-financial and diversity information by certain large undertakings and groups.

⁷ For more detail see: "Green" Investments in Sustainable Development: Global Experience and Ukrainian Context". Analytical report, the Razumkov Centre, 2019. p.58, http://razumkov.org.ua/uploads/article/2019_ZELEN_INVEST.pdf.

PROGRESS TOWARDS THE EU: PROBLEMS, TASKS, PROSPECTS

(Materials of round table by correspondence between government officials and independent experts)

This round table by correspondence was held in October 2020, as part of project “Ukraine’s Sectoral Integration into the EU: Preconditions, Prospects, Challenges”, implemented by the Razumkov Centre with support of Konrad Adenauer Foundation Office in Ukraine. This remote dialogue between Ukrainian government officials and independent experts covered problems and prospects in the relations between Kyiv and Brussels. Participants assessed the effectiveness and pace of Ukraine’s European integration, analysed the achievements and challenges on the way to the EU, as well as identified priorities and areas of sectoral integration, outlined the steps Ukraine ought to take.

Summarising views and positions expressed by the participants in interviews, it is necessary to pay attention to the following important points. First, both government officials and experts stressed the necessity to intensify and deepen EU-Ukraine cooperation. In this context, they generally viewed the results of the 22nd EU-Ukraine Summit as positive. On the other hand, they drew attention to problems and shortfalls that inhibit European integration. In particular, this includes the conflict situation around the anti-corruption bodies in Ukraine, lack of efficiency in the work of state institutions, etc.

Second, round table participants agreed that the EU-Ukraine Association Agreement must be updated to reflect current reality and current level of cooperation between Kyiv and Brussels. Parties reached a corresponding agreement at the abovementioned summit.

Third, interviewees identified mechanisms and directions for Ukraine’s sectoral integration into the EU. They stressed the need to sign the important for Ukraine “industrial visa-free regime” agreement, work on further liberalisation of trade, removal of barriers for accessing internal EU goods and services market. Also on the agenda – joining the EU digital market, namely, signing the agreement on mutual recognition of electronic trust services. Joining the European transit system (NCTS) and recognition of authorised economic operators has good prospects for Ukraine. Common Aviation Area Agreement awaits signing.

Clearly, it was impossible to cover all areas of cooperation with the EU in this correspondence dialogue, but participants’ opinions and assessments outlined key priorities in Ukraine’s further European integration, as well as comprehensive measures to be taken to accelerate progress towards EU integration goals.

ДУМКИ І ОЦІНКИ УРЯДОВЦІВ

НАША ГОЛОВНА МЕТА – ПОВНОПРАВНЕ ЧЛЕНСТВО В ЄС



Dmytro KULEBA,
Minister of Foreign
Affairs of Ukraine

– How would you assess the effectiveness and pace of Ukraine's European integration at this stage? What are the achievements and challenges on the way to the EU?

The six years that have passed since Ukraine made its crucial step towards European integration have truly brought our country much closer to the EU. Let us start with cold statistics of economic benefits: as a result of operation of the Deep and Comprehensive Free Trade Area, Ukrainian exports to the EU increased almost 50%, and the bilateral trade grew approximately 65%.

We have developed broad and efficient institutional dialogue. Currently, Ukraine is among the few countries, with which the EU maintains stable format of regular EU-Ukraine summits. The latest one took place on 6 October 2020. Among other things, the EU dispelled doubts and fears regarding cancellation of visa-free travel for Ukrainians. Our citizens took approximately 50 million trips since its introduction – and this is just the beginning. Unfortunately, now we have to wait for the borders to open and hope for the world's fastest possible recovery.

Within the European Commission there is a unique structure – Support Group for Ukraine, and within our state, functions a robust EU Advisory Mission for Civilian Security Sector Reform. Ukraine became the only state, for which the European Parliament has held a special top-level “Ukraine Week”. Ukraine is quite possibly the only state in regard to which different EU institutions approved so many decisions, resolutions, reports and statements over the past years.

I believe social universality to be an important feature of our eurointegration processes. Alongside our government institutions, the true agents of integration are our civil society, creative class of citizens, entrepreneurs, etc. Dialogue and mutual opening are also facilitated by academic mobility programmes: over 9,000 Ukrainian students and approximately 4,000 academics used opportunities presented through European education and science programmes. Step

by step, we are establishing common values, which strengthen the basis for self-identifying as “We, the Europeans”. Realistically speaking, these are lengthy processes, but year after year we are observing their progress in the right direction.

The EU is the largest donor of assistance to Ukraine and a leader in supporting reforms in our country: since 2014, the EU has come up with approximately €15 bn of assistance to Ukraine in the form of grants and long-term preferential loans. In 2014, when our economy hardly had any air left to breathe, the EU has lent us its shoulder, metaphorically speaking – has provided us with a lung ventilator.

Ukraine and the EU have become close allies in the international arena. Our country joins approximately 80% of EU statements, declarations and decisions in the Common Foreign and Security Policy sector. We do careful assessment and shape our foreign policy vision in coordination and taking into account the EU position.

Consistent sanctions against the aggressor are further proof that European foreign policy is compatible with Ukraine's national interests. And although for many European states this is a tough decision due to their own trade relations, Europe's unity still prevails. And this mainstream trend remains our important advantage. Besides, proactive and constructive policy in regulating the Donbas situation is positively perceived by Brussels and capitals of member states. We are defending ourselves, but are ready to proceed along the diplomatic conflict regulation path. The EU thinks that this is an honourable approach.

Obviously, Eurointegration is not about officials of different levels visiting Brussels and not about summits with their communiqués and declarations. The heart of the matter is internal change in the country, reforms. All processes are run in a transparent manner, in close cooperation with European partners. If Europe wants to be a single space with no borders, it must be unified and comprehensible for everyone everywhere. If we want to be a part of Europe, we have to comply with standards.

The roadmap for internal changes – our comprehensive Agreement – is the most ambitious document signed by the EU with a third country. In my time as Deputy Prime Minister, I opened for public the “Agreement Pulse” system, which monitors the implementation of the Association Agreement. Since then, people can view detailed progress in all sectors in real time. Some things have been done in time, and some – have not been completed.

No, we are far from Soviet-style executing of a five-year plan in three years. But we are not going to stop, not a single comma will evade our attention, and we will overcome the opposition to eurointegration

reforms that is still there. Primarily, through educating society why and for which purpose we say that “Ukraine is Europe”. There are many debatable issues on this path, and I am glad that our society is not avoiding complicated topics.

Our main goal is full EU membership. We still have to do our homework, and the climate within the EU itself is undergoing major changes. Brussels is trying to catch the direction of the wind of change. However, in the aftermath, the European project will only get stronger, and we are ready to be a part of its strength and success. I say this as a Ukrainian diplomat and a convinced eurointegrator. And, thus, a eurooptimist.

At the moment, we have to actualise our existing potential, move towards conclusion of first “industrial visa-free regime” agreements, search for new economic opportunities that arose as a result of the coronavirus crisis, combine the potential of the Agreement and the Free Trade Area with other vectors of our economic diplomacy. In particular, in cooperation with Asian region that we are just discovering today, and long overdue.

Most importantly, the untamed potential for deepening our relations is appreciated both in Kyiv and in Brussels.

– In your opinion, what are the priorities and directions for Ukraine’s sectoral integration into the EU and what steps should Ukraine take?

The indispensable guide for our integration processes and the nondepletable source of new opportunities is our Association Agreement. It clearly defines directions of sectoral integration with the EU. This includes many areas of cooperation. Here are the three most actual at the moment: trade, digital economy and energy.

I will start with my favourite numbers. European Union is Ukraine’s main trade partner. It will soon be five years since Ukraine and the EU launched their free trade area. Throughout this period up until the start of the coronavirus crisis, the volume of our bilateral trade was steadily increasing. Last year’s results show that the share of goods and services trade with the EU was 40.1% of Ukraine’s total trade volume (January-June 2020 results – 40.8%).

Association Agreement is an ongoing process, it is not set in stone and can and has to be updated. Certain provisions are there since the negotiations in the 2000s and do not correspond to the current state of affairs, for instance, conditions of mutual access to markets. The world is changing and priority of different groups of goods changes as well. Today arose a real need for bringing the norms up to speed with reality.

At the 6 October 2020 summit, President of Ukraine V.Zelenskyy presented our framework vision of changes in the Agreement. The EU confirmed its readiness to work on this topic in 2021, using mechanisms within the agreement. We are hoping not just for liberalisation

of tariffs, but also for a re-examination of a number of sectoral issues. In particular, in the services sector. Yet all of this will be subject of discussion during numerous Zoom dialogues, real-life negotiations and informal conversations behind the scenes.

We are working on concluding the Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA Agreement), a.k.a. “industrial visa-free regime”. We have elaborated the necessary legislative changes in the field of market surveillance, standardisation, technical regulation and conformity assessment. The ball was in the EU court – during the summit we got a careful pass. Together with the EU we welcome the launch of the pre-assessment mission on Ukraine’s preparedness. We are carefully accepting the serve and waiting for the mission results.

Integration in the EU Digital Single Market is an absolute priority. When the entire world is on-line, it is impossible to integrate into civilisational space just in physical reality. Development of e-government and e-services, harmonisation of our legislation are the areas where we have already achieved success. In June 2020, in the first reading, the Verkhovna Rada approved the bill on implementation of the European Electronic Communications Code. “Country in a smartphone” and “Diia” applications are not just for the comfort of our citizens, they also show that we are in tune with Europe.

By the end of the current year, together with partners, we are planning to prepare a joint action plan for cooperation on electronic trust services. Future prospect: signing an agreement in this area. Today it is equally as important to find meeting points in fibre-optic networks, as to organise logistical chains of commodity exchange in real life. Both, in the economic and civilisational sense.

We understand the topicality of deepening our partnership with the EU in energy and environment sectors. It was the energy sector that initially inspired the first review of the Association Agreement. We said that here – we want and can do more. The European Union deemed this proposal a win-win strategy. So we moved ahead. Just did it, despite all the Ukrainian and European bureaucracy.

The new “Green Agreement” is yet another project that Ukraine cannot ignore. We are clearly telling Europe: “This topic will surely bring us closer together. We have our designs and hydrogen technologies to offer. And you can help us harmonise and standardise our reality”. This offers economic benefits, an opportunity to build a future for Ukraine and the entire continent, as well as working together towards a common cause. In fact, green tracks are already leading to the “EU Membership” station.

Ukraine has sent a corresponding position document to the EU capital.

There have been enough memorandums of intent, now we are talking about specific sectors from the start.

In the initial stage, key areas of cooperation can include fair transformation of the coal sector, increasing the role of renewable energy sources in the green transition, sustainable mobility, carbon border adjustment mechanism, green agricultural policy and biodiversity.

Production of clean energy on the territory of Ukraine is another possibility that we are not going to let slip by. After the 1986 tragedy, historical justice itself is giving us a chance to become ecologically energy-independent. Moreover, this will facilitate energy security of the entire region.

And a couple of words on transport. Our main tasks here are to liberalise the cargo transportation market, include a number of Ukraine's waterways in the Trans-European Transport Network (*TEN-T*). Signing an EU-Ukraine Common Aviation Area Agreement is also on the agenda. At one point, all roads led to Rome; currently, we are essentially working on opening up all possible roads (and sometimes, laying new ones) to Europe.

These seem to be the roads that we choose and the roads that choose us. ■

ПРАГНЕМО СТАТИ ЧАСТИНОЮ ЦИФРОВОГО РИНКУ ЄС



Mykhailo FEDOROV,
Deputy Prime Minister,
Minister of Digital
Transformation of Ukraine

– How would you assess the effectiveness and pace of Ukraine's European integration at this stage? What are the achievements and challenges on the way to the EU?

European integration is a multi-vector and multi-task process that permeates all spheres of public life: from economic to social, from cultural to political. That is why harmony and coordination in actions of the entire state apparatus, their promptness and efficiency are key indicators of successful implementation of any policies. Every reform should directly or indirectly improve the well-being and prosperity of Ukrainians, expedite business operations, create legal and technical mechanisms for the full use of advanced innovative solutions in the field of IT. And European integration is no exception.

I do not consider it right and ethically correct to give assessment of the entire progress of European reforms in Ukraine, as each sector has its own minister



with their specific range of powers and competencies, they are responsible for the corresponding sector and have a clear understanding of relevant issues and challenges.

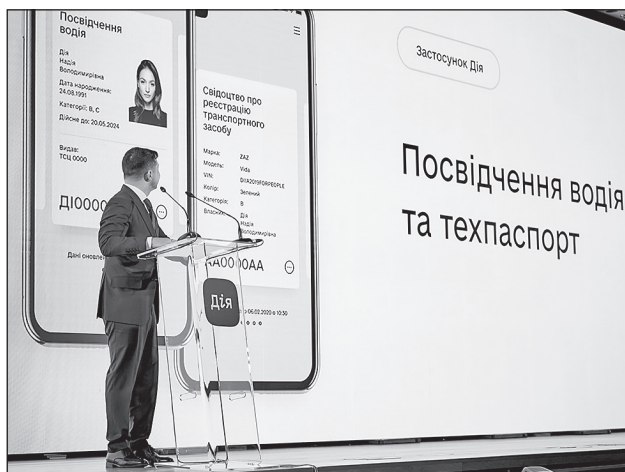
At the same time, I can definitively state that the accelerated pace that we adopted from the early days of operation of the Ministry of Digital Transformation of Ukraine has not stopped for a moment, on the contrary, we have been gathering speed ever since.

A strong confirmation of appreciation of our team's work towards European integration was the joint statement of Ukraine and the EU issued at the end of the 22nd Summit. Digital transformation was one of the top areas where progress has been noted and further plans recognised as strong.

Indeed, Ukraine has done a lot: laws of Ukraine "On Electronic Trust Services", "On Access to Construction, Transport, and Power Industry Facilities for the Purpose of Development of Telecommunication Networks" and corresponding by-laws have been approved.

In early October 2020, thanks to the fruitful work of all stakeholders, Verkhovna Rada approved the Law "On Electronic Communications". This law reforms electronic communications in Ukraine in line with newest European standards, namely, implements the European Electronic Communications Code. This is a unique situation, as we are doing this simultaneously with EU countries, and for the first time in its history Ukraine is not running behind the train trying to catch up, but is set to achieve success at the same time as EU member states. We need this to get the so-called "digital visa-free travel" with Europe. Electronic communications are the core of EU's digital market, which we aspire to join. Europe fully supports us on this path, but we have to do our homework. This law's approval is an important part of this.

We are also actively working with the Verkhovna Rada Committee on Digital Transformation to improve the bill on the National Committee of Electronic



Communications, Radio Frequency Spectrum and Postal Services, which aims to transform the existing regulator in line with changes foreseen in the new Law “On Electronic Communications”.

The Ministry has also made noteworthy progress in the area of updating the Association Agreement in the telecommunications sector. We have worked for a year to come to agreement on the full text of updated Appendix XVII-3, which we expect to get approved in the near future. Through it, we are harmonising our commitments under the Association Agreement with the dynamics of EU law development, which never stops.

European integration has always been and will be a bilateral process that requires coordinated action of both parties: on the interstate, as well as national level. We are grateful for the constant support of European colleagues, appreciate the unity of all branches of power around the goal of further digital transformation of our state, and feel our citizens’ trust.

Such digital eurointegration ecosystem is doomed to succeed, and we shall do our best to make sure that each day Ukraine is one step closer to the Digital Single Market of the European Union.

– In your opinion, what are the priorities and directions for Ukraine’s sectoral integration into the EU and what steps should Ukraine take?

Ukraine’s integration into EU Digital Single Market is among our priorities. Such integration is not something utopian, it aims at very specific things.

At the moment, the Ministry is actively working on implementation of electronic trust services system equivalent to that in the EU, which will create many benefits both for business and regular citizens. This includes getting public services on-line, making electronic agreements with foreign contracting partners, opening international electronic bank accounts, etc.

Last year we turned to the EU requesting to sign a bilateral agreement on mutual recognition of electronic trust services. By the end of 2020, we expect to have developed a joint action plan for EU-Ukraine cooperation on electronic trust services with the prospect of concluding this agreement.

Use of electronic trust services became especially topical in the midst of *COVID-19* pandemic. It became crucially important to ensure the possibility of remote primary identification of a person. EU legislation provides for such a possibility.

We are doing a pilot programme for remote identification of citizens through the Diia (Action) mobile application, which provides the possibility of receiving a qualified electronic signature “Smart-Diia”. This means that “Diia” users will be able to receive a qualified electronic signature on-line for free. “Smart-Diia” is a digital signature that will remain valid for a short period of time and will guarantee the top level of trust and security. “Smart-Diia” will allow to sign documents, get administrative, financial and commercial services via a smartphone.

Ukraine’s digital sector has huge potential, and its development dynamics demonstrates Ukraine’s commitment to its speedy actualisation. At the same time, successful progress is impossible without creating a joint vision with the EU and a clear understanding of further steps.

Thus, Ukraine has developed a Roadmap for Ukraine’s Integration into the EU’s Digital Single Market (DSM). This document was sent to the EU, after which the European Commission sent EU expert mission to Ukraine to assess the state of legislation approximation and institutional capacity in the digital sector. The mission’s work resulted in a comprehensive report with specific proposals.

Currently, we are finalising our Roadmap and plan to have this document approved in the EU by the end of 2020. The Roadmap reflects revolutionary changes in EU law and provides for implementation of EU cutting-edge digital norms and standards. Developed in line with Appendix XVII-3 to the Association Agreement, it is one of the mandatory elements of Ukraine’s preparation for being granted EU’s internal market regime in telecommunications, which will become possible after successful fulfilment of all commitments in the Agreement. This regime will mean unimpeded provision of telecommunication services in the EU by Ukrainian legal entities and vice versa.

To outline the economic benefits of Ukraine’s integration in the EU Digital Single Market, the Ministry of Digital Transformation initiated a study in 2020, which is expected to present calculations

of economic benefits of Ukraine's integration in the EU DSM from the point of view of influence on bilateral trade, GDP, and the welfare of Ukrainian and EU citizens. The study is done by Trade+ International Trade Research Center and Ukrainian Centre for European Policy with support of the International Renaissance Foundation.

According to preliminary calculations, Ukraine's integration in EU DSM will bring us additional GDP growth of up to 5%. Final results of the study will be presented to the general public by the end of 2020. ■

EU-UKRAINE RELATIONS HAVE MOVED TO A QUALITATIVELY NEW LEVEL



Taras KACHKA,
 Deputy Minister
 for Economic Development,
 Trade and Agriculture
 of Ukraine – Trade
 Representative of Ukraine

– How would you assess the effectiveness and pace of Ukraine's European integration at this stage? What are the achievements and challenges on the way to the EU?

The Association Agreement became the crucial element that kickstarted the implementation of comprehensive socio-economic reforms in Ukraine. Implementation of Agreement provisions is a challenge for Ukraine, yet we are demonstrating good results.

First of all, Ukraine and the EU are becoming increasingly more important trade partners for each other. Today the share of goods and services trade with the EU is over 40% of Ukraine's total trade volume.

Since the launch of the Free Trade Area (DCFTA), EU-Ukraine trade has been steadily growing. According to 2019 data, commodity exchange between Ukraine and the EU increased almost 50% compared to 2016. In the past five years, the EU also became our key trade partner in the agricultural products market – 36.3% of Ukraine's agricultural exports go to European consumers.

Ukraine is entering the EU market with new products, an increasingly larger share of which are high value-added products. At the same time, Ukraine

remains a reliable and predictable trade partner, and Ukrainian exporters confirm their status of reliable suppliers of products to EU member states.

The Agreement instilled great optimism in Ukrainian business. Ukrainian exporters saw the opportunities of trading with the EU. The number of Ukrainian companies that export goods to EU member states is constantly growing. Thus, while in 2014, 10 thousand companies exported products to the EU, in 2019 – the number was over 14.5 thousand.

Since the launch of DCFTA with the EU, over 400 thousand *EUR.1* certificates have been issued.¹ There is also an increasing number of exporters to Europe, who received the approved exporter status and are allowed to export to the EU without obtaining the *EUR.1* certificate. Currently, there are 264 such businesses.

Opportunities for duty-free export within the bounds of tariff quotas are actively used, the level of use of quotas for high value-added goods is increasing. Also, the actual exports for certain quotas significantly exceed duty-free exports under the quota.

The number of businesses, where manufacturing conditions are in line with EU requirements is constantly growing. EU-Ukraine trade has become more transparent, deep and predictable.

EU-Ukraine relations have moved to a qualitatively new level, where we can talk not just about cooperation, but about partnership, the ultimate goal of which is Ukraine's full integration into European Single Market.

EU-Ukraine cooperation has complex projects on the agenda: signing the agreements on *ACAA* ("industrial visa-free regime"), "duty-free regime", integration into Digital Single Market, cooperation in the framework of European Green Deal.

First of all, we have to sign the Agreement on Conformity Assessment and Acceptance of Industrial Products (*ACAA*). "Industrial visa-free regime" will significantly strengthen the competitive capacity of Ukrainian exports. Ukraine has fulfilled all of its commitments in three key sectors in preparation to sign *ACAA* – low voltage electrical equipment, electromagnetic compatibility of equipment, machines. EU pre-assessment mission on Ukraine's preparedness to sign *ACAA* has started its work.

Introduction of "duty-free regime" is another priority in the near future: Ukraine's accession to the EU Common Transit System with the use of the *New Computerised Transit System (NCTS)*,

¹ To obtain a preferential access to the EU market in the frame of the Deep and Comprehensive Free Trade Area between Ukraine and the EU, it is necessary to confirm the origin of product from Ukraine and obtain a movement certificate EUR.1, which is issued by the customs authorities of Ukraine since 1 January 2016 free of charge for each exported consignment of goods from Ukraine to the EU countries. A movement certificate EUR.1 allows the goods originating from Ukraine to use preferential trade conditions after they are moved to the territory of the EU – the benefits for the payment of customs duty are applied for them – Certificate EUR.1. For more information, see: European Integration Portal, – <http://eu-ua.org/eksport-yes/sertyifikat-eur1>.

mutual recognition of the authorised economic operator status.

