

# HIE RODOS, HIE SALTA!

*Vlasiuk Oleksandr*

There is a popular opinion that Ukraine's choice of European integration is our «choice of civilization». Moreover, one can often hear the statement that «Ukraine is Europe». It is beyond any doubt from geographical point of view, however, from another point of view, as one of Kvitka-Osnovyanenko's literary characters said: «*It's true, but also somewhat wrong!*» At least it would be strange to hear a statement that «France is Europe», or «Spain is Europe», or «Switzerland is Europe» because it is clear anyway. Therefore let's be unbiased – especially that it will facilitate a successful European integration and acknowledge that fortunately, «Ukraine is not Russia», but unfortunately it is not «absolute Europe». In fact, this is the core of the problem: in the course of European integration we have to identify «unnecessary» non-European «admixtures» and «toxins». There are particularly many of them in the economic life of Ukraine, which can be easily explained by the «legacy» of the Soviet administrative economy. This is precisely why the implementation of the provisions of the Association Agreement between Ukraine and the European Union are of key importance. It is not just organizational and technical work to adapt our legislation, regulations and standards to corresponding directives of the European Commission or even broader – to *acquis communautaire*. **Implementation of the Association Agreement is an important test for Ukraine's ability to live and work in a European style.** *Hie Rodos, hie salta!*<sup>1</sup>

In fact, as Marlon Brando's hero in the film «The Godfather» said, the European Union made us «an offer one can't refuse». Either we successfully pass the examination on our belonging to Europe and will be able to move to a higher level of cooperation, or we will not pass this test and simply will never find ourselves in the European Union and consequently, with uncertain prospects for the future. For Ukraine the Association Agreement with the EU is an instrument for the realization of necessary reforms and institutional changes in the country's economy with the support of the EU. Its implementation

<sup>1</sup> «Here is Rhodes, jump here!» – the words from an Aesop's fable said in response to a man who boasted that he once achieved a stupendous long jump in competition on the island of Rhodes. (*Editor's note*)

depends significantly on the political will of the Ukrainian leaders who must introduce necessary reforms and apply the undertakings given to the EU under the conditions of the «hybrid» war unleashed by Russia in Eastern Ukraine and the severe economic crisis.

Nowadays the major challenge for the European integration of our country is Russian aggressive policy. Losing its geopolitical influence on our country Russia is constantly trying to make its geopolitical «adjustments» in the implementation of sovereign Ukraine's foreign policy, using for that purpose all possible means including untruthful anti-Ukrainian propaganda, explicit political, economic and military pressure. Therefore, Ukraine is forced to protect its sovereignty and the European choice with weapons in the hands of its people. Apart from the political pressure it also resulted in the decline of financial resources that might be used for the implementation of the EU-Ukraine Association Agreement (not only the preparation and adoption of the legislation, but also for spending (making investments) for real practical reformatting of the economy (new standards, new markets, new goods, etc.))

At the beginning of 2016 the ratification procedure of the EU-Ukraine Association Agreement was completed by all the EU member-states and Ukraine. Only the Netherlands hadn't completed the procedure, because the state was supposed to hold a consultative referendum on this matter in the upcoming spring.

In addition, the European Parliament approved the ratification. Even before the completion of the ratification process starting on November 1, 2014 the countries started temporary implementation of the Agreement.

It hardly makes any sense to give indepth information in this article about particular number

**Vlasiuk Oleksandr** –  
Doctor of Economy,  
Professor, Corresponding  
Member of the  
NAS of Ukraine, First  
Deputy Director of the  
National Institute for  
Strategic Studies

of regulatory documents that have had to be implemented (introduced or changed) during this year: direct executors (government officials) and users (businessmen) of new regulations and specifications can comment on such information more convincingly. If you take a brief look at the text of the Agreement, you'll see that besides the declaratory preamble about the political dialogue, ecology, freedom and safety, it contains **three important groups of tasks**, more specifically:

- **The first group concerns de facto creation of the comprehensive free trade area between Ukraine and the EU** the principal component of which is the unification of regulations for trading of goods and services and not merely gradual mutual zeroing of customs duties. After liberalization of customs regime in the trade with the EU member states, non-tariff restrictions will be the main restriction in the development of Ukrainian exports to the EU market, and primarily the requirements of the Ukrainian products compliance with European standards and regulations. These restrictions must be leveled in the course of the implementation of the European technical standards system in Ukraine;
- **The second group provides for the implementation of legal standards in economic and sectorial cooperation** that will be concurrently coordinated in Ukrainian legislation with the EU standards. In particular, within the energy sector within 3–8 years Ukraine has to adopt the EU directives on electricity, gas, geological exploration, peaceful atom, and energy efficiency. In the field of taxation, it is necessary to approximate gradually to the tax structure existing in the EU. It will facilitate the increase of services provided by Ukrainian transportation companies in the EU markets, and European ones in the Ukrainian market. In corporate management sphere, Ukraine is obliged to approximate to the EU standards as to shareholders, creditors and other parties' rights protection and to introduce international accounting standards;
- **Solution of the third group of tasks is connected with the commitments undertaken by Ukraine in the field of financial cooperation, struggle with fraud and corruption.**

In particular, our country has committed itself to accede to the Convention «On the protection of the European Communities' financial interests» and to two important protocols supplementing it, namely: «On the corruption in the European Community» and «On money laundering». The above tasks are the obligation to implement specific legislative acts of the EU, which practically

assigns a sequence of necessary institutional transformations.

