

About the Position Paper

This Position Paper has been prepared following the request of the European Parliament's Delegation to the EU-Ukraine Parliamentary Association Committee to the Ukrainian Think Tanks Liaison Office in Brussels (the Office) to present the views of the Ukrainian think tanks and academic community on the future of EU-Ukraine relations. A brief summary of the paper was presented during the Brussels UkraineLab 2018, organised by the Office on 27 February 2018.

About the Ukrainian Think Tanks Liaison Office in Brussels

The Office is an association of Ukrainian and European think tanks whose aim is to foster joint actions at the EU level to advance reforms in Ukraine and the European integration of the country. The Office, set up in 2014, today represents and unites 20 think tanks that focus on a wide array of EU – Ukraine issues, provide high quality research and policy recommendations, and evaluate policy implementation.

About the Brussels UkraineLab

The Brussels UkraineLab is the flagship activity of the Office. This is a platform to exchange ideas on research and policy-related projects on Ukraine. The event was launched in 2016 to meet the needs of those engaged in promoting democratic transformations and reforms in Ukraine. For its third edition, the Brussels UkraineLab is taking place in the European Parliament, within the framework of the European Parliament's Delegation to the EU-Ukraine Parliamentary Association Committee.

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Ukraine - EU Relations: Looking Beyond the Horizon

How do we see the future of European integration?

Introduction

Today, there are major fundamental changes taking place across the world, including within the European Union (EU) and Ukraine. In this regard, there is an increasing need to intensify the discussions on the future stages of collaboration between Ukraine and the EU in the context of the integration process. With this objective, this position paper was prepared formulating a vision of what will impact the relations between Ukraine and the EU in the medium-term and long-term.

A group of Ukrainian experts drafted this document as a basis for discussion. Its contents solely represent the opinion of its authors. Furthermore, this document and its authors rely on the assumption that, despite all the current problems and challenges facing the EU and Ukraine, the EU will remain an example of the implementation and protection of democratic values and market economy principles, and that Ukraine will keep following a strategic direction of integration with the EU.

This document does not include scenarios on the pace of developments in the EU and as such, does not include any specific political response of Ukraine to such developments. It is an assessment of the factors that will influence both the perception of the EU in Ukraine and the format and scope of cooperation between Ukraine and the EU in terms of European integration.

This document is an attempt to present a quality assessment of the status of cooperation between Ukraine and the EU with a focus on the dynamics of the European positions (society and business) and the factors determining intensity and formats of the European integration process for Ukraine.

The authors are convinced that without such analysis of cooperation between Ukraine and the EU, it is extremely difficult to formulate a realistic policy of EU-Ukraine cooperation.

1. The European Idea in Ukrainian Way: Society and Business

1.1. Society: supporting the European choice through the prism of internal problems

For Ukrainian society, the European idea is an opportunity to choose a more attractive development model, which has clear socio-economic advantages as compared to other regional models. At the same time, the eagerness to resolutely follow this path currently depends directly on the actions of the authorities and the proactive attitude of civil society. Furthermore, the Russian hybrid war against Ukraine today has turned the European idea practically into the only option in the medium-term perspective.

For most Ukrainians, regardless of age and region of residence, over the past 17 years¹, integrating further with the EU has been more attractive when compared to the alternative of getting closer to Russia and the Commonwealth of Independent States (CIS) territory. During the period from 2014-2017, even in the Southern and Eastern regions of Ukraine, the share of citizens who supported

¹ This work is based on the data of systematic monitoring of the attitude of Ukrainians regarding the accession to the EU, conducted by the Institute of Sociology of the National Academy of Sciences of Ukraine (since 2000) and the "Democratic Initiatives" Foundation (since 2006).

integration with the EU significantly exceeded the number of those who supported accession to the Eurasian Economic Community (EurAsEC). However, such attitude is based on the expectations of welfare growth, rule of law and freedom of movement across Europe (and, post 2014 - a higher-level security).

In our opinion, in the next 3-5 years after the Association Agreement (AA), more and more citizens will compare living conditions with before and after the signing of the AA and draw conclusions in favour or against integration with the EU. In other words, the attitude of Ukrainians towards the EU will be shaped predominantly by factors that are not directly dependent on the state of relations between Kyiv and Brussels (i.e. the scope of EU macroeconomic or technical assistance, the amount of investments, or the mutual penetration into markets).

If economic and social policy of Ukrainian governments before and after 2019 is associated with the EU requirements but does not lead to a tangible improvement of living standards, citizens' trust and support to the EU will decrease, and vice versa.