Completion of the 2nd and 3rd stages of the roadmap of public procurement reform is also on the agenda. At the moment, Ukraine awaits official positive EU assessment of implementing the 1st stage of action plan on Strategy for Public Procurement Reform. The future goal is the mutual opening of public procurement markets in the aspect of accessing product supply contracts for central government authorities.

Integration into EU Digital Single Market is among Ukraine's European integration priorities. This is an extremely ambitious, yet realistic goal. Ukraine has already made some progress in the areas of e-commerce, trust services and electronic communications.

Based on results of the 22nd EU-Ukraine Summit, parties agreed to develop a joint action plan for EU-Ukraine cooperation on electronic trust services with the potential prospect of signing an agreement based on approximation of our legislation to EU laws and standards.

Cooperation on implementation of the European Green Deal is an important direction for further development of relations between Ukraine and the EU. The EU is currently a staunch supporter of green energy and the creator of the European Green Deal and the ideology of decarbonisation.

Recognising sustainable development as a priority, Ukraine is ready to join EU Green Deal initiatives and, in turn, hopes for mutually beneficial overcoming of trade barriers, which may arise during implementation of such initiatives.

Updating the Association Agreement is yet another crucially important step in the bilateral relations. Ukraine consistently advocates for revision and updating of the economic part of the Agreement.

EU-Ukraine relations have already "outgrown" the current Association Agreement. Since the time we concluded negotiations on Association Agreement in 2011, there have been drastic changes in global trade structure and geopolitical situation.

Currently, Ukrainian manufacturers have a demand for a review of trading conditions with the EU, in particular, expanding and accelerating trade liberalisation. However, these are only the first necessary steps towards the ultimate goal of working under the absolutely free trade regime.

Our ambitious goal is to update the entire economic section of the Agreement and build a foundation for Ukraine's integration into European Single Market.

Parties' agreement to review and update the Association Agreement is reflected in the Joint Statement of the 22nd EU-Ukraine Summit. ■

ОДИН З ГОЛОВНИХ ПРІОРИТЕТІВ – ЯКІСНА ІМПЛЕМЕНТАЦІЯ ОБОРОННОЇ РЕФОРМИ



Anatolii PETRENKO,
Deputy Minister of Defence
of Ukraine
for European Integration

– How would you assess the effectiveness and pace of Ukraine's European integration at this stage? What are the achievements and challenges on the way to the EU?

I would start with the fact that the work of all central executive government authorities is currently aimed at implementation of our country's strategic course for achieving full EU and NATO membership. This goal is captured in the Basic Law – the Constitution of Ukraine – and defined as a national interest priority in Ukraine's National Security Strategy.

From the moment we gained independence, Ukrainian people stepped on the path of returning into the European family, as its indispensable part, and events of the past seven years show that European integration is truly the only possible foreign policy direction.

Today there is no doubt that this movement is irreversible and practical as demonstrated by ambitious measures aimed at internal reform implementation in all sectors and the visa-free travel to EU member states that we have achieved.

After the signing of the Association Agreement, Ukrainian society had high hopes that we were on the fast track towards EU membership, but given the complicated situation, this process is still going on.

Assessing the efficiency and pace of Ukraine's European integration, we should take into account a number of external and internal factors that affect it to various degrees.

Among external factors that impede Ukraine's integration into the EU, Russian broad hybrid aggression against Ukraine remains the main one, as it manifests itself in political-diplomatic, military, informational, and economic sectors, with most violent manifestations being the occupation of Crimea and Russian military aggression in Eastern Ukraine.

Kremlin believes Ukraine's European choice to be a threat of ultimate loss of its political and

economic influence in the post-Soviet space, and destruction of Vladimir Putin's image as "*The Gatherer of Russian Lands*".

Any successes of Ukraine, including in the framework of European integration, in particular, sustainable development of Ukrainian democratic society, introduction of fundamental reforms in all areas of life, increasing number of the points of contact with Europe, – in contrast to curtailment of rights and freedoms of Russian citizens, low competitiveness of Russia's raw-material-based economy, especially in the situation of decreasing energy prices, major military spending and involvement in many conflicts, – are viewed by Kremlin as factors that destabilise the internal situation in Russia.

Despite this, Moscow continues building the combat potential of its Armed Forces along Ukraine's state border and on the temporarily occupied Crimean peninsula, militarising it to the maximum.

In this way, Kremlin pressures top government authorities in Ukraine into making them accept Russian conditions of conflict settlement and further "sisterhood" format of coexistence, creates tensions within Ukrainian society, which has overall negative influence on implementation of internal reforms and European integration progress of our state.

In foreign policy, Russia is purposefully trying to undermine international community's support for Ukraine. To this end, Russia is spending significant resources on influence agents in government and business circles of Western states, brandishing statements on Ukraine's inability to function as a sovereign democratic state, on the unwillingness of Ukrainian Government to implement reforms and fight corruption, which is the main requirement for our integration into the European community.

Kremlin is openly speculating and manipulating the topic of implementation of Minsk agreements, blaming our country for deliberately delaying negotiations and being reluctant to settle the conflict in a peaceful manner.

Economic leverages are also being actively used, especially in sectors, where Ukrainian economy is still dependent on its trade and economic ties with Russia. Russian leadership is systemically manipulating the issues of Ukraine's transit capacities, especially in regard to supplying Russian energy to European markets. Based on political expediency, alternative gas transportation routes with questionable economic efficiency are being built bypassing Ukraine.

Moscow systematically violates the right of Ukraine and its partners to freedom of navigation in the Black and the Sea of Azov by closing certain areas and delaying the passage of ships through the Kerch Strait, which is a violation of international maritime law.

Another vector in counteracting our state's European integration is Kremlin's attempt to artificially actualise historical and national-ethnic issues in Ukraine's relations with Poland, Hungary and Romania.

Russia believes that application of these methods and mechanisms would raise the ratings of pro-Russian political forces, split the patriotically disposed Ukrainian society, draw attention to the incompletely resolved international, linguistic-ethnic, cultural, and other issues, and, ultimately, discredit Ukraine's European course.

Continuing the topic of external influences on the pace and efficiency of Ukraine's European integration, one should factor in the lack of unity as regards our future membership within the EU itself.

Discussions on the expediency of EU enlargement are still going on between member states. We know that there is some scepticism regarding the issue in France, the Netherlands and Denmark, which, for example, at October 2019 EU summit blocked the start of negotiations on granting EU membership to North Macedonia and Albania, although most EU countries supported their membership.

As for Ukraine (same as for Georgia and Moldova), the issue is even more complex.

Despite the fact that Ukraine's strategic European integration course is captured in our main strategic documents, the EU-Ukraine Association Agreement does not automatically lead to EU membership.

Thus, Ukraine is faced with a complex, yet vital task of continuing high-quality reforms, which will help the EU form a united positive opinion and unanimous position on our future membership.

A lot has been accomplished, including, in the framework of harmonisation of legislation with EU standards, important practical decisions have been adopted on land and banking reforms, as well as in the sectors of trade, energy and combating corruption.

In 2020, the Ministry of Defence worked on the bill "On Defence Procurement", which was adopted on 17 July 2020.

The law provides for harmonisation of Ukrainian legislation on defence procurement with provisions of 2009/81/EU Directive under EU-Ukraine Association Agreement, and aims to ensure effective and transparent procurement of goods, works and services for defence purposes, create a competitive environment and prevent corruption in defence procurement, develop fair competition, as well as effective and transparent planning, implementation and control of defence procurement.

At the same time, it should be noted that main factors in achieving European integration are our internal factors.

If we recall the Copenhagen criteria that determine the requirements for EU candidate states, it becomes clear, which areas of our life are the main indicators of successful implementation of European integration policy:

- political – stability of institutions guaranteeing democracy, the rule of law, human rights, and the respect for and protection of minorities;
- economic – a functioning market economy and the ability to cope with competitive pressure and market forces within the EU;
- other – ability to take on the obligations of membership, including strict adherence to the aims of political, economic and monetary union.

At the moment, we cannot speak of full implementation of the criteria above. It should be noted that to enhance the current achievements, we need to maintain the pace of implementation of undertaken commitments, including those in the framework of the Association Agreement, certain articles and sections of which already need to be reviewed given the reforms we have conducted.

On 6 October 2020, 22nd EU-Ukraine summit took place, where the EU confirmed its readiness to support Ukraine's European aspirations, its sovereignty and territorial integrity within the internationally recognised borders, and its course for gradual integration into the European community.

At the event, a decision was made regarding joint work on assessment of objective fulfilment under the Association Agreement starting next year, which will be the foundation of Agreement implementation in the future. Obviously, effective use of the main mechanisms of this programme document will help increase the pace of our country's European integration.

The office of Deputy Prime Minister for European and Euro-Atlantic Integration of Ukraine continues fundamental work in this area: it is planned to update the trade part of the Association Agreement, negotiations have been started on the "industrial visa-free regime" and integration into EU digital market, Ukraine joined the European Green Deal, Commission for Coordination of Association Agreement Implementation for formed led by the Prime Minister.

Thus, large-scale coordinated work of all central executive government authorities continues and new results of reforms will emerge in the near future.

I would like to note that in this context one of the main priorities of Ukraine's defence ministry is high-quality implementation of the defence reform, which has to be carried out even in conditions of Russian aggression.

The Ministry of Defence has to become an effective civilian institution, and the Armed Forces, in the medium term, have to achieve five main goals, namely:

- adding new and modernising available military equipment, ensuring reliable provision of ammunition;
- staffing troops with professional and motivated personnel;
- creating a system of effective military education, strengthened by social security programmes based on human-centred principles;
- developing a strong defence infrastructure, logistics and medical provision;
- maintaining high combat readiness, conducting joint exercises of all defence forces, their deployment, including in the framework of international crisis response operations.

Particular attention is paid to the issue of interoperability with our European partners in all of the abovementioned areas, which allows to expand participation in implementation of the Common Security and Defence Policy (CSDP).

– In your opinion, what are the priorities and directions for Ukraine's sectoral integration into the EU and what steps should Ukraine take?

Ukraine's EU integration priorities in the security sector are defined in the EU-Ukraine Association Agreement; in particular, Title II "Political dialogue and reform, political association, cooperation and convergence in the field of foreign and security policy" contains main directions of cooperation.

The Ministry of Defence defined four key priorities, which will foremost contribute to the implementation of Agreement objectives in the part concerning the sector of defence:

- expanding the format of dialogue with the EU in military-political, military-technical and military areas;
- strengthening practical cooperation with the EU in the framework of the Common Security and Defence Policy (involvement of the Armed Forces of Ukraine in the EU-led international peacekeeping operations and the EU Battle Groups);
- Ministry of Defence participation in the EU's Eastern Partnership initiative;
- development of cooperation with the European Defence Agency (EDA), involvement in security and defence projects of the Permanent Structured Cooperation programme (PESCO).

It is important that Ukraine stays involved in active dialogue with the EU on security issues in all formats and on all levels. This is our priority

in participation in EU security system in the framework of CSDP.

Expanding Ukraine's dialogue with the EU in military-political, military-technical and military areas will keep our partners informed regarding the situation in Eastern Ukraine and in the temporarily annexed Crimea, will allow us to draw attention to important key events, and will keep us involved in EU discussions on current security issues, formation of response policy in this sector, as well as in the implementation of new military-technical projects.

For objective reasons, at the moment, the EU is not prepared to fully involve Ukraine in these processes. There are significant limitations on participation in sessions of EU defence ministers, in military-technical and defence projects.

The Ministry of Defence of Ukraine considers practical participation in CSDP activities as a promising real demonstration of our readiness to work on modern challenges and threats together with EU member states.

An important element of cooperation in the abovementioned areas in participation in EU-led international peacekeeping operations. This is a new area for us. The Armed Forces of Ukraine have already participated in the EU military Operation Atalanta (off the coast of Somalia) by sending an Armed Forces officer to operation headquarters (Northwood, UK), and in 2014, Ukrainian Navy frigate Hetman Sahaydachniy with Ka-27PR helicopter on board and a special forces unit carried out counter-piracy operations in the north-western part of the Indian Ocean as part of the abovementioned EU Naval Force.

Because of Russia's aggression, we have taken a break in our involvement in such EU activities. But an important step in this regard was the decision of the Ministry of Defence to renew our participation in EU military operations: in the near future, an officer of our Armed Forces will be dispatched to the headquarters of EU Operation Althea in Bosnia and Herzegovina; currently we are working on the legal framework and candidate selection.

Also, since 2010, military equipment and personnel of Ukrainian Armed Forces are being involved in operational duty of EU Battlegroups (EU BG). In the first six months of 2020, a marine company of the Naval Forces of Ukraine, transport aircraft IL-76MD of Ukrainian Air Force with crew, and a group of staff officers worked under operational command of EU BG Helbroc. Next duty with EU BG is planned for the 1st half-year of 2023.

I would also like to note Ukraine's readiness to make its contribution to operation of EU multinational military formations of high-readiness and international peacekeeping operations in the framework of regional cooperation with EU countries through involvement of elements of joint Grand Hetman Kostiantyn Ostrogski Lithuanian-Polish-Ukrainian Brigade LITPOLUKRBRIG.

Also noteworthy is cooperation with the EU under the "Eastern Partnership" initiative. Since 2012, representatives of the Ministry of Defence and the Armed Forces of Ukraine are taking part in courses and discussions on CSDP issues. National Defence University of Ukraine named after Ivan Cherniakhovskiy acquired the status of Associate Partner of European Security and Defence College and joined the corresponding network. Every year, there is an Orientation Course on CSDP for Eastern Partnership member states.

On a separate note, I ought to mention the available potential for EU-Ukraine cooperation in the military-technical field.

In 2015, an Administrative Arrangement was signed between the European Defence Agency and the Ministry of Defence of Ukraine, which determined the initial areas of cooperation.

Ukraine's Defence Ministry is fully involved in projects "Material Standardisation" and "Single European Sky", we are working on our participation in the areas of "Logistics" and "Training".

To maintain the volume of cooperation in 2020 amidst the *COVID-19* pandemic, most activities are implemented via internet in the format of video conferences.

The growing threats to European security are stimulating the EU to look for new programmes and projects that will strengthen European defence sector and will complement NATO's security and defence efforts.

Currently, such European programme is PESCO. The Ministry of Defence of Ukraine has preliminarily identified projects (22 in 47 areas), which are of interest for further cooperation, for instance, "Military Mobility", "Upgrade of Maritime Surveillance", "EU Cyber Academia and Innovation Hub", etc. We are waiting for the EU Council decision, which will set conditions for third-state participation in PESCO.

Summarising the above, I would like to say that **European integration is a complex and multi-level process, which involves the implementation of best practices and principles of operation through political dialogue, practical cooperation and exchange of experience.** ■

OPINIONS OF INDEPENDENT EXPERTS

MODERNISATION OF THE ASSOCIATION AGREEMENT IS A NEW “STEP FORWARD”



Veronika MOVCHAN,
Academic Director
of the Institute
for Economic Research
and Policy Consulting

– How would you assess the effectiveness and pace of Ukraine’s European integration at this stage? What are the achievements and challenges on the way to the EU?

In 2014-2020, Ukraine has made significant progress in implementing the Association Agreement, which is the key element in Ukraine’s European integration process. It is important that achievements were made in each key sector of cooperation as defined by the Agreement. There are none, regarding which one could say that nothing has happened.

Yet the European integration process is not linear and is not developing at a constant speed, there are periods of fast changes and periods of slow development. Unfortunately, sometimes there emerge risks of annulment of prior achievements.

In the past year, European integration was not a steady process as well. After the high-speed mode of change in September-December 2019, we are observing a slowdown, at least in legislation, which in part can be attributed to the influence of the *COVID-19* pandemic on the political agenda. At the same time, joint EU-Ukraine summit statement on 6 October 2020, gives hope that European integration reforms will accelerate again in the near future.

What are the key achievements in the field of European integration over the past year? I would single out several sectors.

Customs. At the end of 2019, Ukraine finally adopted a number of long-awaited laws that introduce conventions on common transit procedure and on simplification of formalities in trade, which open the door to accession to the EU Common Transit System and create the environment for the start of work of authorised economic operators (AEO). In 2020, secondary legislation was being developed and software was being tested. It can be expected that our country will join the EU Common Transit System already in 2021, which will definitely be a positive step for foreign trade. Also, in September 2020, AEO application process has started.

Technical barriers to trade (TBT). At the end of 2019, we have finally voted for amendments to horizontal legislation as per EU recommendations, which unlocked the process of preparation for pre-assessment of Ukraine’s readiness for *ACAA* negotiations.

Protection of intellectual property rights In November 2019, we adopted a law that strengthens protection of intellectual property rights during export and import, and in summer of 2020 – several important laws on patent law and protection of rights to trademarks and industrial designs.

Financial markets. We have finally voted for the Split Law, which changes the system of regulation of financial services, as well as for the law on protection of rights of financial service consumers, which determines NBU responsibilities in this sector.

Public procurement. In September 2019, we adopted amendments to the law on public procurement, which expand the scope of mandatory use of the *ProZorro* system, introduce e-catalogues for standardised procurement, additional anti-dumping mechanisms in the procurement sector, etc.

Sanitary and phytosanitary measures (SPS). In November 2019, strategy on harmonisation of legislation in SPS, developed back in 2016, was finally included in Annex V of the Agreement. And in the fall of 2020, Ukraine achieved recognition of its seed certification system as compliant with EU requirements, which is an equivalent of *ACAA* for agricultural products.

However, the effectiveness of these important regulatory changes depends on their implementation, which is guaranteed by the efficient justice system designated to ensure the rule of law in the country. Unfortunately, the judicial reform in Ukraine has virtually come to a halt, and the newly built institutional anti-corruption system is at risk of collapse.

Moreover, risks in other sectors are also increasing. In summer, the question arose regarding the independence of the National Bank. The “localisation” law, adopted in the first reading, created threats for the process of opening the EU public procurement market, and the ideas of reorganising State Service of Ukraine for Food Safety and Consumer Protection – for reforms in TBT and SPS, and thus, for preparation for *ACAA* and recognition of equivalence.

At the moment, the need to modernise the Association Agreement is being discussed. And this is really important, as a large number of regulations mentioned in Agreement Annexes have already been replaced with new ones. Moreover, Agreement implementation showed that we require clearer institutional mechanisms for consultations in the process of legislation harmonisation, in order to accelerate and increase

the efficiency of the process. In 2021, it will be five years since the launch of Deep and Comprehensive Free Trade Area, which opens a window of opportunity for further liberalisation.

Thus, modernisation of the Agreement is a new “step forward”, further liberalisation of relations with the EU and integration of markets, not an opportunity to strengthen internal security. And the prerequisite for new successful steps is preservation and reinforcement of previous achievements. It is important to keep the preconditions standing in order to have new prospects.

– In your opinion, what are the priorities and directions for Ukraine’s sectoral integration into the EU and what steps should Ukraine take?

I would identify four sectoral priorities for EU-Ukraine cooperation in the near future. Note that I am talking about priorities related to economy. Clearly, the issues of the rule of law, democracy, human rights and security are fundamental in EU-Ukraine relations.

Signing of ACAA. Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) is a special type of agreement on mutual recognition of assessment equivalence, which requires legislative and institutional harmonisation of technical regulation system as a prerequisite for recognition. ACAA, as other agreements on mutual recognition of assessment equivalence eliminates the need for a conformity assessment in the country of destination, and thus reduces trade costs in case of both export and import.

Note that Ukraine may become the second country in the world, with which the EU signs ACAA. The first country that signed such an Agreement was Israel, with which the EU signed ACAA on certain types of pharmaceuticals.

Signing ACAA with Ukraine may become an extraordinary event for the EU, as agreements on mutual recognition of assessment equivalence are usually concluded with developed countries (USA, Canada, Australia), regarding which there is no doubt about the quality of testing. Instead, ACAA requires prior harmonisation of legislation and its adequate implementation, which creates an environment for formation of such trust between institutions. But even in this case, this is an extremely important signal for all of Ukraine’s trading partners: the country operates on rules and procedures that allow to ensure product safety on the same level as in the EU. This is something worth fighting for!

At the moment, parties plan to sign this Agreement concerning goods covered by three technical regulations: safety of machinery, electromagnetic compatibility and low-voltage equipment. Although, in the future, ACAA may include all 27 product categories mentioned

in the Association Agreement as requiring harmonisation of technical regulation.

As noted in the joint statement following the EU-Ukraine Summit in October 2020, EU experts are currently doing a pre-assessment of Ukraine’s readiness to sign ACAA. Based on this pre-assessment, it will be clear what must be done next. Most likely, there will be a number of suggestions, which will have to be taken into account before the official assessment and the start of negotiations.

Transport. Formally, the Association Agreement provides for the full opening of market for only one type of transport services, namely maritime transport. This is very important for Ukraine, but not enough. Air, motor and railway transport have to become other important elements of integration.

Signing the Common Aviation Area Agreement, which had been initialled a while ago, was expected in October 2020, but was postponed due to Brexit complexities. We would like to hope that in the early 2021, this Agreement will be signed, which will allow to unlock the process of Ukraine’s integration into European aviation market.

The situation with motor transport is much more complicated. Pan-European ECMT permit system currently covers only up to 15% of Ukraine’s needs, and increasing the number of permits for Ukraine does not seem possible due to problems within this organisation.

Also, EU member states retain the right to independently determine the volume of annual bilateral quotas for motor transportation, including both shipment of goods to the country and transit. Several years ago, Ukraine faced a shortage of motor transport permits in several key directions – in Poland, which is not only the main destination of Ukrainian exports to the EU, but also a key element of transit routes, both when exporting to Western Europe and in the case of imports. There is also a shortage of permits for Hungary, Romania and others. In 2020, Ukraine was forced to introduce quotas for Polish and Hungarian permits, which helped regulate the market, but did not solve the problem of deficit, even in the situation of declining volume of trade with the EU due to the economic crisis caused by COVID-19.

