

“Setting up Free Trade Zone with Europe or Joining Customs Union with Russia: what Brings Ukraine more Benefit?” – Round Table

Ukraine’s European integration does not confront country’s Euroasian Pace - experts.

The Gorshenin Institute has conducted a round table discussion called “Setting up Free Trade Zone with Europe or Joining Customs Union with Russia: what Brings Ukraine more Benefit?” The attending experts said that the Customs Union consisting of Russia, Belarus and Kazakhstan may impose restrictions on import of Ukrainian goods if Ukraine signs a Free Trade Deal with the European Union. However, sectoral agreements with the Customs Union’s members may become a plausible alternative to full membership.

A MP of the Party of Regions, Inna Bohoslovka, said that nothing is preventing Ukraine from making sectoral agreements with members of the Customs Union in those sectors of the economy interesting to both parties. “As long as Ukraine’s full membership in the Customs Union makes it impossible to set up the Free Trade Zone with the EU, in the framework of the ‘3+1 formula’, we can make agreements with the Customs Union’s members in specific sectors of economy, for instance, grain trade. What prevents us from setting up the grain trade union as part of development of relations with the Customs Union? Ukraine, Kazakhstan and Russia together can cover 30 per cent of the world’s grain market. Remember, how the European Union was set up? At the beginning it was the Coal and Steel Community,” Bohoslovka said.

Head of Russian Embassy in Ukraine Economic Sector, Advisor Aleksey Urin, said that sectoral agreement do not meet the needs of the majority of Ukrainian manufacturers. “within the framework of the Customs Union we offer a comprehensive approach, total opening of the borders, while you are talking about preferences for specific sectors of the economy only. This is not fair. So, if someone takes tomatoes through the border, he will be forced to pass the phytosanitary control and pay for all these required procedures, but if you carry, let us say, an engine - no problems, go on! Why should a tomato seller be discriminated?” Urin asked. According to Urin, experts preliminary assess Ukraine’s economic benefit from joining the Customs Union at four to nine billion dollars a year. “Speaking about losses from not joining the Customs Union, there are scientifically substantiated assessments here as well, which state that the losses would amount to one and a half – two billion dollars. There are also some preliminary considerations regarding restrictions that Russia as a member of the Customs Union would have to impose after opening the Ukrainian market to goods from the EU. However, I think right now no one knows what positions precisely will pose risks to the Customs Union and will be restricted fully or partially. This threat exists, and if after Ukraine joins the Free Trade Zone, excessive pressure will affect the Russian market, or, to put it more precisely, the market of the Customs Union, restrictions will have to be imposed on these positions. Nevertheless, it is not worth speculating who will lose what unless Ukraine’s deal on the Free Trade Zone is in place”.

The consultant to the Secretariat of the Commission of the Customs Union, Sergei Tkachuk, said that Ukraine’s rocket launchers and airspace goods and services and, possibly, chemical goods, may become the subject of an export ban. “In the discussions regarding Ukraine’s joining the Customs Union one could hear quite often that this step will terminate prevailing the export of raw materials over the export of machinery products, but I believe it will be vice versa. The very purpose of setting up a customs unions is to protect hi-tech markets”, Tkachuk said. He added that Ukraine will lose up to 1.4 million dollars if it does not join the Customs Union.

Razumkov Centre Deputy Director General, Valeriy Chalyy, said that Ukraine's losses from not joining the Customs Union are not evident. "They say that the Ukraine airspace branch will suffer, but I am convinced quite on the contrary: everything will be fine between us and Russia in the airspace branch as there is no alternative to our cooperation in the sector," Chalyy said. He also suggested that Ukraine's joining the Customs Union does not guarantee the resolving of trade conflicts with Russia, Belarus and Kazakhstan. "We should not expect automatic resolving of all conflict issues. From the strategic standpoint, the Customs Union freezes Ukraine in the sector of low wages and will keep us a raw materials supplier but does not guarantee us a positive balance in foreign trade with the Customs Union's members," the expert said. Chalyy also said that the membership of the customs union may pose a number of economic and political risks. He recalled the stories of the South American customs unions: the Andean Pact and Mercosur. "The members of the Andean Pact united to protect themselves against monopolies but finally they froze their economic development. The Mercosur agreement united more prosperous countries but did not protect its members from economically highly developed countries imposing protectionist customs duties at the crisis time," Chalyy said. Speaking about political risks, Chalyy suggested that unions like this help to set up negative political regimes.

A MP of the Communist Party, Serhiy Hmyrya, said that Ukraine's European integration does not contradict the country's Euroasian integration. Hmyrya also said he is very sceptical about benefits from joining the Free Economic Zone with the EU and the Customs Union.

A MP of the Yuliya Tymoshenko Bloc, Serhiy Teryokhin, for his part recalled that there is a valid agreement on scientific-research and industrial cooperation between Ukraine and Russia. "However, this agreement has not worked for the last three years for different reasons," Teryokhin said. He also said that even if Ukraine joins the Customs Union, Russia will still maintain different export preferences for its producers.

The defence lawyer, assistant professor of the International Relations Institute of Kyiv National Shevchenko University, Serhiy Kozyakov, said that quick formation of the Customs Union between Russia, Belarus and Kazakhstan will cause a number of legal disputes between the members of the Union. He recalled that today the Customs Union does not have unification of technical regulations and standards, there is no single certificate of quality of goods, no agreed anti-monopoly policy. All these aspects may result in miscellaneous legal disputes between members of the Customs Union. "According to the information of the Russian State Border Service, 43 per cent of smuggled goods were detained at the border with Kazakhstan. The phytosanitary restrictions at the border between Russia and Kazakhstan will be lifted on 1 July 2011, but Russian experts say Kazakhstan represents a major threat to Russia in the area of phytosanitary control," – Kozyakov said. He also said that Russia decided to preserve the quoting vehicle even within the framework of the Customs Union. "This means that if the Russian authorities see that movements of goods towards Russia are not in line with the country's economic interests, they will impose quotas. However, now it is not clear how all these aspects will be addressed and work after removal of the customs borders," Kozyakov said. Speaking about the possibility of Ukraine joining the Customs Union, Kozyakov said that within the framework of the Customs Union export duties will be collected at the outer borders of the Union. "As a result, Russia will receive 88 per cent of the collected duties, Kazakhstan – 7.2 per cent, Belarus – 4.7 per cent. It is also important to note that in Ukraine customs duties make up to 20 per cent of income to the state budget. Gigantic customs duties like this – it is not normal: in developed countries of the world customs duties make three to five per cent of the state budget at most. Whatever happens, I would like to say that joining the Customs Union will result in serious consequences for Ukraine's budget," Kozyakov said. In the conclusion Kozyakov said that the customs union in the framework of the European Economic Community was set up 10 years after the establishing of the European Union itself. "It is important to note that by the time of setting up the customs union, there were practically no export duties in the EU," Kozyakov said.