There is also another dimension to this integration, which is quite important for the EU. According to the poll conducted by Kyiv International Sociology Institute (KISI)/ Dzerkalo Tyzhnia (DT)², unsuccessful economic and social policies of Ukrainian governments increase emigration tendencies among Ukrainians. The poll has shown that due to these unsuccessful policies, Ukrainians are most likely to emigrate predominantly to Central and Eastern Europe and Germany. Successful reforms lead to the opposite effect and strengthen the positive perception of European values in Ukrainian society.

Ukrainians are realistic about the responsibility of the state (government) for building relations with the EU. In particular, according to the polls conducted before and after 2014, the following reasons that may hinder integration include corruption, slow pace of reforms, insufficient economic development of Ukraine and low living standards, and issues with democracy and human rights. A secondary factor that may hinder integration is the perception of negative geopolitical factors: Russian aggression and hostilities in the Donbas, and the reluctance of certain EU member states to see Ukraine within the EU.

This suggests that Ukrainians are more inclined to demand action from their authorities than to put the blame on external forces or circumstances for the slow integration. Therefore, in the mid-term, the strengthening of EU-Ukraine relations will depend on the EU's ability to effectively communicate with key influential non-governmental stakeholders and try to "press" the state institutions to create networks of civil society cooperation that will help support the implementation of reforms.

Ukrainians, in fact, think European integration is the preferred option when compared to getting closer to Russia and the CIS, especially since 2014. Specifically, as integration for them means joining a community of nations, in which equal rights and reconciliation of interests in society on the basis of transparent and mutually acceptable principles are not mere formalities. These are norms of decision-making and the standard of international relations. That is, joining the EU is seen as the process of acquiring subjective rights and the complete rupture with Russia's postcolonial identity of the Ukrainians as a "lower", "subordinate" nation, one of the sub-ethnic groups of the "title imperial" nation. Therefore, Ukrainians will inevitably compare the manner and nature of the interaction with the EU with the historical experience of relations with Russia.

It is therefore critical for the EU to involve the representatives of Ukrainian academic institutions, independent expert organizations, and pro-European parties in future Ukrainian decision-making processes, especially as regards to the highly politically sensitive issues that the country must overcome. Such openness to the advice and input of Ukrainian intellectuals and willingness to

²The survey was conducted by Kyiv International Sociology Institute from November 21 to December 15, 2017. The field stage lasted from December 1 to December 14, 2017. 2,039 questionnaires were collected in 110 settlements in all regions of Ukraine, except the Autonomous Republic of Crimea. In the Donetsk and Luhansk regions, the poll was conducted only in territories controlled by Ukraine.

acknowledge their positions in the development of EU-Ukraine related policy will contribute to enhancing the trust of Ukrainian society in the EU, preventing future conflicts at home, as well as ensuring more efficient cooperation with the EU.

Observations over the past 17 years have shown that pro-European attitudes in society are unstable and can be influenced by propaganda of political parties, major TV channels that outline the benefits of alternative integration and disadvantages of rapprochement with the EU, the disillusionment of citizens with political forces, and governments that declare their commitment to European integration. At the same time, based on the research data of 2013³ and 2017⁴, it can be stated that the attitude is also largely shaped by personal awareness, in particular, personal experience of staying in the EU. In 2017, only 12% of Ukrainians stated that they had visited an EU member state in the past two years. Furthermore, out of those 12%, the majority or almost three times the amount, stemmed from the West, rather than the East and Southern regions of Ukraine. As such it can be said that depending on the region, the poor economic conditions in Ukraine can create an environment that lead to variable impressions of perceived and actual benefits or disadvantages ensuing from the integration with the EU.

In this context, the visa-free regime will facilitate the way in which Ukrainians view the EU both in the short-term and medium-term, specifically in regards to accepting and implementing necessary European standards without seeing them as something forcefully imposed from outside.

A high level of distrust in governmental institutions⁵ and a low level of citizens' involvement in public life⁶ raises an acute issue of institutions or groups that, in the citizens' eyes, would have sufficient influence and power to implement the policy and specific steps aimed at ensuring Ukraine's integration into the EU. Evidently, this can, to a certain extent, explain how in 2017 only 9% of Ukrainians named EU integration as one of the three most relevant important social and political issues (together with the decentralization reform, return of Crimea, and the creation of favourable conditions for entrepreneurs)⁷.

In other words, the majority of citizens at present do not connect the European integration process with adequately addressing the most important issues facing Ukraine, which are improving the economic conditions domestically, the resolution of the conflict in Donbas, and addressing corruption. Politically, this will mean that Ukrainians who support European integration will gravitate towards political parties and presidential candidates whose platforms address the most pressing issues facing the country. Therefore, there is a risk that populists will use the idea of European integration in order to promote policies that are incompatible with the EU practices and requirements, including the AA. For instance, after the early parliamentary elections in 2014, a parliamentary coalition known as "European Ukraine"⁸ was created in the Verkhovna Rada of Ukraine, which consisted of 302 MPs and formed a constitutional majority. However, in the past

³The survey was conducted by the Razumkov Center on April 20-25, 2013. 2,010 respondents were interviewed according to a sample representing the adult population of Ukraine by main socio-demographic characteristics (region, type of settlement, age, gender). The theoretical sample error does not exceed 2.3%.