An important element of obligations in the trade sector under the Association Agreement is the so-called *standstill clause*, which contains a waiver of right to worsen market access conditions. Poland has gradually reduced the quota of bilateral permits it is willing to exchange with Ukraine (from 200 to 160 thousand per year), which Ukraine views as a violation of EU market access conditions.

It is obvious that Ukraine should aim its efforts to at least restore the level of access that existed previously. But an even more serious ambition is

to sign a separate agreement with the EU that would allow to integrate Ukrainian motor carriers into the system of European transport licences.

In railway transport, the Association Agreement provides for harmonisation of legislation, but does not contain direct commitments to create a common market. Meanwhile, the new Transport Community that the EU is creating with the Balkans provides such an opportunity. It must become our goal in EU-Ukraine sectoral cooperation for Ukraine to join this Community, although, unfortunately, this Community does not offer solutions to motor transport issues at the moment. But this may change.

Digital market. Digital development had been important even prior to *COVID-19*, yet now it gained new value, as global economy would not have survived without electronic communications and everything related to them – from access to infrastructure and high-speed internet to data protection and electronic trust services.

Integrating into EU digital market has been on Ukraine's agenda for a while. In the joint October summit declaration, this area of sectoral cooperation was mentioned as well. What is important here, is not to stop working on harmonisation of legislation and development of infrastructure, as well as achieving mutual recognition, for instance, regarding digital signatures.

Green Deal. European Green Deal (EGD) is not an agreement to be signed, rather, it is a comprehensive action plan of the EU that aims to transition to climate-neutral Europe by the year 2050. This policy includes the issues of energy and environment protection, biodiversity, circular economy, and green agriculture. An important element of EU policy is the use of economic, in particular, trade instruments to stimulate pollution reduction. This could be a serious challenge for Ukraine, as non-compliance will mean new trade barriers on the way to the EU market.

Thus, Ukraine must take active steps to ensure that trade barriers that will result from EGD implementation do not create restrictions on the path of Ukrainian goods to the EU, but instead, also protect the Ukrainian market.

First steps have already been made: Ukraine declared its readiness to participate in EU efforts aimed at achieving EGD goals and proposed its vision of Ukraine's role in this process. Further cooperation in this area was officially confirmed at the EU-Ukraine summit. But now begins the most difficult part – implementation of commitments. ■

PREPARE THE GROUND FOR EU MEMBERSHIP PROSPECT TO BECOME REALITY



Dmytro SHULHA,
European Programme
Director, International
Renaissance Foundation

– How would you assess the effectiveness and pace of Ukraine's European integration at this stage? What are the achievements and challenges on the way to the EU?

Positive outcomes of European integration are already very noticeable: visa liberalisation, trade growth, increased energy security. Currently on the agenda: implementation of provisions of the Association Agreement on removal of non-tariff barriers to access the internal EU goods and services market in a number of sectors. Also, there are remaining and even additional problems of ensuring stability, independence and efficiency of institutions, especially those that ensure the rule of law. These issues are holding back the fulfilment of potential of the free trade area with the EU, which could help attract investment and ensure economic growth, and also undermine the prospects of achieving our strategic goals in relations with the EU.

The EU eliminated import duties for Ukrainian goods back in 2014. Although there still remains the issue of tariff quotas for some types of agricultural products, non-tariff barriers to EU's internal goods and services market are more important. Their elimination in a number of sectors is foreseen in the Association Agreement, but EU decisions regarding this depend on whether Ukraine does its homework on regulatory approximation in relevant sectors.

We are moving forward with our homework in this area, but rather slowly, – slower than foreseen in the Agreement: on the average, we are 2-3 years behind.

In the gas market, in 2019, we have finally succeeded in implementing a number of European norms, namely, on creating an independent GTS operator and increasing gas market transparency. This, together with arbitration victories, allowed us to sign a contract with *Gazprom* on drastically different terms, and on the other hand – strengthen cooperation with European gas operators and traders. This is a good example of how progress in implementing the Association Agreement strengthens our national security, in this case – energy security.

Regarding other sectors, there are noticeable achievements in regulatory approximation in public procurement, sanitary and phytosanitary measures, technical regulation, and recently also customs and telecommunications. As a result, we have first corresponding decisions of the EU: first stage of opening of public procurement market, first precedent of recognised equivalence of measures ensuring safety of agricultural products (seeds), launch of EU assessment mission for concluding *ACAA*, update of Annex XVII-3 to the Association Agreement on telecommunications, start of work on simplification of customs procedures – prospective mutual recognition of authorised operators and accession to common *NCTS* transit system.

At the same time, there is some slowdown in the electricity sector (despite the fact that similar to natural gas sector, it is covered by the updated (enhanced) in 2019 Annex XXVII to the Agreement), and particularly, in all types of transportation.

Achieved in 2017, visa liberalisation became a huge success, tangible for millions of Ukrainians. Although at the moment, its realisation is essentially put on hold due to coronavirus, its resumption following the improvement of epidemiological situation may be impeded only by Ukraine's potential violation of visa liberalisation criteria, namely, regarding stability and independence of operation of anti-corruption institutions. After successful transformations in 2019, lately, it has been this sector where serious threats are emerging.

Following a number of infamous court decisions and ambiguous high-speed legislative proposals by the President, judicial reform issues came to the forefront in EU-Ukraine political dialogue. As a result, specific aspects of the judicial reform were included in conditions of EU (as well as IMF) macro-financial assistance programme for the first time.

Research by the European Business Association shows that low trust in Ukrainian courts is the main deterring factor for international investment.¹ Without an increase of investment, there is little hope for stable economic growth and narrowing the socio-economic development gap between us and our neighbouring EU member states. According to World Bank, in terms of GDP per capita, Ukraine still lags behind Poland by more than 4 times (in 2004, when Poland joined the EU, the gap was almost 5 times).²

Unfortunately, these are not the only problems. This list can be expanded with issues in stability and independence of key political and economic institutions, namely, regulators (Central Election Commission, NBU, Anti-Monopoly Committee, National Commission for State Regulation of Energy, etc.); a roll-back in a number of aspects of public service

reform crucial for the EU; protectionist initiatives in Parliament (e. g. localisation bill, which in EU's opinion violates the Association Agreement, while its authors refer to American and Chinese (!) experience of supporting domestic manufacturers).

These cases show that implementation of the Association Agreement has not yet become an absolute priority for the Ukrainian political class. Despite the fact that EU accession is captured in the Constitution as our goal, as previously, progress in necessary internal reforms remains impossible without external stimuli or “anchors”. In the absence of a definite membership prospect and another politically attractive “carrot” similar to visa liberalisation, currently, EU's most influential argument is micro-financial assistance – advantageous loans to cover state budget deficit.

However, I believe, that even without any additional “carrots”, EU's use of its political authority and expert potential to guide Ukrainian reforms is insufficient. For instance, unlike progress reports on the implementation of the Action Plan on Visa Liberalisation, EU reports on Ukraine's progress in implementation of the Association Agreement lack a detailed analysis, do not measure implementation progress (in percent or any other measure), do not propose “benchmarks” and do not provide clear recommendations.

This also goes for sectoral issues: a well-known example is the postponement of decision on sending EU assessment mission to Ukraine to analyse its progress in implementing preconditions for *ACAA*. In energy sector, provisions of Annex XXVII to the Association Agreement, updated back in 2019, provide for enhanced monitoring of Ukraine submitting its draft legislation to the EU for conclusions. This mechanism has not started working yet, and it looks like the reason is the lack of capacity on both sides.

– In your opinion, what are the priorities and directions for Ukraine's sectoral integration into the EU and what steps should Ukraine take?

Implementation of the Deep and Comprehensive Free Trade Area in the framework of Association Agreement – the agenda here is well known, as the Agreement itself identifies a number of sectors (14 in total), where Ukraine has a prospect of eliminating non-tariff barriers to gain access to EU's internal goods and services market. Namely: (a) customs procedures – there is a prospect of joining *NCTS* transit system and recognition of authorised economic operators; (b) technical regulation – opportunity to sign *ACAA*; (c) sanitary and phytosanitary measures – recognising equivalence for key categories of agricultural products.

¹ Investors have worsened the assessment of Ukraine's business climate to the level of 2015. – European Business Association, 2 July 2020, – <https://eba.com.ua/investory-pogirshlyly-otsinku-biznes-klimatu-ukrayiny-do-rivnya-2015-roku>.

² GDP per capita (current US\$) – Ukraine, Poland. – The World Bank, – <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=UA-PL&view=chart>.

In electricity – the prospect of joining *ENTSO-E*. In digital market – signing the agreement on mutual recognition of electronic trust services, as well as receiving internal market regime in telecommunications. As for public procurement, it is possible to open the market even more than provided for by the *GPA* under the auspices of WTO. The long-awaited Common Aviation Area Agreement must not only be signed, but also executed.

The new European Green Deal brings in new focal points, as it provides for the introduction of new technologies and standards in key sectors of economy – industry, agriculture, and especially, energy. Setting a course for decarbonisation creates challenges (e. g. the need to gradually shift away from coal industry) as well as opportunities (for instance, in the development of hydrogen energy), which did not exist at the time of signing of the Association Agreement. Overall, we are talking about transition to a different technological level, and Ukraine should not miss the right moment to join this transition together with the EU.

Priority of energy sector is determined not just by the decarbonisation course and not just by national security needs. It was in this sector that the first precedent of a major review of the Association Agreement emerged – in the form of updated Annex XXVII, which contains not just the reviewed “homework” check-list for Ukraine to approximate its legislation to current EU legislation, but also bilateral commitments to ensure enhanced monitoring. This is the sector with the deepest level of EU involvement in Agreement implementation.

This is a precedent that can be extended to other sectors in the framework of reviewing the Association Agreement (namely, its Annexes, as this is more realistic than changing the main body of the Agreement). Obviously, there will be more arguments for further extension of Annex XXVII model to other sectors, as its very implementation will be a success story.

However, given the current place of the rule of law issue on the agenda, justice sector should be at the top of the list of political priorities. At the political level, we should strengthen the existing formats of cooperation with the EU, namely, start a high-level policy dialogue on the rule of law that would allow to coordinate approaches to implementation of the judicial reform and directly involve the EU in creation and reformation of Ukrainian institutions.

At the technical level, we need to enhance our measurement of reform progress by using such EU instruments as *Justice Scoreboard* – to assess independence, quality and efficiency of Ukrainian justice system as compared to EU member states. Finally, in the context of reviewing the Association Agreement, we

should once again propose to the EU that commitments in the area of justice, freedom and security be specified in the form of a separate Agreement Annex – and it is not a problem that we will have to wait for it to be ratified by member states.

Rule of law is a key part of the first – political – Copenhagen criterion for EU membership (“The stability of institutions guaranteeing democracy, the rule of law, human rights, and the respect for and protection of minorities”). As we know, this first – political – membership criterion has to be satisfied before EU accession negotiations can be launched. And, ultimately, satisfying this criterion is important in itself, as Ukrainians wish to enjoy the same level of democracy, rule of law, and human rights as EU member states. So, why shouldn’t Ukraine set a goal for itself of achieving the first Copenhagen membership criterion? First, as a goal in itself, and in the long run, if there is clear progress – as an argument for submitting an application and launching accession negotiations.

Ukraine needs a strategic vision of a path towards achieving its goal of EU membership. Yes, at this stage we are unlikely to receive a membership prospect from the EU. Our main task at the moment is to increase trust towards Ukraine and, thus, prepare the ground for this prospect to become reality after successful implementation of the Association Agreement. For this, we do not have to look for a “new attractive visa liberalisation regime”. Ukraine’s Association Agreement already contains strong prospects of integrating into EU’s internal market – even stronger, than currently offered to candidate countries in the Western Balkans. Ultimately, Agreement implementation can gradually lead Ukraine to integration into the European Economic Area, i. e. EU integration according to the “Norway model”. Or – in the presence of political will of the EU and Ukraine’s achievement of the political criterion – to the launch of membership negotiations.

So, currently, Ukraine should focus not so much on asking the EU to provide new stimuli, as on asking it for assessment. If we are conscious of our goal, we need to keep track of our progress towards it as the time goes. If Ukraine is doing its “homework”, we need the EU to evaluate it, point out our mistakes and explain to us the correct ways of doing it. We can hardly be expected to implement 80% of EU legislative acts as provided by the Association Agreement, i. e. almost the same volume of tasks as that for candidate states, without corresponding support from the EU in the form of assessment (screening) and recommendations (benchmarks).

Without regular EU assessment missions and their recommendations, Ukraine would have been implementing Action Plan on Visa Liberalisation for a much longer time. The signing of *ACAA* is impossible without a prior positive conclusion of EU assessment

mission, same as recognition of equivalence for agricultural goods or the granting of internal market regime for telecommunications services. Completion of “homework” under energy sector Annex XXVII will hardly be possible without the work of enhanced monitoring mechanism envisioned in it.

We should also understand that implementation of the Association Agreement requires not only the adaptation of legislation. We need to strengthen relevant institutions responsible for state policy and regulation in all sectors covered by the Agreement. This, in particular, is the logic of Copenhagen EU membership criteria: first – stable and efficient political-legal and socio-economic institutions, and only afterwards – harmonisation of legislation. Otherwise, we will never be able to overcome the eternal Ukrainian problem of “having good legislation that, however, is not working”.

Only when we achieve progress in strengthening Ukrainian institutions, confirmed by EU evaluations, will we have stronger arguments to raise the topic of membership with the EU. . ■

WE ARE MOVING AHEAD ALONG THE PATH OF EUROPEAN INTEGRATION



Volodymyr FESENKO,
 Centre for Applied Political
 Studies “Penta”

– How would you assess the effectiveness and pace of Ukraine’s European integration at this stage? What are the achievements and challenges on the way to the EU?

Effectiveness and pace of Ukraine’s European integration at the moment largely reflect the current situation. Breakthroughs happened six years ago, when we signed the Association Agreement and the Deep and Comprehensive Free Trade Area Agreement between Ukraine and the EU, and in 2017, when the EU-Ukraine Visa Liberalisation Agreement was signed. At the moment, we are in the long-term stage of routine work on the implementation of the Association Agreement and gradual deepening of Ukraine’s European integration. Due to a number of objective and subjective reasons, neither Brussels, nor Kyiv are ready for new breakthroughs in European integration.

The European Union, namely, some of its member states, are not ready to approve Ukraine’s

EU membership prospects or to engage in Ukraine’s qualitatively deeper economic and institutional integration into the EU. There is a big risk that after the Balkan states’ integration into the EU, its further expansion may stop.

As I said above, Ukraine is not ready for a new breakthrough in European integration either. *First*, it is hard to break through when you are not being let in. *Second*, the war in the East of the country and our conflict with Russia divert domestic resources and create external problems, in particular, in the form of critical perception of Ukraine’s European aspirations by some western European countries. And above all, Ukraine’s institutional capacity is still not at a very high level. Unfortunately, this goes not only for European integration processes.

Problems are further exacerbated by intensified internal political fighting around anti-corruption institutions. This fighting has been going on since the moment of these institutions’ creation, and is now at yet another culmination point. This surge in fighting worries our international partners, particularly, Brussels.

Metaphorically speaking, the honeymoon period is now over, and European integration moved to the phase of slightly boring daily routine tasks with numerous “household” issues and this is, probably, the main political and psychological challenge for both parties. Not only do we have to endure different problems, work out certain contradictions while keeping the mutual “feelings” intact, we also have to build a mutually acceptable model of living together and future prospects. Kyiv wants a public recognition of the possibility of official “marriage” (i.e. EU membership) and is not happy with the status of a “close relative” that is kept close by, but not allowed into the family. Meanwhile, Brussels is not even ready to promise a possibility of “engagement”, to say nothing of the actual marriage, and keeps patronising and moralising, instead of real help.

Given these circumstances, the current pace and efficiency of Ukraine’s European integration can be deemed quite satisfactory. In this sense, the situation has not changed much with the election of the new President and two new governments in Ukraine. Quite the opposite, we have noted a positive trend of consistent European integration policy and commitment of all deputy prime ministers to European integration during the past year, despite certain fluctuations of internal political environment.

Both for President Volodymyr Zelenskyy and the Cabinet of Ministers of Ukraine, European integration is a key priority. At the end of 2019, right after the election of the new EU leadership, Ukrainian leaders established direct contact with new European Union heads. The President of Ukraine, even amidst the pandemic, stayed in monthly contact with EU leaders

over the phone. On 21 September 2020, President Volodymyr Zelenskyy met with High Representative of the EU for Foreign Affairs and Security Policy Josep Borrell in Kyiv. This was the first visit of the incumbent head of EU diplomatic mission to Ukraine. On 2 September 2020, the Government of Ukraine in its session approved the decision to form a Commission for Coordination of Association Agreement Implementation to be led by, among others, representatives of the Verkhovna Rada and the Office of the President of Ukraine. On 9 September 2020, with technical and legal amendments, the Cabinet of Ministers approved Government Priority Action Plan, which includes “industrial visa-free regime” with the EU as a key priority. It also declares Ukraine’s willingness to update the Association Agreement and discusses over 30 eurointegration bills in the framework of government programme “Road to Europe”.

Crisis tendencies related to *COVID-19* pandemic and global economic recession became a challenge and a deterring (however, no catastrophically so) factor for Ukraine’s European integration. They have affected both Ukraine and the EU: slowed down our country’s socio-economic development and created major internal problems for the European Union. These trends and their consequences may well continue into the next year.

A good demonstration of achievements and problems of the current stage of Ukraine’s European integration, as well as its specific aspects, was the EU-Ukraine Summit on 6 October 2020. Prior to the event, there were many catastrophic and apocalyptic predictions, in particular regarding cancellation of visa-free travel for Ukraine (due to domestic political tensions that arose around anti-corruption institutions). But even Volodymyr Zelenskyy’s critics had to acknowledge that this summit was a success both for him and for Ukraine (its European integration).

The EU officially confirmed that Ukraine did not violate visa liberalisation criteria and that visa-free travel will resume as soon as the pandemic starts slowing down. Yet the main achievements of the 2020 EU-Ukraine summit were the confirmation of movement towards “industrial visa-free regime”, Brussels’ agreement to update the Association Agreement (in particular, its appendices) and continue anti-Russian sanctions. The EU also promised to provide *COVID-19* vaccine to Ukraine. Summit decisions guarantee that Ukraine will be part of the global equitable access to *COVID-19* vaccines initiative.

These are important, yet strictly tactical victories. All of them had to be forced out, if not “hammered out” of European partners, we even had to fight for compromise language in the joint statement. A telling situation emerged with the opposition of one of the EU members (sources say it was France, which French themselves deny), who would not agree to the phrase on further

integration of Ukrainian and EU markets. But if the EU refuses to promise us market integration, what real European integration can we talk about, to say nothing of Ukraine’s EU membership prospects?

Yet, we are moving ahead along the path of European integration. And this is the main positive trend.

– In your opinion, what are the priorities and directions for Ukraine’s sectoral integration into the EU and what steps should Ukraine take?

First given the current stage of Ukraine’s European integration, the key priority has to be gradual and consistent expansion of opportunities for Ukrainian goods to access EU markets. The update of the Association Agreement (more precisely, its appendices) and work on the “industrial visa-free regime” should be aiming to do exactly that. This includes changing trading rules (liberalisation, moving towards cancellation of the rest of duties and quotas), as well as signing the *ACAA* (“industrial visa-free regime”), which has to become a new appendix to the Association Agreement.

Second, given that at this moment in our cooperation with the EU updating the Association Agreement will be at the forefront, this is what we should focus on, using these negotiations to deepen institutional integration between Ukraine and the EU.

For instance, because at the moment there are noticeable political tensions around the topic of anti-corruption institutions and the judicial reform, which causes heightened attention from the EU (its leaders and MPs), it makes sense to solve this problem on the institutional basis. Specialists propose using *EU Justice Scoreboard* and *EU Anti-Corruption Report* instruments. Thus, it is proposed to alter the Association Agreement in a way that would allow to use these instruments for Ukraine.

As regards the advancement of our trade interests in relations with the EU, our ultimate goal is full tariff liberalisation in trade in goods. But we have to approach this gradually and flexibly not to provoke a dramatic opposition from certain European countries. To achieve this, we should define priorities and sequence of commodity groups to ensure most efficient expansion of our presence in European markets. The tactics of advancing the “industrial visa-free regime” should be similar.

Another important goal in trade relations with the EU is the gradual resolution of the non-tariff barriers problem. First of all, this includes the food sector. This is our own domestic work. We need a deep reform of Ukrainian systems of certification, examination of compliance with sanitary and phytosanitary measures.

One of our main priorities has to remain integration in the energy sector. But at the moment, what we need in this area is active cooperation with individual

European states and companies, not the EU as a whole.

I would also like to note that the new EC leaders are now prioritising and placing at the core of their policies the so-called *Green Deal*. As far as I know, the Ukrainian Government and Deputy Prime Minister for European Integration Olha Stefanyshyna are actively working to ensure that Ukraine finds its place in this Agreement. This is in our interest both strategically and tactically.

Among our closest priorities is “open sky” or Common Aviation Area Agreement, which, among other things, will make it easier for low-cost airlines to open new routes from EU cities to Ukraine. I believe that this problem will be dealt with in the nearest future, most likely, next year, immediately after the pandemic is over.

Outside the Association Agreement, we need active and systematic work to attract major European investment in the development of Ukrainian economy, especially in the modernisation of our infrastructure. Both President Zelenskyy and our Government understand this, which was confirmed during the recent visit to Ukraine of the President of Poland Andrzej Duda. In this case, however, general invitations are not enough, we need to create attractive stimuli for potential investors and ensure systematic work with them. ■

EUROINTEGRATION IS THE KEY COMPONENT OF OUR COUNTRY'S FOREIGN POLICY



Yevhen MAHDA,
 Director of the Institute
 of World Policy

– How would you assess the effectiveness and pace of Ukraine's European integration at this stage? What are the achievements and challenges on the way to the EU?