**The agenda of the EU association with Ukraine** spells out in detail the cooperation between the parties in economic, legal spheres, in the sector of safety, international policy, etc., and sets 10 priorities in the joint action of the parties for its practical implementation. Particularly, these are:

- 1. Constitutional reform** which is to be introduced after public discussions and with due consideration of the recommendations made by the Venice Commission including the steps that will allow further reforms of legal system and decentralization.
- 2. Judicial reform** that requires compliance with the European standards and close cooperation with the Council of Europe and Venice Commission, for which Ukraine has to draw up the Strategic plan of legal reforms.
- 3. Anti-corruption reform** the basis for which, was laid by the package of anti-corruption laws adopted on October 14, 2014. Its effective implementation depends on proper functioning of the National Anti-Corruption Bureau and the National Agency for Prevention of Corruption.
- 4. Government reform** that will introduce changes to the system of public services and local authorities, according to the European principles of public administration. The real challenge here is high corruption of the «old» administrative elite and its disinterest in preparation of a new pro-European reserve. Meeting this challenge is the pledge of other reforms' success. Reforms in public service must be focused on the formation of the «corps» of innovative capable leaders, which is to be done in a very short time.
- 5. Electoral system** reform envisages making the electoral legislation that will regulate the procedures for financing political parties, in particular, with the budget funds. Due to external factors, the law on local elections must become the priority of it.

**6. Reform in the sphere of Government procurement**, which is required to secure improvement of transparency and competitiveness of sectorial development. Provisions should be made for the adjustment of the Government procurement system in Ukraine according to the directives used in the EU.

**7. Tax reform**, the purpose of which is to improve efficiency of tax administration, particularly, when making VAT refunds on non-discriminatory basis. According to the EU, solving the VAT issue will improve the business

environment and prove the ability to make real transformations. Besides, it's necessary to introduce legal changes with strict observance of the established rules and procedures aimed at the fight against corruption and evasion of taxes.

**8. Deregulation reform** is to ease regulatory burden for the liberalization of control over business, to simplify the certificates and license system, etc. Alongside with the reduction of different kinds of bureaucratic barriers for business, the Ukrainian Government has to provide conditions and mechanisms that would prevent both the appearance of new barriers and the «reversion» of cancelled regulatory restrictions.

9. Wide application of **external audits** as the instrument for strengthening the system of checks and balances. The challenge in this issue is the substantiated non-confidence of European structures to financial activity of the Ukrainian authorities (the Government) Initially, as to the usage of funds given to Ukraine by the EU. External audits herein refer to the inspection made by an auditor not related to the body (company) to be audited.

**10. Energy reform** that envisages, among other things, acceleration of «Naftogaz of Ukraine» National JSC division and restructuring process, adoption of the law on new regulatory body in the sphere of gas and electricity supplies and provision of public utility services, as well as preparation, in cooperation with the EU, of the proposals for legislative acts on regulation of gas and electricity market.

**Short-term** consequences of the association and free trade between Ukraine and the EU according to the forecast in general were supposed to be positive. It was supposed to happen due to the active Free Trade Zone that nowadays is «working» unilaterally in the form of preferences from the EU. The creation of FTZ indeed provided growth of trade and its geographical re-orientation at the beginning: according to the summary of 8 months of 2014 (starting in the moment when the EU opened its markets for Ukraine) the export to the EU grew by 24 %, and export to Russia and CIS states dropped to 30 %.

Unfortunately the trend changed in the last quarter of 2014. According to the results of 2015 Ukrainian export to the EU amounted to about \$13 billion or 76,5 % compared to 2014. At the same time during the last months the export decrease tendency slowed down. Therefore, considering the results of December 2015 compared

with the December of 2014 the export to the EU decreased by 2,9 %.

After the liberalization of the trade customs regulations with the EU member-states, non-tariff restrictions remain the major limitation for the development of Ukrainian export to the EU market, in particular requirements of the European standards and technical regulations. This restriction shall be negated in the course of implementation of the European system of technical standards in Ukraine.

However, the implementation of the Agreement faces certain risks, in particular:

- lack of effective mechanism for coordination at the highest level or at least at the level of vice prime minister and related to it lack of political attention to the details;
- poor understanding of particular legal acts of the EU legislation and poor understanding of the approaches and practices formalized in these acts, willingness to recreate the existing practices when adopting the EU documents as national legislation;
- lack of effective monitoring system for the changes in the EU legislation;
- poor (ineffective) quality of state budget funds management including the funds transferred within the framework of the EU budget support program;

Another threat is the *risk that Russia and other states of the Customs Union can apply non-tariff measures* against Ukrainian goods as a «punishment» for the Euro-integration actions of Ukraine.

In addition, we must consider the fact that the process of implementation of European standards will demand significant funds, according to various estimates amounting to the minimum of €3 billion (while the overall spendings can amount to €30–40 billion including investments in production to meet European Standards of Environmental Protection).

**These are the strategic tasks for the implementation of the EU Association Agreement, realization of which will ensure the progressive movement towards the European integration of Ukraine.** In order to solve them, we need a strong political will, managerial capabilities and wide support from the people. Still, there is a well-known fact that «The road will rise to meet the one who walks it»!