In my opinion, the EU-Ukraine Association Agreement and corresponding changes to the Constitution of Ukraine, which solidified Ukraine's European and Euro-Atlantic integration, are the key components of our country's foreign policy. They can be viewed as our achievements, but we cannot turn a blind eye to the existing problems.

During the Revolution of Dignity, Ukraine has determined its own course towards European



integration, having paid for it with lives of its citizens – the highest of all prices. Further developments – Russia's occupation of Crimea and the incitement of a “hybrid war” in Donbas – were Kremlin's response to the threat of losing Ukraine as the object of its exclusive political influence. Thus, Ukraine's actions aimed at European integration require a certain asymmetry.

We should pay attention to several aspects:

- Lately, discussions of European integration have disappeared from the public agenda of Ukrainian political elites. In my opinion, such approach to achieving an ambitious foreign policy goal is unacceptable.
- Top members of the ruling party allow themselves to insinuate on the subject of Association Agreement and expediency of its implementation, thus creating a favourable information environment for provocations on the part of Russia.
- Statement of High Representative of the EU for Foreign Affairs and Security Policy Josep Borrell that “The EU is not a charity or ATM for Ukraine” expressed after his visit to Kyiv, despite a prompt retraction, has deeply affected the minds of our political establishment.
- The high rate of *COVID-19* cases makes extremely current not just the topic of EU-Ukraine cooperation on obtaining a coronavirus vaccine, but also the topic of visa liberalisation regime operation for Ukrainian citizens. Political declarations of maintaining the regime and resumption of normal operation after the end of the pandemic are effectively lost in the flood of fake information.
- The EU is not hiding its interest in a more vigorous fight against corruption in Ukraine, and the reform of the judiciary, which seems to be a prerequisite for increasing investment in Ukraine's economy.
- One more aspect – Ukraine is becoming unpredictable for our traditional partners in the

Baltic states and Visegrad Four representatives, i.e. states with successful experience of European integration.

I will not be mistaken, if I say that the extent and degree to which Ukraine lacks necessary reforms not only cause worries in our European partners, but also cast doubts on further success of Ukraine's integration into the EU. It seems wise to abandon the delusional perception of Ukraine's European integration prospects. We should wake up to the truth and acknowledge that we can only talk about Ukraine's medium and long-term eurointegration prospects.

– In your opinion, what are the priorities and directions for Ukraine's sectoral integration into the EU and what steps should Ukraine take?

Ukraine should not lull itself with the rhetoric on the uniqueness of its Association Agreement. This fact is the result of the size of our state and its population quantity. Priorities of Ukraine's substantive action aimed at European integration should include:

- Developing "Eastern Partnership" programme and Ukraine's leadership in this project. Although the EU talks about priority integration of the Balkan countries, Ukraine must become a driver of European integration in the post-Soviet area.
- Joint effort to ensure the democratic development of Belarus. The political crisis in this country not only threatens to strengthen the authoritarian regime of Alexander Lukashenko, but is also a test of the ability of Belarus' neighbours to effectively influence the socio-political discourse within the country.
- Digital integration of Ukrainian and European markets, which should become a manifestation of cross-border hi-tech cooperation.
- Joint counteraction against the spread of fakes and disinformation remains not only a relevant, but also a long-term task for Ukraine and the EU. Only in this way, by combining the neutralisation of fakes with providing information about the neighbours, is it possible to create a favourable environment for accelerating Ukraine's European integration.
- Strengthening security cooperation between Ukraine and the European Union should not replace our enhanced cooperation with NATO. Instead, the issues of strengthening Ukraine's security and reforming its law enforcement agencies require extensive European experience, in particular that of our country's neighbours.
- Integrated border management, which can not only speed up customs procedures and border crossing, but also become an argument in support of European integration for sceptics. In Ukraine,

this includes working on our mistakes in managing borders with EU member states.

- Energy integration, in particular, through Ukraine's participation in the "Three Seas Initiative". The Ukrainian GTS should not be viewed solely in the context of transporting Russian energy resources to the EU, it should work for the benefit of European energy security in a broader context.
- Fighting for the "industrial visa-free regime" and facilitating an investment boom of EU member states in Ukraine. Increase of commodity exchange between Ukraine and the EU by 2/3 since 2014 is a proof of Ukraine's potent export capacity and ability to supply competitive products to the EU market.
- Signing the Common Aviation Area Agreement and facilitating the development of transport corridors involving Ukraine and EU member states. The modern world requires faster movement of both people and cargoes. We must fill the concept of our country's strategically beneficial location with real significance.
- Transfer of EU legislation on intellectual property protection, development of land market, stimulating the development of small and medium-sized enterprises. I believe that in many areas of market economy there is no need for Ukraine to invent its own wheel, instead, we should find a way to effectively adapt EU practices to Ukrainian circumstances.
- Creating the foundation for real de-oligarchisation through increasing the relative share of small and medium-sized enterprises (SMEs) in Ukrainian economy. It must be understood that strengthening SME's position in Ukrainian economy will help increase trust between Ukraine and representatives of Central Europe and the Baltic states.
- Negotiations on the update of the Association Agreement with the aim of increasing quotas for Ukrainian product exports to the EU. Although there is no guarantee of success in these negotiations, I view them as useful for Ukraine's integration into the EU, as negotiations process will allow Ukrainian diplomats to work on their line of argument, gain the necessary experience.

I am convinced that, for Ukraine, European integration is a process that is more important than the result. At the moment, there is considerable lack of information activity and substantive action in this area in Ukraine. Therefore, filling Ukraine's information space with comprehensive knowledge about the EU, achievements and issues of our European integration seems crucially important. ■

PATHS AND DIRECTIONS OF EUROPEAN INTEGRATION IN EXPERT ASSESSMENTS

Expert study was conducted by the Razumkov Centre with support of Konrad Adenauer Foundation Office in Ukraine, and covered the problems and special aspects of EU-Ukraine relations, the current state and prospects of sectoral European integration¹

In the survey, expert community representatives were assessing the pace of Ukraine's progress towards the EU, government policy in European integration, factors that complicate the development of Kyiv-Brussels relations overall, and implementation of the EU-Ukraine Association Agreement in particular.

Another important component of the study are experts' opinions and assessments of priority areas of sectoral integration, corresponding measures and steps that will facilitate the advancement of EU-Ukraine cooperation in different sectors, namely, in energy, security, industrial production, human rights, science, environment, etc. Clearly, it is important to identify priority directions within the total scope of sectoral cooperation, which would act as "locomotives" driving the fast development of Ukraine's economy and proving the efficiency of eurointegration course to our citizens.

Expert assessments are also of interest in the light of the 22nd EU-Ukraine summit that took place right before the survey (6 October 2020), and determined directions and prospects in Kyiv-Brussels partnership, as well as gave an impetus to the process of updating of the Association Agreement. Expert assessments of summit results are interesting, in particular, from the point of view of determining Ukraine's priorities in the future negotiations on updating the Association Agreement.

In this respect, it is important to note one fact. Ukrainian expert community demonstrates a consistently high level of support for Ukraine's eurointegration course and the idea of EU accession.

Survey results provide grounds for future observation and conclusions..

Pace, Character and Special Aspects of Ukraine's European Integration

Talking about expert assessment of the pace of eurointegration, we should note that in the recent study period (2019-2020), as compared to previous years (2006-2012), expert assessment of the pace of Ukraine's movement to the EU was comparatively higher. Yet these characteristics cannot be called satisfactory – 36% of respondents said that eurointegration pace was "medium", and half of experts – "low". And only 6% of experts believe that Ukraine is moving in the European direction at "high" speed.

Certain positive dynamics in expert assessments can be explained by headline-making breakthroughs in European integration – entry into force of the

EU-Ukraine Association Agreement, introduction of visa-free travel to EU member states. Also, we have captured our course towards EU accession in the Constitution.

At the same time, we can assume that scepticism in expert assessments is attributed to the fact that the declared eurointegration course has not yet transformed into practical socio-economic results tangible for citizens in their everyday lives. It is also hard to talk about the efficiency of introducing European norms and standards into our socio-political practices and system of economic relations in Ukraine.

Ukrainian experts are rather critical of eurointegration policy of the country's current leadership. Most often they describe it as unclear

¹ Expert survey was conducted on 15-28 October 2020. We surveyed 107 experts in 17 Ukrainian oblasts and the city of Kyiv – representatives of relevant ministries and departments, regional government authorities, state and non-governmental research agencies, instructors from higher education institutions, independent experts, public figures. Results of this study are compared with results of previous studies done by the Razumkov Centre.

to society, inefficient, lacking a definite action strategy, inconsistent. Experts believe that state policy in European integration also lacks transparency and openness, intelligibility for partner states.

Such evaluations can be explained by various factors. *On the one hand*, actions of the current leadership in the European direction contain mistakes and miscalculations, both due to lack of experience, lack of strategic vision for implementation of the integration course, as well as due to contradictions between European integrators within the leadership team itself. In particular, this includes: unsatisfactory results in anti-corruption efforts, “leapfrog games” with staffing of relevant government agencies and their ill-considered reorganisation, miscalculations in legislation, which was being adopted in the “high-speed mode”, contradictory statements about further cooperation with the EU, long-term absence of the head of Government Office for European and Euro-Atlantic Integration, etc.

On the other hand, there is a lack of effective public government activity in the information sector, media positions are weak, and there is also the aggravation of confrontation with opposition forces that share European values and support European integration course. It is also obvious that resisting Russian aggression, restoring peace in Donbas, fighting the pandemic and the ensuing complications of the domestic socio-economic situation, in one way or another, lower the position of European integration issues on the list of priorities.

EU Interests in Cooperation with Ukraine

Experts believe that EU interest in cooperation with Ukraine is specific and pragmatic. In the hierarchy of EU interests in Ukraine created by experts, they ranked Brussels’ economic interest in “Ukrainian market for EU products” first (75%). This is understandable from the perspective of operation of Kyiv-Brussels free trade area and a noticeable growth of the share of EU goods and services in Ukrainian imports. Second (66%) came “attracting skilled professionals, cheap labour”. Such evaluation is likely due to the high rate of labour migration of Ukrainian citizens to EU countries (which is currently suspended as a result of the *COVID-19* pandemic). However, this interest of the EU that causes human capital flight and “outflow” of qualified workforce from the Ukrainian market is hardly beneficial and positive for the Ukrainian side.

Third (64%) was “strengthening security and stability on the European continent”. This interest of the EU is justified by the need for joint opposition to Russia’s expansionist policy in Europe, settlement

of the armed conflict in eastern Ukraine, etc. Undoubtedly, this issue is a priority for the European Union given its active policy of supporting Ukraine in combating Russian aggression and political efforts in the negotiation process, including within the Normandy format.

Looking at the overall picture of expert assessments, we should pay attention to the following aspects. *First*, they believe that the EU is interested in the development of democracy and market reforms in Ukraine. But for Brussels, Ukraine’s achievement of the EU membership criteria is not a top priority. Among other factors, this is also due to the fact that given the background of its own accumulated problems, the EU is not ready and is not planning to outline definite membership prospects for Ukraine; there is also no consensus among EU member states regarding this issue.

Second, experts are rather doubtful as to the EU’s interest in importing Ukrainian products. Also, for various reasons, interest in Ukraine as a transit country for Russian energy is not a priority.

Third. Only a small part of respondents believe that the EU is not interested in contacts with Kyiv. That is, experts are generally convinced that the EU seeks to develop cooperation and partnership with Ukraine, but protecting its own interests.

Factors that Inhibit European Integration

Evaluations above are connected to the factors that inhibit Ukraine’s progress towards the EU. Experts believe that the main inhibitions are: high level of corruption in Ukraine (4.2 points on the six-point scale), insufficient level of economic development (3.5), current Ukrainian leaders’ lack of European integration strategy (3.4), as well as the Russia Factor – Moscow’s hybrid aggression, opposition to Ukraine’s eurointegration progress (3.2).

Note that Europe thinks it is Ukraine’s unsatisfactory anti-corruption efforts that block the EU-Ukraine partnership development. This is a long-term chronic problem in the relations between Kyiv and Brussels. Moreover, lately, the situation with Ukrainian anti-corruption bodies has worsened, which causes concern in official Brussels.

Apart from that, Russian aggression is a major factor that inhibits Ukraine’s eurointegration progress. On the one hand, “hybrid war” waged by Kremlin against Ukraine requires huge financial and political resources, which could otherwise be directed towards European integration. On the other hand, Russia’s expansion in Europe is aimed at blocking and discrediting Ukraine’s European integration efforts, and disintegrating the EU from within.

² Scale from 0 to 5, where “0” means that a factor has no adverse effect at all, and “5” – a factor blocks progress to a maximum.

³ This study was conducted before the high-profile decision of the Constitutional Court of Ukraine as of 27 October 2020, which declared a number of provisions of anti-corruption legislation unconstitutional.

Among other obstacles on our path to the EU, experts name unfavourable geopolitical trends. In this regard, there are grounds to talk about dangerous growth of conflict and turbulence in Europe and in the world, a surge of confrontation between global actors (USA, Russia, and China), outbreak of regional conflicts (Belarus, Nagorno-Karabakh), etc.

In turn, experts also note the absence of EU guarantees regarding Ukraine's future membership. Clearly, this factor is also inhibitory, as the lack of clear prospects for accession to the European community cannot but affect the character and pace of Ukraine's eurointegration.

To a certain degree, this is also connected with EU's internal issues, which experts also include in the list of factors that inhibit European integration. Indeed, the EU is currently undergoing difficult times of rising internal conflict, growing activity of right-wing radical forces, populism, and economic problems. The negative impact of these factors is exacerbated by the outbreak of the pandemic, the growth of "quarantine anarchy".

It is noteworthy that the last place in this hierarchy of adverse factors is occupied by the statement on "general civilisational, cultural differences between Ukraine and the EU". We can assume that most experts believe this factor to be either non-existent or insignificant in its impact.

In this context, experts' opinions on measures that would facilitate European integration are quite expected. In the first place experts named intensification of Ukraine's fight against corruption, ensuring effective work of anti-corruption agencies. As well as implementation of real, instead of declarative reforms for approximation to EU norms and rules.

At the same time, they believe it is important to focus on priority integration into certain EU sectoral markets, which can be the "locomotives" of economic development. This means setting priorities in sectoral cooperation with the organisation having identified the most rewarding sectors, which will have a tangible effect for the recovery of Ukrainian economy in the near future.

Outlining measures that will facilitate our EU integration, experts also emphasise the need to review principles of cooperation in a number of sectors – i. e. update the Association Agreement (this issue will be discussed below).

Rather relevant is the statement regarding the need to ensure compatibility of legislative initiatives with the provisions of EU law. De facto, this concerns both – adaptation of Ukrainian legislative framework

to EU norms, and compliance of Ukrainian novel legislation with common European standards captured in the Association Agreement.

Other steps aimed at intensifying European integration also include creating and implementing an innovative development strategy for the national economy. This aspect is important from the standpoint of increasing the "economic weight" of the country in general, as well as for ensuring competitive strength and attractiveness of products manufactured by Ukrainian producers in European markets.

EU-Ukraine Association Agreement: Implementation Status, Challenges

Figuratively speaking, the Agreement is a "roadmap" for Ukrainian reforms in the framework of the country's progress towards the EU, a basic document that defines and regulates the complex of relations between Kyiv and Brussels in the medium term.

Experts' overall assessment of the efficiency of EU-Ukraine Association Agreement implementation is rather modest – 3.1 points. This assessment largely corresponds to the dynamic of government monitoring of Agreement implementation. According to the Government of Ukraine, in 2017, document execution rate was 41%, in 2018– 52%, and in 2019 – 37%. Obviously, the pace and quality of Agreement implementation cannot be considered optimal.

What impedes the implementation of Agreement provisions? On the one hand, the factors above, which in general slow down Ukraine's eurointegration movement. On the other, – a number of specific issues that complicate practical implementation of this document in particular. Thus, experts identify the following factors. First, low efficiency of government system in Ukraine, inadequate interdepartmental coordination, personnel problems (76%). Second, lack of optimal planning, determination of priorities (39%) and lack of coordination between Agreement implementation and internal reforms (39%). Third, systemic weaknesses in enterprise management and in the culture of doing business (36%).

Among other issues, experts also name low level of awareness of citizens and business about the content of the Agreement and its possibilities, unregulated issues within the agreement, and obsolescence of a number of specific provisions. According to experts, the negative impact of the deficit of financial support for Agreement implementation is relatively smaller. Also, in the overall structure of assessments, insufficient support

⁴ On the five-point scale from 1 to 5, where "1" means implementation is inefficient, and "5" - very efficient.

⁵ See: Ukraine's European Integration: the Russian Factor. Analytical report by the Razumkov Centre.– National Security and Defence, 2020, No.1-2, pp.8 - 10, – https://razumkov.org.ua/uploads/journal/eng/NSD181-182_2020_eng.pdf.

from the EU is not critical. Experts also believe that against the background of the abovementioned factors, the outbreak of the global *COVID-19* pandemic impedes the implementation of the Association Agreement to a much lesser degree.

Lately, the issue of updating, modernising the Association Agreement has become more relevant in domestic Ukrainian discussions and in the dialogue with the EU. Most experts, who took part in the survey, clearly think that the Agreement must be amended. Thus, 37% and 49% of experts answered “yes” and “rather yes”, respectively. Only 5% were against.

Certainly, there are objective grounds for Agreement updating. Note that the final round of negotiations where all provisions of this Agreement were approved took place in November 2011 in Brussels. This means that the text of the Agreement has not been changed since 2011 (except for certain local corrections, namely in the “energy” annex).

In the past nine years, a lot of important changes and events have taken place in Europe and in the world; political, economic and social scenes in Ukraine and the EU have undergone major changes, as well as our cooperation agenda. Russian aggression against Ukraine was launched in this period. In the end, the global pandemic broke out. It is obvious that these massive events and transformations have significantly affected the EU-Ukraine relations, their character, specific aspects, and the atmosphere of partnership. Thus, it becomes clear that the Agreement must be updated to match the current reality.

In this context, it is interesting to look at opinions of representatives of Ukrainian expert community on the update of Agreement Title II on cooperation in foreign and security policy. It is understandable that in view of Russia’s military aggression against Ukraine, occupation of Crimea and Donbas, it is the topic of security that has become crucial for official Kyiv.

Thus, the majority (76%) of experts support the need to update Title II of the Agreement to a different degree (“yes” – 47%, “rather yes” – 29%). This position is understandable given the need to strengthen security partnership due to the threat of Russian expansion to Ukraine and Europe as a whole. At the same time, this Agreement section, unlike others, is extremely concise, and does not contain any specific plans or programmes, and is rather a framework declaration of intent. The EU is obviously not a military bloc like NATO, but the security part of the Association Agreement still looks outdated and out of sync with reality – the threats and challenges that Ukraine and the EU are currently facing.

Sectoral Integration

Integration into the EU takes place in many sectors that define the system of relations between Kyiv and Brussels. In particular, government website “Agreement Pulse” carries out monitoring of Agreement implementation in 24 sectors – from human rights to intellectual property. At the same time, it is clear that integration in different sectors has different scale, rate of progress, and timeline of expected results.

Thus, as noted above, one of this study’s tasks is to determine experts’ views on priority areas of sectoral integration with the EU, which would act as “locomotives” for the upward development and modernisation of our economy, socio-political system, scientific-technological and humanitarian progress. We are not talking about division into “important/not important” areas, rather about identifying key priorities within the system of sectoral cooperation.

Assessing the importance of areas of sectoral integration, experts create the following hierarchy. *First*, energy (4.5 points). This is due to importance of energy sector for the country’s development, priority of further integration into European energy markets, as well as a complicated situation around the Nord Stream-2 project, etc. *Second*, experts name the science and technology sector (4.4), which is the fundamental component for modernisation of the country’s economy in general. Obviously, partnership with the EU in development and implementation of new technologies is a priority area.

At the same time, experts also paid attention to such area as “freedom, human rights” (4.4 points). This is a rather sensitive, problematic area, a subject of constant attention of the EU and the topic of Kyiv-Brussels dialogue. This issue is relevant from the point of view of both Ukraine’s internal processes and events in the neighbouring Belarus.

Experts believe that priorities of sectoral cooperation also include security and defence (4.3 points). For a long time, this issue has remained in the top on the agenda of EU-Ukraine relations in the light of the military conflict waged by Russia against Ukraine, as well as the dangerous threats of terrorism and extremism in Europe, growth of potential for conflict in the EU, etc.

Relevance of environmental area (4.3 points) can likely be explained by the priority of environmental problems, fight against climate change in recent EU policy. Ukraine is interested in joining the European Green Deal, which aims to make Europe into a climate-neutral continent. This is a very promising area of cooperation, even more so, given the dangerous environmental situation in Ukraine.

⁶ In March and June 2014, the political and economic sections of the Agreement were signed, and on 1 September 2017 – the Agreement came into force.

⁷ On the five-point scale from 1 to 5, where “1” means a vector is of minimal importance, and “5” – of utmost importance.

The hierarchy of priorities also includes such fundamental areas as industry and entrepreneurship, financial sector, agriculture, as well as digital economy, the importance and value of which are on a speedy rise. The role of e-services and “distance commerce” is becoming more relevant, particularly in the situation of the global *COVID-19* pandemic.

Outlining top-priority steps aimed at development of sectoral integration, experts pay attention foremost to acceleration of negotiations and signing of Agreement on Conformity Assessment and Acceptance of Industrial Products (*ACAA*), the so-called “industrial visa-free regime” (initially, this agreement will cover three priority sectors – low-voltage electrical equipment, electromagnetic compatibility of equipment, machines). “Green light” for Ukrainian industrial products is an important step for further liberalisation of trade relations between Kyiv and Brussels as this Agreement opens up the possibility of expanding the “visa-free regime” conditions to other sectors of industrial production.

Second important step, in experts’ opinion, is expanding Ukraine’s real possibilities for accessing EU structural and investment funds. This means intensification of investment cooperation with European partners, more efficient use of financial opportunities of the European Union to strengthen Ukraine’s socio-economic capacities.

Experts also draw attention to the importance of raising quotas in agricultural products trade. This topic is rather sensitive, as, on the one hand, some limiting “agro-quotas” are quickly exhausted due to Ukraine’s rather strong capacities of agricultural product supplies to EU countries. And on the other hand, there are some apparent problems that go along, – Ukrainian products create competition for European producers in their own markets.

Other important steps include the need to detail the vectors and plans for cooperation with the EU in the security sector in the text of Association Agreement, as discussed above. Respondents also mentioned the relevance of approving a cooperation plan for electronic trust services (integration into EU digital market).

In this context, an additional illustration of the need to intensify sectoral cooperation between Ukraine and the EU are expert assessments of results of the 22nd EU-Ukraine summit. First of all, respondents noted the mutual agreement to strengthen economic integration and regulatory convergence in the framework of the Association Agreement, and updating its annexes. In their opinion, an important summit result is the launch of process of concluding the “industrial visa-free regime” Agreement.

Talking about summit results, experts also highlight EU support of Ukraine’s sovereignty and territorial integrity, condemnation of Russian aggression and continuation of sanctions against Russia. Kyiv-Brussels solidarity is also affirmed by the intentions to

strengthen joint efforts to combat the pandemic, ensure access to the future *COVID-19* vaccine at affordable prices.

Prospects in Kyiv-Brussels Relations

At the moment, there are grounds to talk about lack of strategic goals in Kyiv-Brussels relations. Overall, EU-Ukraine cooperation is focused on Ukraine doing its “homework” in the framework of the Association Agreement. In particular, this includes progress in important sectoral areas: introduction of “industrial visa-free regime”, Ukraine’s integration into EU energy and digital markets, liberalisation and removal of barriers in bilateral trade, etc. These are practical medium term prospects. At the same time, a truly important aspect is joint counteraction against Russian expansion in Europe.

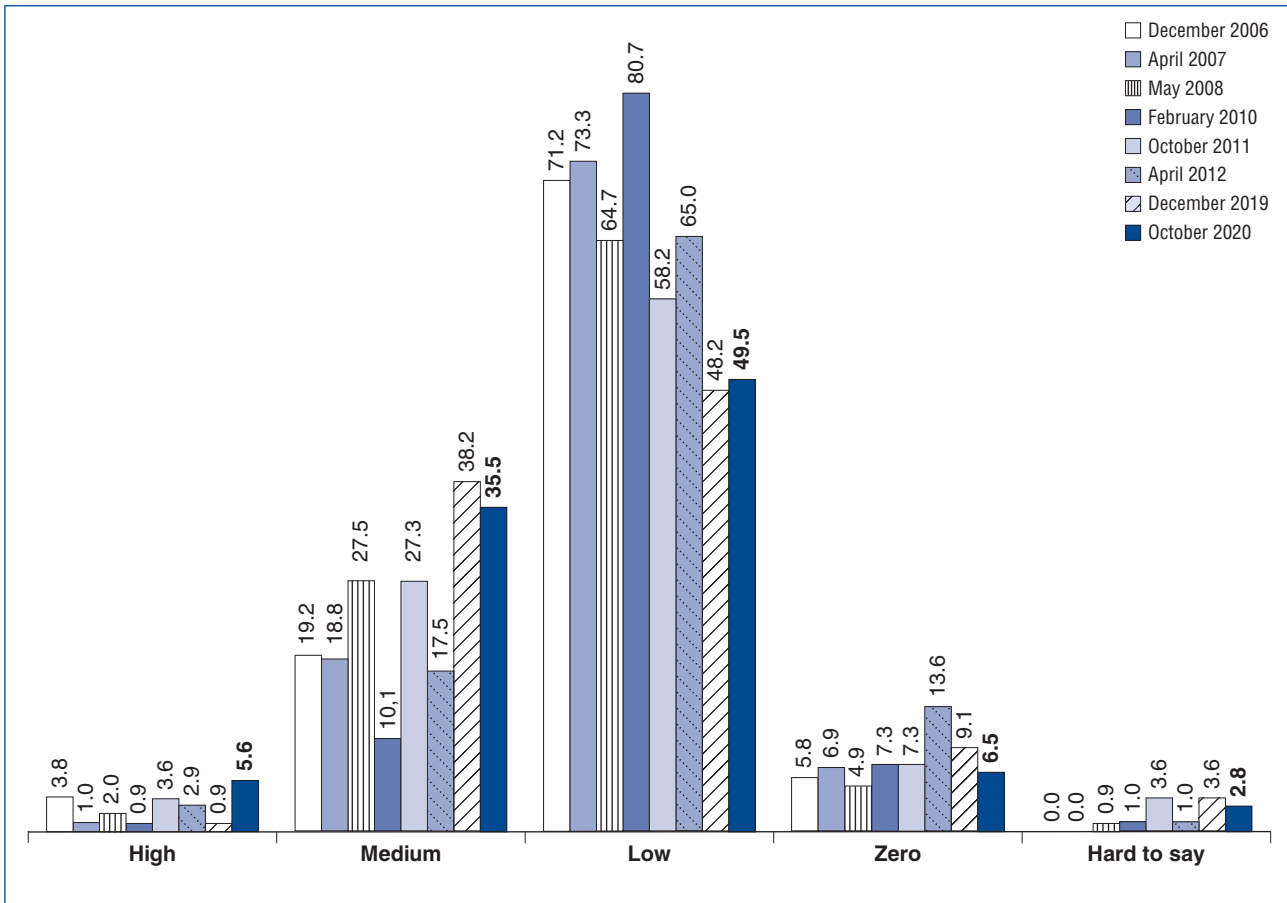
That said, the Association Agreement focuses on political association and economic integration between the EU and Ukraine, but does not provide any prospects of EU accession. Remember that lately, President Volodymyr Zelenskyy has repeatedly and openly mentioned the need to outline definite prospects for Ukraine’s EU membership. So, should Ukraine raise the topic of determining its EU membership prospects on the official level in its negotiations with the EU? This question was positively answered by 65% of experts. However, 14% of experts believe that there is no need for this, and one fifth of respondents remained undecided.

The position of majority is understandable. A clearly defined and approved prospect of EU membership is a powerful stimulus and mobilising point of reference in the eurointegration process, an important signal for Ukrainian society, a clear answer to sceptics convinced that no one is waiting for Ukraine in the EU. Yet, on another note, we should acknowledge that as said above, there is no unity in the EU regarding this issue and EU institutions’ counterarguments have been voiced and are well-known. Obviously, coming forward with foreign policy initiatives is appropriate in the situation of favourable conditions for such initiatives.

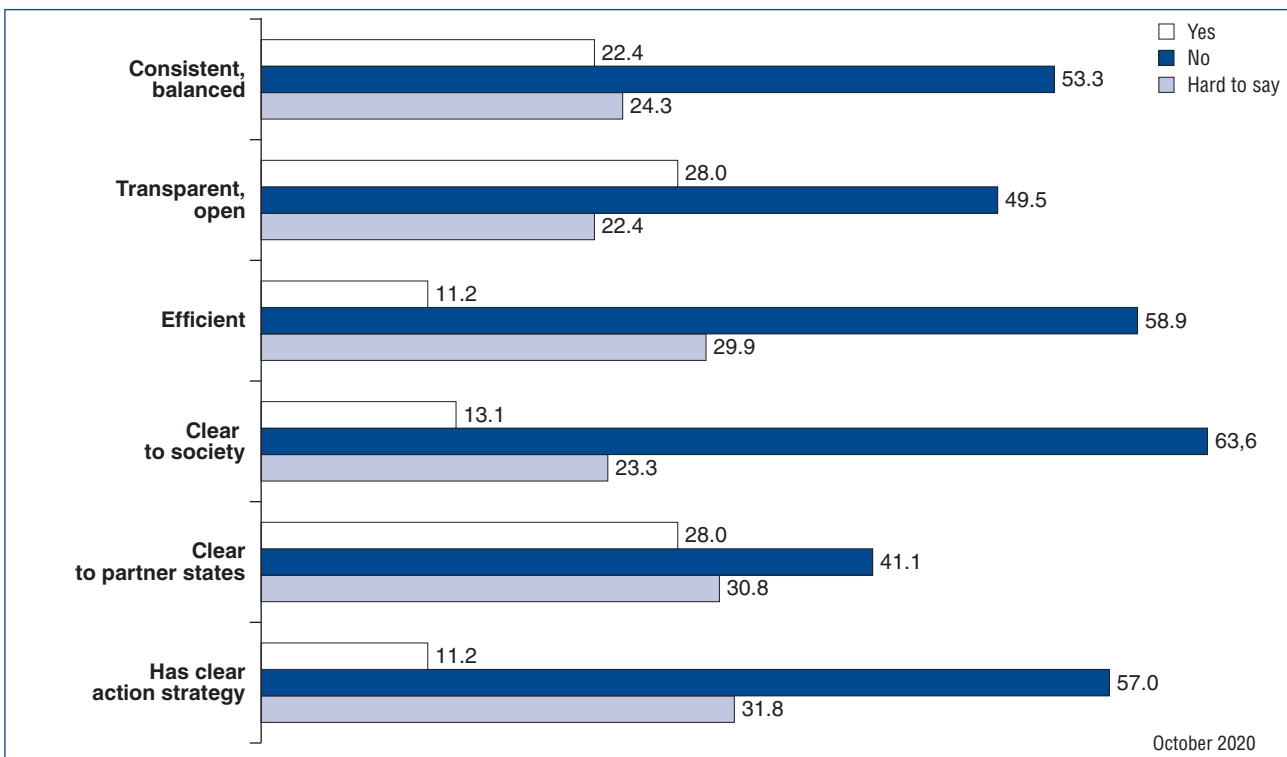
Thus, experts’ prognosis regarding prospects in the development of EU-Ukraine relations in the next years are rather predictable. 31% are convinced that relations between Kyiv and Brussels will improve. 51% believe they will remain without changes. And only 2% of respondents are sceptical, predicting a deterioration in EU-Ukraine relations.

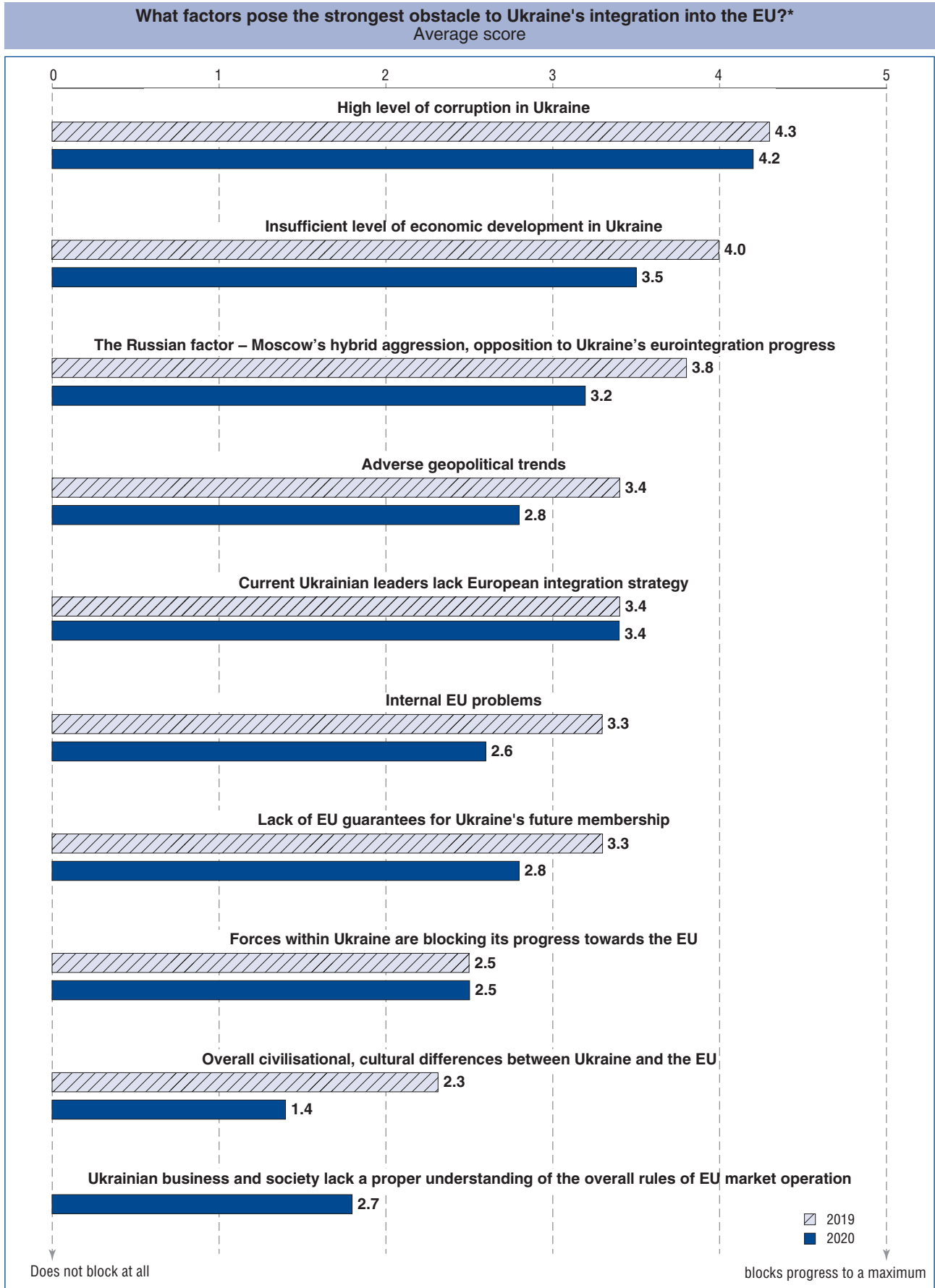
An important result of this study is the fact that despite rather critical assessment of the pace of European integration and government policy in this area, Ukrainian expert community – government employees, academics, independent experts – is generally consistently supportive of the idea of Ukraine’s accession to the EU. In 2019-2020, 78% of experts on international issues stressed that Ukraine needs to join the EU. We would also like to mention that overall the Ukrainian society is also mostly supportive of pro-European movement and the idea of Ukraine’s accession to the EU.

How would you assess the pace of Ukraine's integration into the EU?
% of experts

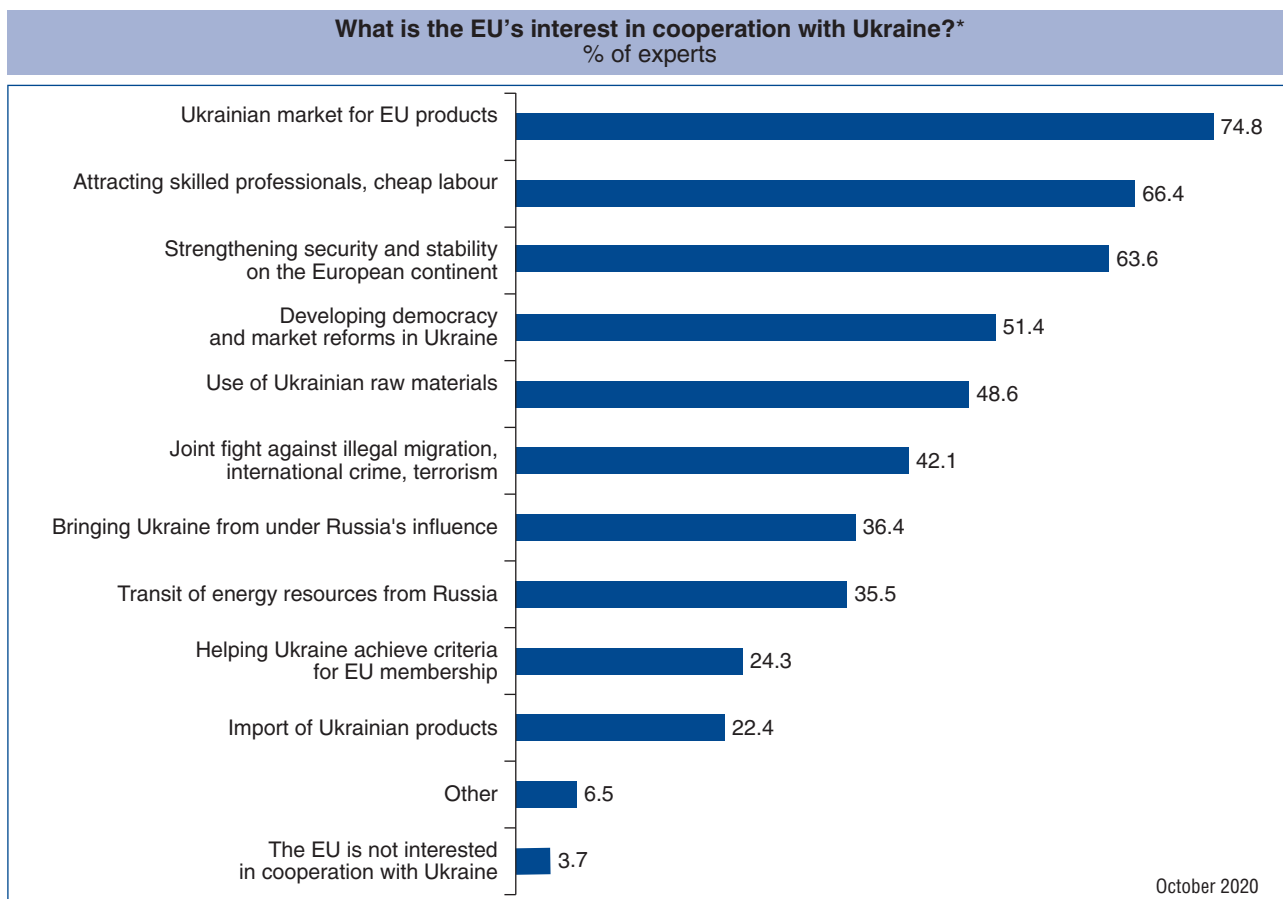


How would you describe the eurointegration policy of current Ukrainian leadership?
% of experts

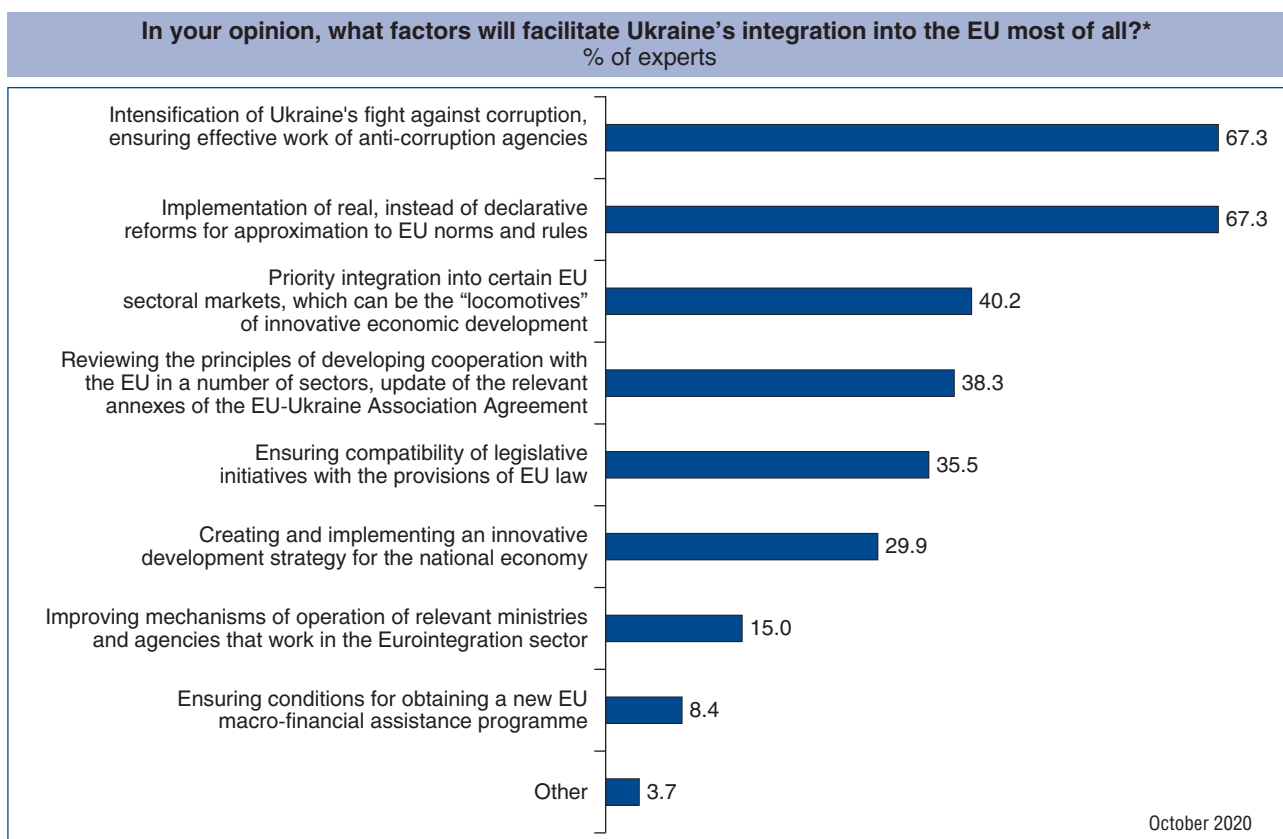




* Give an answer for each line – “5” - blocks progress to a maximum, “0” - does not block at all.

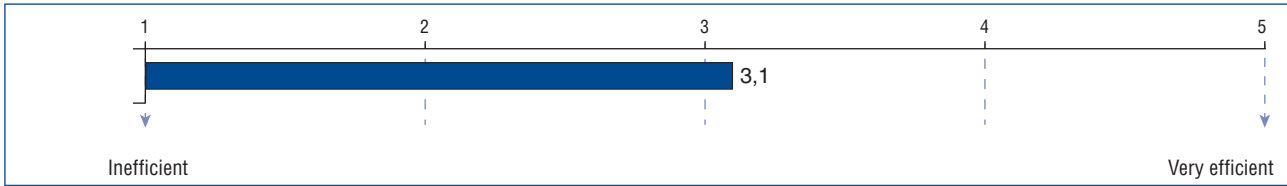


* Mark all acceptable answers.



* Mark three acceptable options.

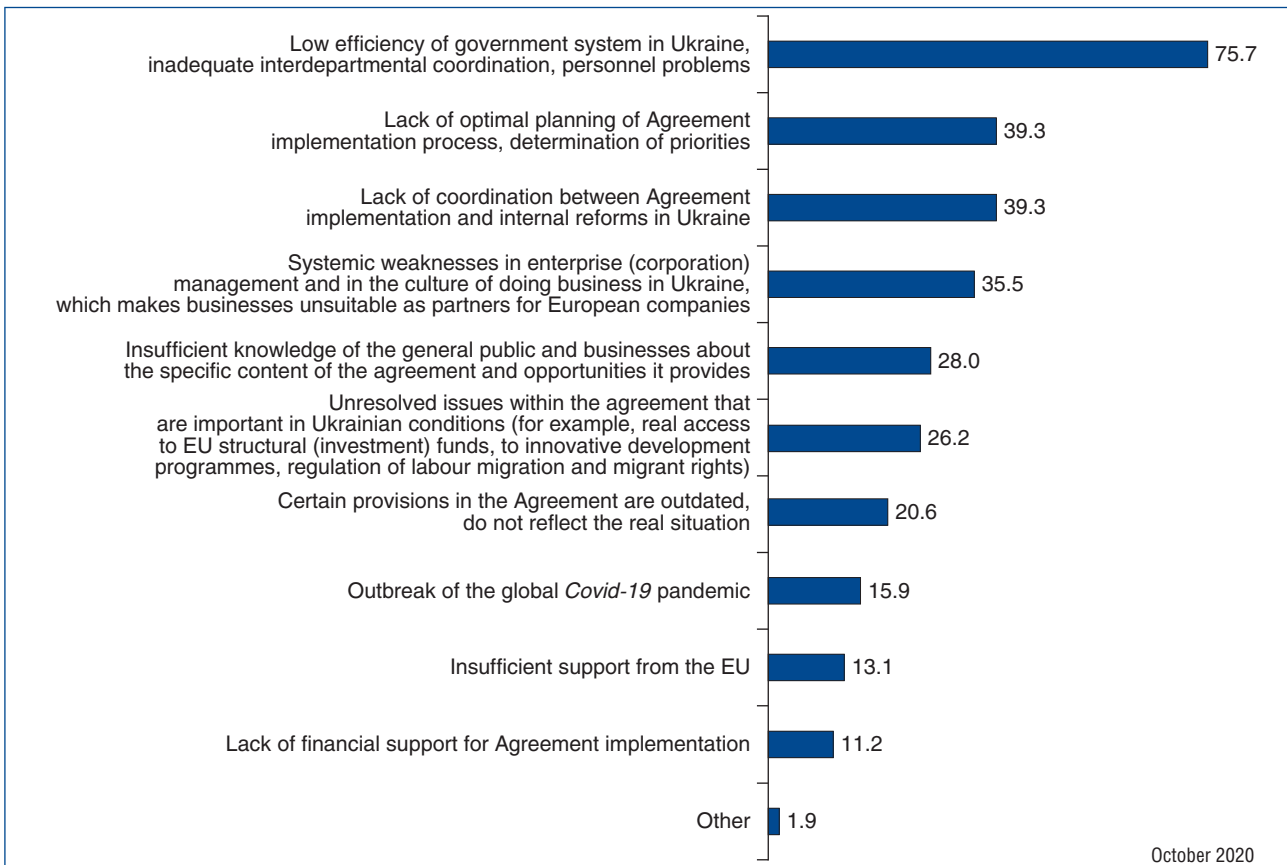
What is your opinion on the efficiency of implementation of the EU-Ukraine Association Agreement?*
Average score*



* "5"- very efficient, "1" – inefficient, "6" – hard to say.

October 2020

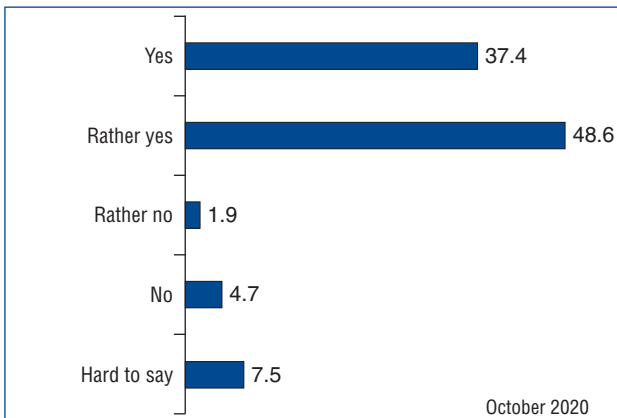
What impedes the implementation of the EU-Ukraine Association Agreement most of all?*
% of experts



October 2020

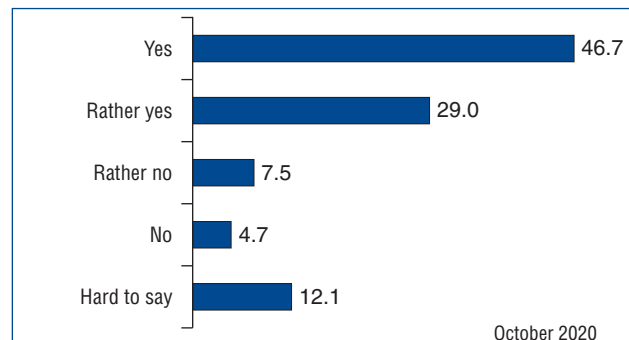
* Mark three acceptable options.

Are you in favour of the update of the EU-Ukraine Association Agreement?
% of experts



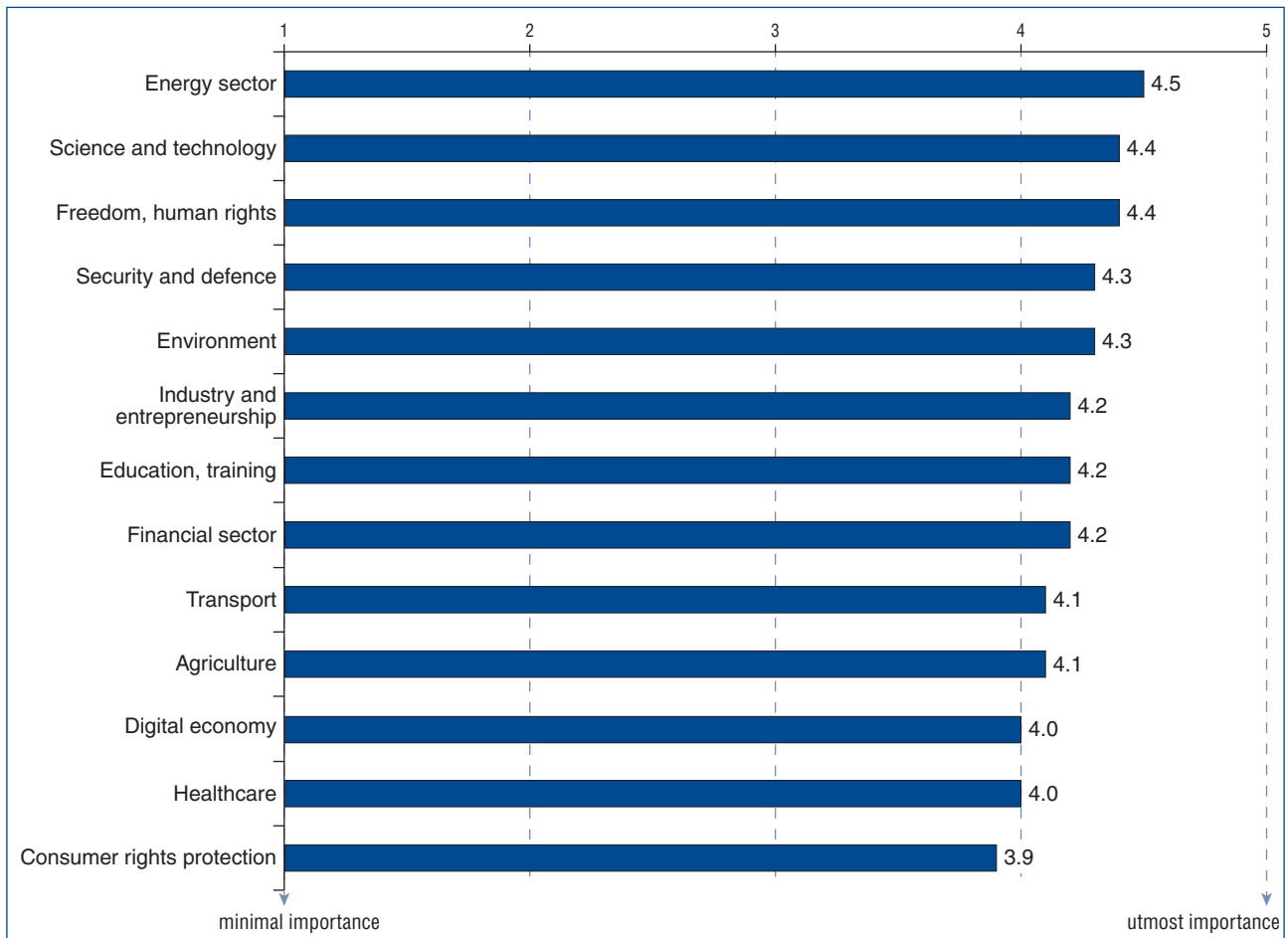
October 2020

Should there be an update and specification of Title II of the EU-Ukraine Association Agreement on cooperation in the field of foreign and security policy in the light of the current situation, including Russia's armed aggression against Ukraine?
% of experts



October 2020

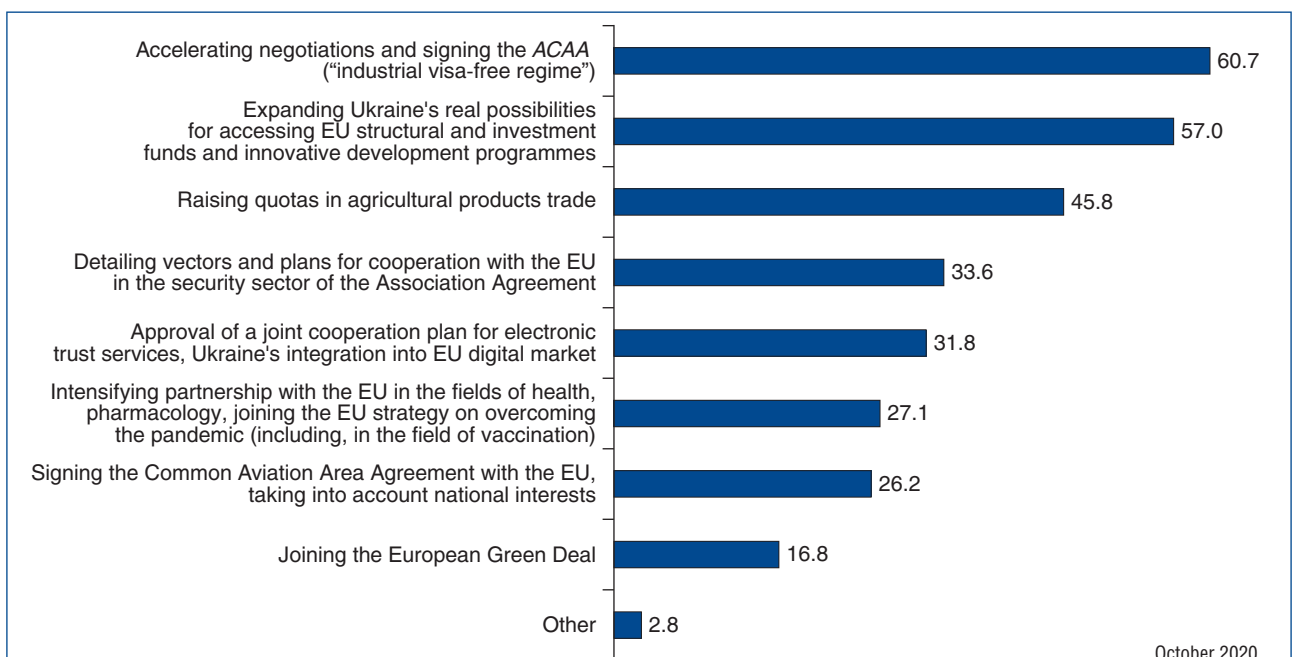
How important are the following vectors of EU-Ukraine sectoral integration?
Average score*



* Give an answer for each line – “5” - utmost importance, “1” - minimal importance.

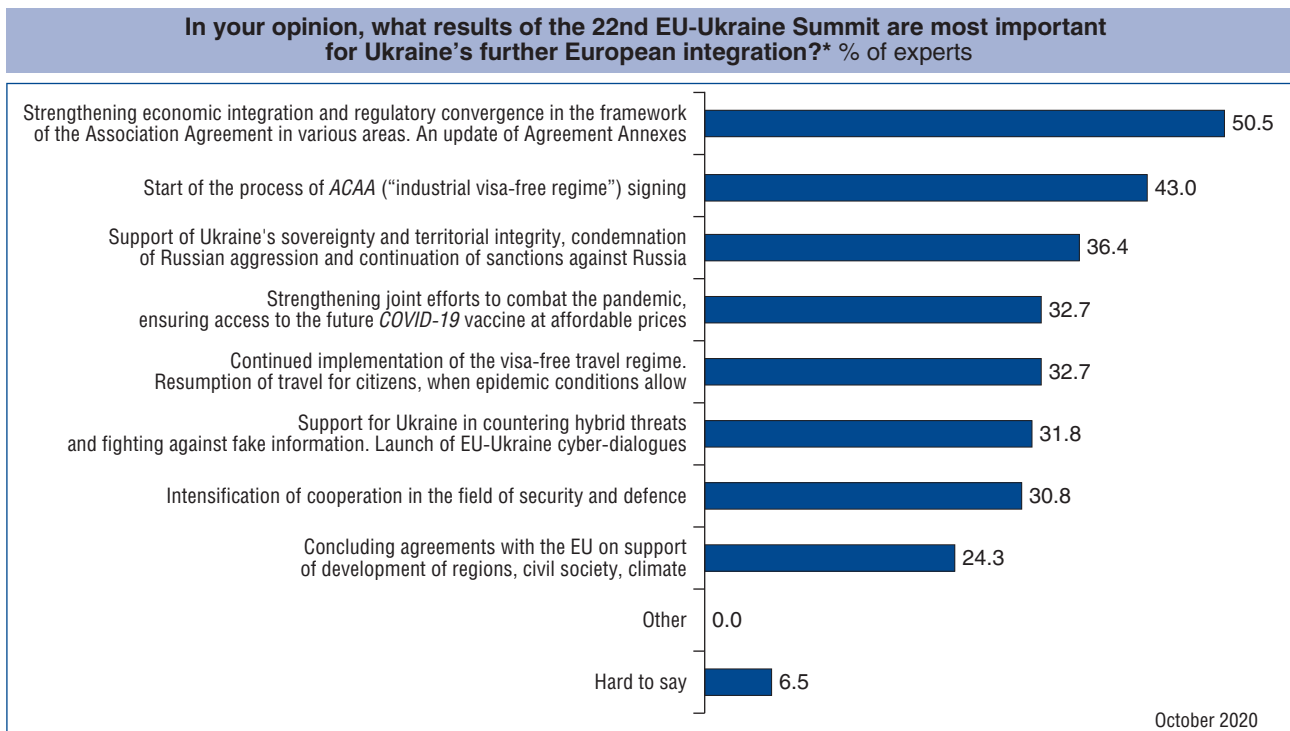
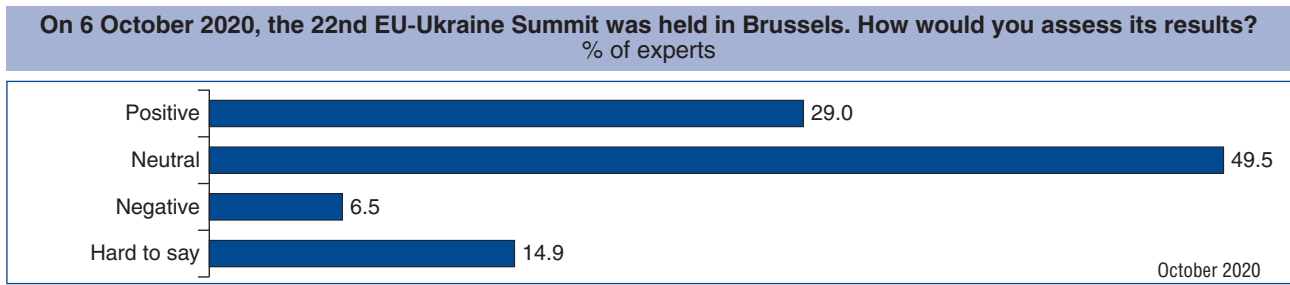
October 2020

What should be Ukraine’s first steps towards developing sectoral integration with the EU?*
% of experts

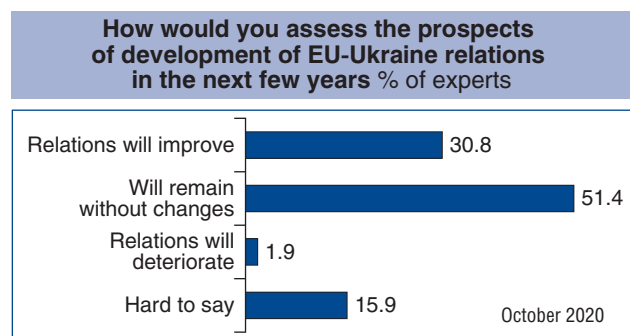
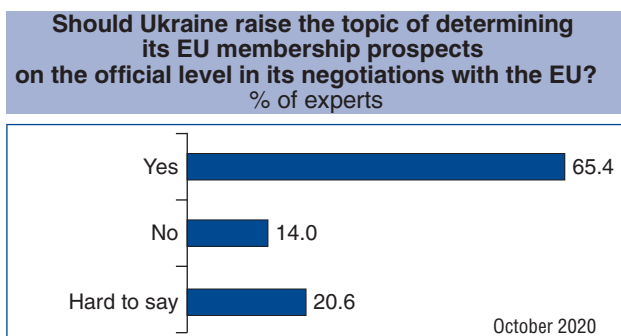


* Mark three acceptable options.

October 2020



* Mark three acceptable options.



PROGRESS TOWARDS THE EU: COORDINATION, CONSISTENCY, RESULT



**Ivanna
KLYMPUSH-TSINTSADZE,**
Chairperson of
the Committee of
the Verkhovna Rada
on Ukraine's Integration
into the European Union

Having signed the Association Agreement with the EU (hereinafter – the AA) in 2014, Ukraine entered a new historic period. The Agreement became an impetus for reform, intensification of international cooperation and a restructuring of Ukrainian society after the Revolution of Dignity.

The AA is a comprehensive document, which covers the most important areas of life and consists of almost 1200 pages, including annexes and protocols. This international treaty is a “live” instrument, as it provides for the opportunity to review cooperation conditions in the process of implementing reforms given the mutual political will of parties.

The AA covers issues related to approximation of national legislation to norms and rules of the EU, cooperation on foreign policy and security policy, justice, freedom and safety, etc. The largest part of the AA is dedicated to the Deep and Comprehensive Free Trade Area between Ukraine and the EU, which provides for economic and sectoral cooperation in agriculture, energy, environment, transport, manufacturing, healthcare, tourism, as well as cultural, educational policy, and others. Also, the Agreement defines powers of bilateral association agencies created to enhance cooperation.

An important event for our country was the end of the three-year transition period and entry into force

of all sections of the AA on 1 September 2017. This event has significantly strengthened our state's position and is the result of work of the team of Ukraine's fifth President Petro Poroshenko. Note that the process of implementation of Agreement provisions went hand in hand with reforms of the government system, civil service, decentralisation, etc., which ensured sectoral transformations in line with commitments Ukraine undertook.

No less remarkable for Ukrainian society was the signing of the Law “On Amendments to the Constitution of Ukraine (Regarding the Strategic Course of the State for Acquiring Full-Fledged Membership of Ukraine in the European Union and in the North Atlantic Treaty Organization), which entered into force on 21 February 2019.

Main responsibility for AA implementation lies with the Government of Ukraine, ministries and respective central executive government agencies. A number of legal and institutional changes have been made to ensure effective sectoral cooperation.

An important component is the work of the Verkhovna Rada of Ukraine, as the nature of our legal system requires adoption of a significant number of laws, which provide the framework for both horizontal and narrow sectoral issues.

According to government report on AA implementation published in March 2020, the overall progress in achieving the set objectives was 37%.¹ This means that the pace of fulfilment of obligations in the framework of AA has dropped under the current government, as in the previous reporting period it was 52% of the total volume of annual tasks.² Greatest progress was achieved in the areas of political dialogue, national security and defence, social relations, education, and financial cooperation. However, there are areas where no tasks have been executed at all, such as consumer protection, public finance management. There was minimal progress in the areas of justice, freedom of speech and human rights, transport and finance sector. Thus, the lack of correlation between sectors suggests the need to improve interinstitutional cooperation and continue sectoral reforms.

As previously noted, the Government of Ukraine plays an important role in the process of European integration. It uses Action Plan on Implementation of the Association Agreement as guidance in its work. In turn, the Action Plan should be reflected in the Medium-Term Government Priority Action Plan and Programme. And the problem is not so much that the Government Action Programme was not approved by the Parliament. The problem is that even the draft Programme did not contain the full scope of our eurointegration tasks. By the way, neither did the Programme of the previous Government.

To monitor AA implementation, during the term of our Government, we created the Agreement Pulse system, which is currently open to public. The system allows to see not only the general level of Agreement implementation, but also specific fulfilled, partially fulfilled or unfulfilled obligations.

Action Plan is the main government document for AA implementation. It is formulated in such a way that allows ministries not only to report but also to make proposals to the action plan for improving the process of legal approximation. For instance, this may include the need to update the list of directives in AA Annex due to them being repealed in the EU or due to adoption of new acts (directives,



regulations, decisions). Such proposals are approved in the form of an operational opinion of a bilateral body.

Currently, these issues are extremely topical, as Ukraine has the right to review AA provisions starting from January 2021. Obviously, one of the tasks of updating the Agreement is to expand access to EU's internal market for Ukrainian goods and services.

Latest EU-Ukraine summit defined priority sectors for development of bilateral cooperation, namely: digital market, environmental protection, combating climate change, including the European Green Deal, and financial cooperation.

However, we should not forget that this is a complex diplomatic, political and technical process, the duration of which cannot be definitely predicted. Therefore, Ukraine will be working on sectoral updating gradually, based on results of implementing the current action plan and the scope of commitments in force today. So it would be logical to outline our own priorities for economic recovery following the pandemic based on an analysis of our own needs and capabilities, involving parliamentarians, NGOs and the expert community in the process.

It is equally important to preserve our existing achievements and make it impossible to propose initiatives that revise certain reforms, including public procurement, reform of state control over food safety and quality, anti-corruption reform, independence of the National Bank of Ukraine. The EU has repeatedly stressed the importance of Ukraine's fulfilment of current AA commitments for the prospect of its successful revision.

¹ See: Uryadoviy Portal, – <https://www.kmu.gov.ua/storage/app/sites/1/55-GOEEI/ar-aa-implementation-2019-4.pdf>.

² See: Uryadoviy Portal, – https://www.kmu.gov.ua/storage/app/sites/1/55-GOEEI/AA_report_UA.pdf.

Today, sectoral cooperation with the EU covers all important areas of our society, so the priority of tasks as seen by the Government of Ukraine will play an important role in further negotiation processes. At the same time, it should be noted that new initiatives set more requirements for Ukrainian producers. In particular, this applies to Ukraine's participation in the digital market and the European Green Deal. At the same time, transformation of these sectors is vital to deepen economic integration with the EU, as well as in view of Ukraine's future EU membership plans.

Therefore, we are faced with a question of ensuring a smooth transition without doing harm to Ukraine's economy, especially to vulnerable eastern regions. This requires serious analytical work by the Government with involvement of business associations. Such work should result in defining the volume of available internal resources and the volume of necessary EU assistance required to make this transition. Next step – conducting negotiations with the EU on receiving this assistance.

In this context, we must also address legal issues. On the practical level, there may be cases where a ministry or another central executive body proposes to introduce new commitments to the Action Plan for AA implementation. Legally, this can be based on EU-Ukraine sectoral agreements, and sectoral areas of deep integration with the EU defined separately on the bilateral level. In this case, the ministry or another government agency has the right to apply to the Government Office for Coordination on European and Euro-Atlantic Integration for approval of the updated scope of commitments and introduction of appropriate changes to the system of monitoring of AA implementation. Then, the issue will be subject to approval at the Government committee, Government sessions, and discussion proposals will be submitted to the European Commission. This general scheme provides a legal framework for reviewing cooperation in a particular sector. Then, negotiations will be held in the framework of bilateral bodies, conferences, possibly involving expert support.

At the moment, our largest trading partner is the EU, whose share of trade turnover with Ukraine has been growing from 2016 to 2019, but even now is at approximately 40%.³ In this context, the topical issue on the agenda is the fulfilment of obligations for signing the Agreement on Conformity Assessment and Acceptance of Industrial Products, or the so-called “industrial visa-free regime”. Ukraine has been approximating its legislation and institutions in this sector for many years and here the level of fulfilment of obligations is among the highest. The outcome

of this work will depend on the assessment of the EU mission. The mission will assess, whether Ukraine has met all the conditions for termination of additional certification of industrial goods in the first three priority sectors for export to the EU.

Of course, an integral part of AA implementation is cooperation of the executive branch of power with the Verkhovna Rada of Ukraine, which is not only the legislative body, but also the body that controls AA implementation. Consequently, the most effective option for implementing Ukraine's international commitments is to combine the efforts of government institutions in drafting legislation and then submit it to the Parliament. However, in reality, things happen differently. Most initiatives come from MPs and civil society. This affects the quality of bills, which often only partially account for eurointegration tasks.

Also, the process of approximation of Ukrainian legislation to EU law involves conducting a legal examination of bills regarding their compliance with the AA and EU law. The peculiarity of these processes is that the Committee of the Verkhovna Rada on Ukraine's Integration into the European Union must review all registered bills for compliance with the AA. As last year's experience showed, bills prepared in the “high-speed mode” were rather low-quality, and their adoption did little to facilitate implementation of Ukraine's obligations under AA. Instead, we have spend significant resources on their processing.

Overall, to avoid such situations, we need to plan our work with Parliament. The idea is that the drafting of bills that fall under AA obligations should be done with the participation of respective sectoral divisions



³ See: Ukraine intensifies trade with the EU, January 29, 2020, – <https://www.me.gov.ua/News/Detail?lang=uk-UA&id=bf578f2a-9202-41ed-ae1d-1cfe2e209781&title=UkrainaPosiliuTorgivliuZs&isSpecial=true>.

in ministries and other central executive government bodies. Alongside, we should also involve experts from strategic planning and European integration directorates (if such directorates already exist in corresponding ministries), or sections responsible for European integration. In order to achieve better results in the process of legal approximation to EU law, they should be the first point of contact on issues of planning the approximation of Ukrainian legislation to EU law and verification of compliance with EU norms.

At the Government level, it is necessary to create working groups that involve not only other ministries, but also the public, MPs from relevant committees and the Committee on Integration into the EU. This should ensure the necessary synergy between all institutions in order to obtain a quality law as a result, not just create a commission and put a check mark in the report.

An example of successful cooperation at the level of the Deputy Prime Minister, Government Office for Coordination of European and Euro-Atlantic Integration, and the Verkhovna Rada Committee on European Integration was the approval of the Roadmap of legislative support for the implementation of the Association Agreement for the year, which was created on the basis of government Action Plan on Implementation of the Association Agreement.

The Roadmap is a “living” mechanism of cooperation between the Verkhovna Rada and the Government on legislative support for the fulfilment of obligations in the framework of Agreement implementation. In view of this, the list of bills is constantly updated taking into account the dynamics of European integration processes, bilateral agreements, priority areas in EU-Ukraine cooperation, as well as the updating of obligations under the AA.

That being said, it is important to note that the bills enumerated in this roadmap must receive a positive opinion of the Committee on Integration into the EU and have “correlation tables” in relation to European law, and be approved by our partners. For example, the situation with the so-called “localisation law” (No.3739).⁴ It contains provisions directly prohibited by the EU and the AA, when clear preferences are given to products of national manufacturers, which creates anti-competitive environment. Such laws should not be supported in the Verkhovna Rada

session hall, as they not only violate our international obligations, but also create a negative image of the entire state.

However, parliament’s approval of the law is not the end of the story of implementing our agreements. For instance, I am proud of the Parliament’s breakthrough update of the 27th “energy” AA Annex. This breakthrough results in respective commitments of both Ukraine, and the EU. This success was preceded by difficult and strenuous work of all stakeholders inside the country, as well as of our European partners. However, the Government has not yet established a mechanism for EU approval of laws and by-laws for Annex implementation. This not only slows down the achievement of the expected effect of the update, but also leads to new violations of the AA, which may have a negative impact on other areas: Ukraine’s participation in the digital market or the green deal, etc. Thus, the EU sees our institutional inability to implement agreements. Political and legislative decisions must be supported by implementation mechanisms. This is the ABC.

At the EU-Ukraine summit, President of the European Council Charles Michel once again confirmed the EU’s readiness to support Ukraine in the implementation of the AA, but we have to understand – no one is going to do our work for us.

I will not talk about the need for a consensus between national elites for our successful progress towards Europe. Unfortunately, today this is an impossible dream. I would like to mention two simple things. First. Effective implementation of the AA requires joint coordinated action of the Government, the Verkhovna Rada and the presidential vertical. Unfortunately, I do not see it today. Consistent systemic government policy in the European integration sector is simply non-existent. Second. For effective implementation of the AA, all branches of government need to understand European integration processes. Understand that European integration is not about foreign policy or getting loans. European integration means foremost systemic internal reforms. Unfortunately, such understanding is what we greatly lack today. And this is a major problem that we need to work on urgently. Otherwise, European integration talks will remain just talks, and our government once again will have missed the window of opportunity. ■

⁴ Draft Law on Amendments to the Law of Ukraine “On Public Procurement” on creating preconditions for sustainable development and modernization of domestic industry of June 24, 2020, – https://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=69275.

IMMEDIATE ISSUES AND PROMISING AREAS IN UKRAINE'S EUROPEAN INTEGRATION



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Although political speculations around the topic of accession to the EU have been circulating in Ukraine for several decades, it is only over the past six years that the “European integration” phrase has become the ultimate reality in Ukraine's foreign policy. Having finally abandoned the pro-Russian alternatives, and attempting to escape the “grey security zone” in Eastern Europe, Ukraine has made EU membership a constitutional priority.

Russia's aggression played a key role in Ukraine's abandonment of its usual multi-vector foreign policy, which is believed to possibly be the main reason for numerous current problems in national security. Currently, support for Russian projects, as well as

opportunities for Russian political lobbying have drastically decreased. Ukraine's course towards Europe has finally garnered widespread Ukrainian public support, as well as that of the elites.

Ukraine's wishes and alternatives are quite obvious. Meanwhile, EU's priorities are not as straightforward. Previous enlargement waves have caused deep and sometimes challenging transformations. Brexit created a new set of issues. Integration of new members is not on the agenda. Besides, the EU has many more opportunities, manoeuvre capabilities and interests that must be coordinated. Thus, the current state of Kyiv-Brussels relations is ambiguous. On the one hand, parties are important partners for each other, and this importance is acknowledged. On the other, – Ukraine's ambitious plans are unlikely to become reality in the next couple of years, or even decades, – due to various reasons. This asymmetry of aspirations in many ways forms the core of relations between Ukraine and the EU.

The Eastern Partnership Context

The EU cares about its own security environment and wants to create democratic, politically stable and economically developed areas on its borders. To support reforms in the former socialist CEE countries,

the EU used membership prospects along with major volumes of financial aid. This led to broad enlargement of the European Union in 2004, when 10 states were granted membership; and later, in 2007, two more joined in.

Enlargement in 2004 and 2007 brought the EU new neighbours in Eastern Europe. This required new policy, which was formulated in the Eastern Partnership project. Target countries – Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine – demonstrated much more inconsistent reform results than, for instance, Poland, Czech Republic and Hungary – regional pioneers in European integration. Political turmoil, weak state institutions, vulnerable democracy and inefficient economies still remain the typical features of development of EaP countries. In addition, exacerbation of geopolitical situation due to Russia's revisionism has created a critically adverse environment for further reforms. The EU needs new tools and new solutions, which have to be found in the situation, when promising a membership prospect is extremely difficult or impossible altogether due to political considerations.

European Union's relations with Eastern Partnership countries are becoming increasingly complicated, and certain issues start to emerge. On the one hand, all of these countries are interested in increasing their prosperity, level of development and competitive potential, – the EU wants the same. On the other hand, these countries have different political orientation. Only some of them wish to join the EU. Some – strive to strengthen their democracy, but are faced with major challenges on this path – this goes for Ukraine as well. Those, who aspire for membership, realise the complexity of this goal and its unattainability in the near future. This causes certain issues in their relations with the EU: on the one hand, integration remains a strategic goal, and on the other – there are daily issues in trade, economy, policy, security that require protection of these countries' own interests.

Being closely intertwined, national interests of Eastern Partnership countries and their long-term joint interests in cooperation with the EU, create a peculiar environment for cooperation, which influences all sectors and directions of integration efforts.

Trade

The EU is Ukraine's largest trade partner – its share was over 40% of Ukraine's total foreign trade in 2019.¹ At the same time, China is EU's strong competition in this area. Also, the volume of trade with Russia remains traditionally significant. *COVID-19* pandemic is likely to introduce temporary adjustments, but thus far, we have observed Ukraine's tendency to re-focus its trade to EU and Chinese markets.

The Association Agreement continues playing a defining role in the development of bilateral trade, the volume of which in 2019 exceeded €43 bn.

At the same time, trade relations are asymmetrical: Ukraine is only in the 18th place among the EU's trade partners with approximately 1% of the total volume of trade. Ukraine mostly exports agricultural products, as well as chemical and mechanical engineering products to the EU. Imports to Ukraine mainly include equipment and manufactured goods.

The Association Agreement created great potential for trade development and economic convergence. This is in the interest of both parties and provides Ukraine access to EU's huge market. At the same time, further development of trade relations does not mean integration, although it is a necessary prerequisite. Developing trade with the EU is a valuable instrument for Ukraine used to accelerate its own development, which is why this topic is traditionally an area of considerable interest. In the near future, Ukraine will be focusing its effort on deepening economic interdependence, introducing the so-called “industrial visa-free travel” (*ACAA* Agreement), and integration in the Digital Single Market. Successful implementation of these tasks will increase Ukraine's chances of avoiding the fate of turning into the “agro-industrial appendage of the EU”.

The ideology of political and economic transformation as the basis for further rapprochement is contained in the Association Agreement, which provides for the long-term comprehensive reform agenda with emphasis on strengthening democracy and the rule of law, empowering state institutions, and attention to economic growth and protection of human rights. Steps with similar content are also provided for in Eastern Partnership documents, such as “*20 Deliverables for 2020*”. In all cases, trade as the basis of European integration processes is the force that propels change.

Support for Reforms and Financial Assistance

The EU is Ukraine's key partner in supporting reforms and provision of financial assistance. By providing loans, credit guarantees and grants, Brussels seeks to influence reform dynamics, generally adhering to the concept of normative power, i.e. spreading a certain set of norms and values to neighbouring countries.

Article 453 of the Association Agreement stipulates that Ukraine shall benefit from financial assistance through the relevant EU funding mechanisms and instruments. The EU has several tracks of financial assistance. *First*, there are five structural funds of

¹ Trade. Policy. Countries and Regions, Ukraine. – European Commission, – <https://ec.europa.eu/trade/policy/countries-and-regions/countries/ukraine>.



the EU aimed at reducing regional disparities and harmonisation of economic development between different regions of the EU. Only EU member states are eligible for funding from the structural funds. Second, there are cross-border, transnational and interregional cooperation programmes, in the framework of which cooperation with non-member states is realised that is mostly focused on the regional level and involves EU's neighbour-states. *Third*, there are financial assistance programmes for candidate countries for EU accession. For Ukraine it is equally difficult to become eligible for either candidate country assistance (just like receiving this status), or for money from EU's structural funds. Access to funding from regional programmes could be increased by proposing projects that could be of interest to our western neighbours – Poland, Hungary, Romania or Slovakia, but the potential volume of such funds would not be significant.

Ukraine receives financial assistance from the EU as well as loans or credit guarantees. Funds allocated in the framework of these programmes greatly exceed the volume of EU's regional cooperation programmes. Analysis of EU's tools for influencing change in target countries demonstrates a wide range of opportunities.

On the one hand, there are passive ones – membership appeal, and active – conditions for accession – as tools.² On the other hand, they can be divided into models (legislative and institutional), money, monitoring and assessment, supervision and advice.³ The EU relies on its ability to act as a kind of gravitational nucleus and a model for neighbouring countries. Yet the reality of recent years shows: the potential of the Association

Agreement without membership prospects and additional access to funding may prove insufficient to stimulate large-scale change in societies.⁴

The experience of implementing political reforms in Ukraine demonstrates that they should involve a wide range of stakeholders: state institutions, human rights groups, non-governmental organisations, political parties, etc., so that the political process becomes inclusive. Priority should be given to projects and steps that can bring measurable and available positive results for Ukrainian citizens.

Important goals of political reforms in Ukraine include increasing institutional capacity of the state, effective governance, the rule of law and security. This is connected with the disappointing experience of reforming weak states in previous decades. Investing significant funds is insufficient to overcome weakness of institutions, which, in turn, leads to such institutions' inability to effectively absorb international aid. This is a vicious cycle, when the weakness of the state, and corruption together with it, are perpetuated for a long time.

Inefficiency of Ukrainian state institutions of all levels makes it almost impossible to develop and implement cohesive state policies in different sectors. Underdeveloped mechanisms of public expense control create a favourable environment for corruption, which, in turn, makes it impossible to build a law-governed state and undermines trust in state institutions.

Ukraine still has the oligarchic model of political system, which in many aspects is incompatible with European values: democracy, the rule of law and effective mechanisms for protection of minority rights. Instead, this model makes law enforcement agencies serve certain influence groups rather than citizens and public welfare; creates security and democracy deficit; increases the risk of internal conflict and perpetuates poverty. The EU hopes to steer clear of this development scenario for Ukraine, and thus, the issues of law, security and fight against corruption are crucially important for it. For Ukraine, they are the necessary precondition for any serious conversations about increasing the volume of assistance from the EU.

The goal of political transformations in Ukraine, from the European point of view, is building a law-governed society based on respect for human rights, minority rights and gender equality, where security, prosperity and the rule of law are ensured by efficient, transparent and responsible government institutions.

² Vachudova A.M. Europe Undivided: Democracy, Leverage, and Integration After Communism.– Kyiv-Mohyla Academy, 2009.

³ Grabbe H. How Does Europeanization Affect CEE Governance? Conditionality, Diffusion and Diversity.– Journal of European Public Policy, Vol.8, Issue 4, 2001, pp.1013-1031.

⁴ Analysis of Available EU Resources to Support Reform in Ukraine. – ICPS, – http://icps.com.ua/assets/uploads/images/files/icps_eu_funds.pdf.

SECURITY

Russia's revisionism became a joint challenge for Ukraine and the EU, making security an important and promising area for deeper cooperation. European Union's interest in stable, democratic and successful Ukraine increased over the past years. Russian policy created a demand for Ukraine that is able to withstand various forms of aggression, including unconventional. Turning Ukraine into a state that contributes to international and regional security is aligned with EU's geopolitical interests. These interests are captured in key EU documents, including the Review of the European Neighbourhood Policy and EU's Global Strategy.

France and Germany are participating in the Normandy format of conflict management in Eastern Ukraine. Peace process is assessed by Brussels mainly through the lens of observing the terms of Minsk agreements provisions, which provide for a number of politically difficult steps to be taken by Ukraine. On the other hand, the EU is sending enough signals of its readiness to take active part in the reconstruction and post-conflict settlement projects on the territories affected by the armed conflict.

Ukraine is an important partner of the EU in preventing unconventional challenges, including cyberthreats. Cooperation in this sector can deepen and broaden, allowing Ukraine to make a contribution to EU security. Energy aspect of security remains important as well, although the situation here is further complicated by divergence of views within the EU itself, for instance, regarding the Nord Stream-2 project. Nevertheless, long-term interests, in particular in the development of renewable energy sources, are shared and open new opportunities for cooperation.

The European Union still has discord in opinions and priorities regarding issues that concern joint security and foreign policy. In parallel to its dialogue with Brussels, Kyiv is developing cooperation on the national level. This cooperation is especially important in areas, where strategic interests of parties align.

It makes sense to uphold these priorities, possibly adding to them comprehensive measures for



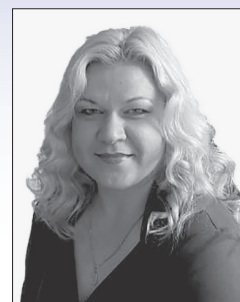
capacity-building of state institutions and overcoming corruption. Separate attention should be paid to the security sector: from introducing most recent practices of managing threats of new types to enhancing border control systems. The armed conflict in Eastern Ukraine constantly generates security risks, exacerbates the problems of internally displaced persons, social disaccord and discrimination, and therefore requires political solutions.

Cooperation between Ukraine and the EU in the security sector does not automatically lead to integration. Neither does any other separate sector of cooperation. Modern geopolitical conditions together with particular aspects of the current stage of development of the EU itself, turn Ukraine's eurointegration aspirations into more of a reference point than an actually attainable goal. However, correctly formulated reference points and, more importantly, progress in their direction, can facilitate Ukraine's transformation into a modern European state. ■

⁵ Review of the European Neighborhood Policy. Joint Communication to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. – European Commission, 18 Nov 2015, – https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/neighbourhood/pdf/key-documents/151118_joint-communication_review-of-the-enp_en.pdf.

⁶ Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union's Foreign and Security Policy, June 2016, – http://eeas.europa.eu/archives/docs/top_stories/pdf/eugs_review_web.pdf.

CHANGES TO THE EU-UKRAINE ASSOCIATION AGREEMENT MUST INTEGRATE UKRAINIAN BUSINESS INTERESTS AS MUCH AS POSSIBLE



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Ukrainian businesses have always been and remain interested in European markets and cooperation with European companies. Their significance for Ukrainian exporter employers has increased since the loss of the Russian market and termination of cooperation with Russian industrial enterprises.

According to Ukrainian State Statistics Service,¹ Ukraine's export of goods to EU countries in 2013 was \$16,758.6 mln, and in 2019 grew almost 24% – to \$20,750.7 mln.

It was planned that the signing of the EU-Ukraine Association Agreement, implementation of European norms into national legislation and reduction of tariff and non-tariff barriers in trade would facilitate EU market entry for Ukrainian companies, and at the same time build their capacity for competition in the medium and long term.

Along with immediate reciprocal elimination of most import duties, which could have become an immediate stimulus for export, Ukraine undertook a broad range of commitments to reform a number of areas that regulate business, namely, transport, IT, postal and courier services, telecommunications, public procurement, intellectual property, environmental protection, sanitary and phytosanitary measures. These, at times drastic, changes in state regulation have greatly impacted conditions of business operation and will have significant long-term influence, as well as require additional investment.

Since the moment the EU-Ukraine Association Agreement was signed and the Free Trade Area created, on many occasions, the Federation of Employers of Ukraine drew attention to the necessity of reviewing

certain “asymmetrical” provisions of the trade section of the Agreement, which mostly protect the interests of European manufacturers. Employers are insisting that Ukraine's negotiating position in the review of free trade area conditions should include maximum consideration of national business interests.

The coming year 2021, on condition of tight cooperation between Ukraine's government and business, may present a chance for Ukraine to address the interests of Ukrainian manufacturers as much as possible and facilitate the revival of national economy after the crisis of late 2019, decline in industrial production in Ukraine and global economic recession due to *COVID-19* pandemic.

As the trade part of the EU-Ukraine Association Agreement includes many areas and directions of regulation and provides for a number of reforms to be implemented by Ukraine, certain aspects that are painful for Ukrainian employers need to be addressed.

✓ Quotas for the supply of certain types of Ukrainian products to EU markets

The size of tariff quotas for duty-free supply of goods to the EU for a number of product categories² mostly does not correspond to export capacities of Ukrainian manufacturers, and thus, such quotas are exhausted in the first weeks or months of the year.

¹ Dynamics of geographical structure of international trade in goods. – State Statistics Service of Ukraine, – http://www.ukrstat.gov.ua/operativ/operativ2005/zd/zd_rik/zd_u/gs_rik_u.html.

² Namely, poultry meat and poultry preparations, sugar, soft wheat, wheat flour and groats, corn, corn flour and groats, barley flour and groats, cereal grains, processed tomatoes, grape and apple juice, honey, egg products, dry milk, butter.

At the same time, the size of duties imposed on the supply of goods over the tariff quota, in a number of cases, essentially presents a barrier for Ukrainian manufacturers. Therefore, employers believe that the volume of quotas for duty-free export to EU member states' markets must be raised.

According to preliminary calculations, the volume of quotas for duty-free export to EU markets can be increased:

- corn, corn flour and groats – from 400 thousand ton to 5 mln ton;
- soft wheat, wheat flour and groats – from 950 thousand ton to 2 mln ton;
- apple and grape juice – from 10 thousand ton to 90 thousand ton;
- sugar – from 20 thousand ton to 35 thousand ton;
- processed tomatoes – from 10 thousand ton to 50 thousand ton;
- poultry and poultry preparations – from 16 thousand ton to 100 thousand ton;
- barley flour and groats – from 6.3 thousand ton to 15 thousand ton.

✓ **Period of implementation of European legislation into national legislation of Ukraine**

The Association Agreement and its appendices provide for implementation of a number of EU *acquis* provisions operating in the EU on the date of Agreement signing. These EU laws and their provisions require increasing the current requirements for industrial enterprises, in particular in the field of environmental protection and energy modernisation and, as a consequence, implementation of large-scale investment projects in connection with such modernisation.

It is worth noting in this regard that the EU was strengthening its requirements gradually and, thus, environmental and energy modernisation of production was being carried out step by step. At the same time, EU member states supported businesses providing government assistance or support for implementation of such projects.

Regrettably, Ukraine is not taking similar approaches. For example, implementation of the EU directive on compliance with air emissions standards (coming into force in 2022) requires approximately \$185 mln investment in environmental programmes for modernisation of glass industry enterprises operating in Ukraine. Enterprises are unable to invest such amounts on their own, and they do not receive support from the state. Thus, implementation of EU *acquis* provisions in this area will mean termination of business activity for a number of enterprises in the sector. This will result in the reduction of a number of jobs and budget revenues at various levels.

Therefore, given a decline in industrial production in Ukraine and global economic recession, implementation of European legislation in the industrial sector must take into account the real investment capacity in corresponding sectors.

✓ **Incomplete implementation of EU *acquis* provisions**

This is a problematic issue for Ukrainian business. A good example in this area is the public procurement reform, in particular, determination of criteria for evaluating tender bids. The Law of Ukraine “On Public Procurement”, which provides for implementation of provisions of the 2014/25/EU Directive into national legislation, did not include the local component as a mandatory criterion of tender proposal evaluation. Note that currently the main criterion for selecting tender winner is the price criterion.

Analysis of EU countries' experience shows that at the state level these countries widely use practices of mandatory inclusion of the local component criterion in the evaluation of tender bids. Among them are Italy, Greece, etc.

Let us also not forget that **European legislation is constantly changing**. New requirements for production companies' operation and sales of goods are being implemented, etc.

Yet such changes in EU legislation are always grounded in at least two approaches. First – *the pragmatic one* – thorough calculations of potential benefits from implementing the proposed changes and the best ways for the EU to address the problems, which these changes are aiming to solve.

Second – *economic* – how much money, time, and resources are required in order to achieve the set goal.

An example of future changes in European legislation is the bill on *Carbon Border Adjustment Mechanism* or *CBAM*, which the European Commission plans to present in the 2nd quarter of 2021.

One of the reasons behind implementation of *CBAM* in the EU is to secure the buy-in of local industry for deeper decarbonisation policies. Another reason, at least in theory, is that this tax will induce companies to adopt lower-carbon technologies in order to be more competitive in a market, where the carbon intensity of a good matters for the bottom line.

For Ukrainian exporters, this regulation will essentially become a new form of trade restrictions on exporting Ukrainian goods to the EU and will likely mean an increase of price for the importing end-consumer, potential weakening of competitive performance of Ukrainian manufacturers in the EU market and a drop in exports in physical and monetary terms.

Thus, in order to conduct efficient negotiations in 2021 on the review of the Association Agreement, state and business must perform a joint comprehensive analysis of the current situation in manufacturing industry and economy, assess the immediate prospects of EU legislation transformations, and prepare substantiated arguments and proposals for changes to the Agreement, which will have the highest possible degree of consideration of national business interests. ■

PROBLEMS AND PROSPECTS IN UKRAINE'S COOPERATION WITH THE EU IN THE SECURITY SECTOR



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It has been 19 years since the Razumkov Centre performed a deep analysis of problems and prospects in Ukraine's cooperation with the EU in the security sector for the first time. During this period, the Razumkov Centre and other Ukrainian non-government think tanks have been turning to this important topic.

Most relevant studies published over the past years include such analytical reports as “Potentials for Cooperation Between Ukraine and the European Union In the Sphere of Security”,¹ “Entry of Ukraine’s MIC in the European Defence Industry Sector”,² “Assessing the EU’s Conflict Prevention and Peacebuilding Interventions in Ukraine”,³ “EU-Ukraine Security Cooperation”,⁴ “Cooperation Between Ukraine and the European Union in the Security Sector. Public Monitoring Report”.⁵ In 2008, there was even a publication of a textbook “European Security and Ukraine”.⁶

Also, in the past 20 years of operation of European Common Security and Defence Policy (CSDP), state authorities of Ukraine have managed to lay a certain

regulatory foundation for current security cooperation with the EU. In this context, we should mention the following documents: Agreement between Ukraine and the EU on Cooperation in Science and Technology (2002), Agreement About Establishing a General Scheme of Ukraine’s Participation in the European Union Crisis Management Operations (2005), Agreement on Security Procedures for Exchanging Classified Information (2007), Agreement Between the Government of Ukraine and ESA on Cooperation in the Peaceful Use of Outer Space (2008), and Administrative Arrangement Between the EDA and the Ukrainian Ministry of Defence (2015).

As for the prospects in security cooperation, up to the topic of eurointegration, we should

¹ Badrak V., Laptiyhuk V., Polyakov L., Zgurets S. Potentials for Cooperation Between Ukraine and the European Union In the Sphere of Security. – Centre for Army, Conversion and Disarmament Studies, Konrad Adenauer Foundation, 2012, – https://www.kas.de/c/document_library/get_file?uuid=3c38095e-4b0b-26e6-380a-7c3aa6ec671e&groupId=252038.

² Horbulin V., Shekhovtsov V., Shevtsov A. Entry of Ukraine’s MIC in the European Defence Industry Sector. – National Institute for Strategic Studies, Strategic Priorities No.1, 2015, – http://old2.niss.gov.ua/public/File/Str_prioritetu/SP_1_2015.pdf.

³ Litra L., Medynskiy I., Zarembo K. Assessing the EU’s conflict prevention and peacebuilding interventions in Ukraine. – Deliverable 3.4. WOSCAP: Whole of Society Conflict Prevention and Peace-building, 2016, – http://www.woscap.eu/documents/131298403/131299900/D3.4_Case+Study+Report+Ukraine_PU.pdf/de6f7a64-17d6-4b89-b902-7f0b3284edff.

⁴ Maksak H., Yaroshevych M. EU-Ukraine Security Cooperation. – Ukrainian Prism, 2016, – <http://prismua.org/ukraine-eu-security-cooperation>.

⁵ Fedorenko K., Polyakov L., Koziy I. Cooperation Between Ukraine and the European Union in the Security Sector. Public Monitoring Report. – Euro-Atlantic Cooperation Institute, 2019, – <http://www.ieac.org.ua/public/item/96-hromadskiy-monitorynh-spivpratsi-ukrainy-ta-yes-u-bezpekovii-sferi-policy-paper>.

⁶ Mitriaieva S. European Security and Ukraine. – Transcarpathian State University (Regional Branch of the National Institute for Strategic Studies in Uzhhorod, Science and Research Institute of Philosophy and Eurointegration Studies), Ministry of Education and Science of Ukraine, 2008, – <https://www.uzhnu.edu.ua/uk/infocentre/get/3708>.

remember the signing of the EU-Ukraine Association Agreement, which in Title II “Political dialogue and reform, political association, cooperation and convergence in the field of foreign and security policy” specifically mentions security cooperation, namely, in articles 7 and 10. Article 7 states that “The Parties shall intensify their dialogue and cooperation and promote gradual convergence in the area of foreign and security policy, including the Common Security and Defence Policy (CSDP), and shall address in particular issues of conflict prevention and crisis management, regional stability, disarmament, non-proliferation, arms control and arms export control as well as enhanced mutually-beneficial dialogue in the field of space. Cooperation will be based on **common values and mutual interests**”.⁷

Obviously, the very fact of such constant attention of non-government institutions to the topic of Ukraine’s European integration in the security sector and creation of legal framework in this sector demonstrate its relevance for Ukraine. Even more so, as there are objective reasons for security convergence between Ukraine and the EU, i. e. common values and interests. Both, the EU in its “Shared Vision, Common Action: A Stronger Europe. A Global Strategy for the European Union’s Foreign and Security Policy”, and Ukraine in its regularly updated National Security Strategies specify rather similar lists of threats to their interests.

Namely, in its strategic security document, the EU notes: “Russia’s violation of international law and the destabilisation of Ukraine, on top of protracted conflicts in the wider Black Sea region, have challenged the European security order at its core. The EU will stand united in upholding international law, democracy, human rights, cooperation and each country’s right to choose its future freely”.⁸

And this vision in the united Europe fully matches Ukraine’s vision of threats presented in the recently approved National Security Strategy, which, among other things, states the following: “The challenges to transatlantic and European unity are growing, which may lead to the escalation of existing and emergence of new conflicts. The Russian Federation is trying to use this situation, as it continues its armed aggression against Ukraine. ...Russia is using Black and Caspian Sea basins, the occupied Crimea as a “bridge” to



the Balkans, Mediterranean region, Middle East and North Africa. To strengthen its position in Europe, Russia uses energy and information “weapons”, attempts to influence domestic political situation in European states, fuels long-term conflicts, increases its military presence in Eastern Europe”.⁹

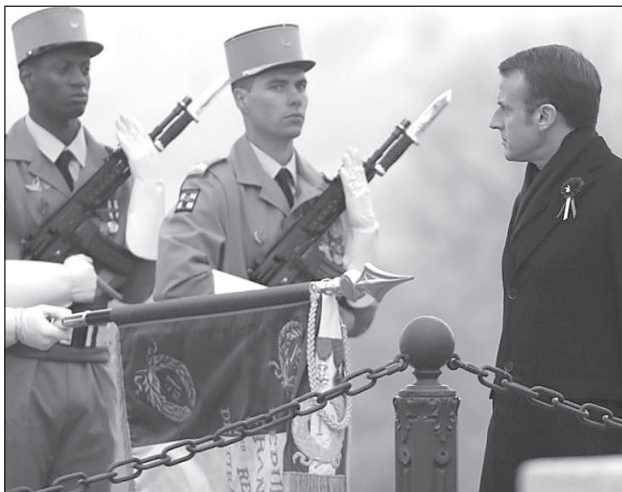
At the same time, despite the fact that similar security interests are being declared, a closer look at the content of studies and reports published on the websites of government agencies, shows that information on practical (rather than declared) security cooperation is quite limited, and is being repeated from year to year in official reports. What we mainly see are reports, scheduled meetings, visits, consultations, educational activities and expert dialogues. The existing potentials of future cooperation have been mentioned on numerous occasions, but have not been realised as of yet.

Thus far, the overall situation seems to show that in the 20 years of CSDP existence, practical cooperation between Ukraine and the EU in the security sector was developing slowly and not too deeply. Although, on the bilateral level between Ukraine and individual EU member states the situation with contractual framework and implementation of security cooperation programmes is somewhat better. In particular, Ukraine has signed agreements on

⁷ See: Association Agreement between the European Union, European Atomic Energy Community and Their Member States, of the one part, and Ukraine, of the other part. Title II, Article 7 “Foreign and security policy”, Article 10 “Conflict prevention, crisis management and military-technological cooperation”, – http://zakon.rada.gov.ua/laws/show/984_011.

⁸ See: A Global Strategy for the European Union’s Foreign and Security Policy: “Shared Vision, Common Action: A Stronger Europe”, – Publications Office of the European Union, – <https://op.europa.eu/en/publication-detail/-/publication/3eaae2cf-9ac5-11e6-868c-01aa75ed71a1>.

⁹ Decree of the President of Ukraine “On the Decision of the Ukrainian National Security and Defence Council as of 14 September 2020 “On National Security Strategy of Ukraine” No.392 as of 14 September 2020.



military cooperation with 12 EU countries (Austria, Belgium, United Kingdom, Greece, Denmark, Cyprus, Latvia, Lithuania, the Netherlands, Poland, Slovenia, Croatia), agreements on military-technical cooperation have been signed with nine EU members (Bulgaria, Italy, Germany, Poland, Slovakia, Hungary, France, Croatia, Czech Republic).

However, examples of practical multilateral joint activities, such as Ukraine's participation in the EU's counter-piracy *Atalanta Operation*, or cooperation on the Vega space project, were sporadic. Only since 2014, after the start of Russia's military aggression against Ukraine, the EU proposed a format of regular security cooperation in the form of European Union Advisory Mission (EUAM) Ukraine, which is as an example of truly systematic, practical multilateral cooperation primarily aimed at providing EU support to Ukraine in reforming its civilian security sector.¹⁰

But this is not enough. Therefore, despite this positive example (EUAM), we have to admit that so far, there has not been a systematic practical cooperation in the multilateral security context between Ukraine and the EU.

This situation has objective justifications. On the one hand, from organisational standpoint, the EU was not created as a security organisation, and up until today, despite active attempts, foremost by France, to strengthen the EU's security agenda, as long as there is NATO, this organisation will always take second

place not only in global, but also in regional security. Not coincidentally, back in 2018, French President Emmanuel Macron, promoting the idea of creating a "European army", stated that modern Europe is "too weak, too slow, and very inefficient".¹¹

Also, EU-Ukraine cooperation was being constantly affected by the so-called "Russian factor". Many European states, in the light of Russia's pressure, were reluctant to agree to security cooperation with Ukraine. This especially manifested itself in 2014, when a number of leading EU member states imposed an actual arms embargo on Ukraine.¹²

On the other hand, Ukraine also could not claim to have always been consistent in political orientations and ready to adequately fund its security sector. And without trust and money, it is impossible to develop practical security cooperation. However, despite the fact that the EU is not a security alliance, and Ukraine still experiences certain political and financial problems, foundation for further intensification of cooperation does exist.

First, as previously said, Ukraine and the EU have shared security interests.

Second, Ukraine and the EU have fully matching fundamental values, which have to be preserved and safeguarded. In particular, one of the value-based conditions for EU accession as stated in the Treaty on European Union is a candidate state's attachment to the principles of liberty, democracy and respect for human rights and fundamental freedoms and of the rule of law; readiness to build trust, stability, independence and efficiency of institutions that ensure democracy and the rule of law. As for Ukraine, declaring its intention to join the EU, our country, undoubtedly, shares these values, and has even proven its readiness to defend them.

Third, gradually, albeit slowly, Ukraine is developing conditions for real, not just formal, security cooperation. Today, in terms of practical implementation, military-technical cooperation seems particularly promising. Experts state: "Development of military-technical cooperation (MTC) with the European Union gives Ukraine access to the world's best research and technical developments in the armaments sector, which helps us secure national defence

¹⁰ See: Factsheet of European Union Advisory Mission Ukraine for Civilian Security Sector Reform, – <https://www.euam-ukraine.eu/wp-content/uploads/2020/06/Informatsijij-byuleten-1.pdf>.

¹¹ See: "European Council Expanded European Defence Cooperation". – DW, 19 November 2018, – <https://www.dw.com/uk/пада-єс-розширила-європейську-оборону-співпрацю/a-46367489>.

¹² See, for example: "Poroshenko told how he managed to secure supplies of western weapons to Ukraine: in 2014, I couldn't buy a tank engine in Germany". – Censor.net, 23 October 2020, – https://censor.net/ru/news/3226640/poroshenko_rasskazal_kak_dobilsya_postavok_zapadnogo_vooruzheniya_v_ukrainu_ya_v_2014_godu_v_germanii.

interests. The European market is opening for national defence industry products, which helps Ukraine obtain the necessary financial resources. In addition, MTC offers expansion of defence industry cooperation in line with EU economic rules – i.e. rules of the international organisation to which Ukraine seeks to accede in the future”.¹³

It is worth noting that lately there have been a number of positive trends in the defence industry sector, which will potentially facilitate MTC with EU countries. These trends include: noticeable increase of budget for armaments procurement, both of domestic and EU manufacture. We also observe an increase of the volume of public defence contracts, i. e. procurement of Ukrainian-made weapon products for the Armed Forces of Ukraine and other security agencies. This indicator is very important for Ukrainian weapons exports. In addition, private arms manufacturers are gradually gaining strength in Ukraine, and this is also positive for MTC.

Finally, we have some progress in regulation of armaments production, procurement and MTC. This is confirmed by the completion of Examination of Defence Industrial Complex (DIC) and adoption of the Law “On Defence Procurement” in 2020. Next are amendments to the Law “On the Features of Managing Objects of State-Owned Property in Defence Industry Complex” and adoption of the new Law “On Corporatisation of DIC Enterprises”. These documents would allow to standardise the recently started process of corporatisation and initial public offering (IPO) of defence enterprises, which will create favourable conditions for cooperation between Ukrainian and European arms manufacturers.¹⁴

Also, there is already talk about privatisation and IPO of state DIC enterprises through the creation of corresponding holdings. Experts say: “It is corporatisation and IPO, and later, partial privatisation that may allow Ukraine to create a new face of its defence industry. So that we are able to join international defence industry associations and create joint structures with foreign companies. And this will be done in order to obtain new technologies and implement this task at a much lower cost. Just one example: the setup of a joint Ukraine-Turkey venture on production of strike drones not only provides



technology to Ukraine, but makes the final product 35% cheaper”.¹⁵

Such transformations are considered favourable for international defence industry cooperation, and their initiators in Ukraine are optimistic and promise to carry out corresponding reforms in the near future.¹⁶

Thus, it is obvious that similarity of approaches declared by Ukraine and the EU in identification of strategic interests and values creates a favourable environment for the development of mutually beneficial security cooperation, despite the current crisis provoked by Russia’s aggressive actions. Ukraine’s aspirations to join the EU are an additional stimulus for this, in particular in terms of building capacity to deter Russian aggression, overcoming the existing consequences of Russia’s aggression against Ukraine and resolving other regional conflicts. Purposeful, balanced progress towards achieving these aspirations will contribute not only to ensuring Ukraine’s security interests, but also to strengthening European and global security. ■

¹³ See: Fedorenko K., Polyakov L., Koziy I. Military-Technical Cooperation Between Ukraine and the EU. – “Cooperation Between Ukraine and the European Union in the Security Sector. Public Monitoring Report”, Euro-Atlantic Cooperation Institute, 2019, – <http://www.ieac.org.ua/public/item/96-hromadskiyi-monitorynh-spiivpratsi-ukrainy-ta-yes-u-bezpekovii-sferi-policy-paper>.

¹⁴ Director of the Centre for Army, Conversion and Disarmament Studies believes that adoption of these regulations will allow Ukrainian DIC to “work in compliance with global rules”. See: Badrak V. Launch of DIC Reform. Will We Manage to Stay on Course? – Liviy Bereh, 10 September 2020, – https://lb.ua/economics/2020/10/09/467752_start_reformi_opk_chi_vdastysya.html.

¹⁵ Ibid.

¹⁶ See: “Over 60 of 137 enterprises of “Ukroboronprom” will be corporatised, 19 – handed over for privatisation, – Uruskyi”. – Censor.net, 23 October 2020, – https://censor.net/ua/news/3226656/ponad_60_zi_137_pidpryemstv_ukroboronpromu_budut_korporatyzovani_19_peredadut_na_privyatzatsiyu_uruskyi.

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