⁴ "Democratic Initiatives" Foundation named after Ilko Kucheriv and Razumkov Center from 9 to 13 June 2017. 2 018 respondents aged over 18 years were interviewed in all regions of Ukraine, with the exception of the Autonomous Republic of Crimea and the occupied territories in Luhansk and Donetsk oblasts. The theoretical sample error is 2.3%.

⁵The nationwide survey was conducted by "Democratic Initiatives" Foundation named after Ilko Kucheriv in conjunction with Razumkov Center sociological service on December 15-19, 2017 in all regions of Ukraine, with the exception of the Autonomous Republic of Crimea and the occupied territories in Luhansk and Donetsk oblasts. 2 004 respondents aged over 18 years were interviewed. The theoretical sample error does not exceed 2.3%.

⁶The survey was conducted by "Democratic Initiatives" Foundation named after Ilko Kucheriv in conjunction with Razumkov Center sociological service on December 15-19, 2017 in all regions of Ukraine, with the exception of the Autonomous Republic of Crimea and the occupied territories in Luhansk and Donetsk oblasts. 2 004 respondents aged over 18 years were interviewed. The theoretical sample error does not exceed 2.3%.

⁷ According to the survey conducted by GfK Ukraine in August-September 2017 ordered by the *Pact* within the framework of the Program for Promoting Community Activity "Join!" (USAID).

⁸Agreement on the coalition of deputy factions "European Ukraine" <http://zakon2.rada.gov.ua/laws/show/n0001001-15>.

three years this coalition was dissolved due to internal conflicts. Meanwhile, the original parties that signed the coalition agreement proposed and adopted laws that caused severe backlash from civil society, entrepreneurs and the EU. The reasons is non-compliance with provisions in the EU-Ukraine AA as well as with principles included in the Copenhagen criteria.

In this context, the 2019 elections will pose a real challenge for new political parties to bolster support around the idea of European integration. This is in particular regarding the development of concrete and realistic policies for society overall to achieve this goal.

The success of which, given the resistance from populists and political projects developed to lobby state and private interests, will to a large extent depend on pro-European forces ability to unite before the elections and win the support of the active civil society and volunteer movements. The mere reestablishment of a parliamentary coalition that does not actively promote the necessary reforms will lead to the stagnation of relations between Ukraine and the EU.

A significant obstacle for Ukraine to gain EU membership is the potential alienation between citizens and the state as well as the weakness of civil society institutions. According to the results comparing the opinion survey data for Ukraine and the EU (pan-European Eurobarometer survey "Trust in institutions" April 2017⁹ and "Involving Europeans in civic participation" February 2013¹⁰), the level of distrust in the state and justice system in Ukrainian society is two times higher than the average level of distrust in the EU28. The level of trust barely reaching the lowest indicators has been reported in Greece and Slovenia.

As such, the EU is perceived by the majority in society as an important ally in implementing key reforms, which Ukraine constantly delays. Specific EU demands and actions concerning the establishment of anti-corruption bodies and support for their activities, fight against corruption at highest levels of government, and the protection of human rights will be especially important for Ukrainian citizens.

At the same time, Ukrainian society's attitude and support for addressing the key challenges for Ukraine's successful EU integration, demonstrates significant progress. Over the recent years, an environment of relatively high level of personal non-tolerance of corruption has developed. Specifically, 49% of Ukrainians believe bribes are unacceptable (September-October 2017¹¹). Despite the armed conflict and unstable economic situation, a high level of tolerance still exists in Ukrainian society (survey conducted in November 2016¹²) compared to the situation in the EU (survey conducted in May-June 2015¹³). More specifically, the threat of discrimination based on ethnicity, sexual orientation and gender is assessed to be significantly lower than in Europe. Therefore, if such obstacles for integration as dependence of state institutions on the influence of

⁹Survey was carried out by TNS Political & Social network in the 28 Member States of the European Union (EU) between 15 and 25 April 2017. Some 28,501 EU citizens were interviewed face-to-face at home on behalf of the Directorate-General for Communication.

¹⁰ Survey was carried out by TNS Political&Social network in the 27 Member States of the European Union between 14 February and 16 February 2013. Some 25,551 respondents from different social and demographic groups were interviewed by telephone in their mother tongue on behalf of the Directorate-General for Communication, in response to a request from the European Economic and Social Committee. <https://www.eesc.europa.eu/en/our-work/publications-other-work/publications/flash-eurobarometer-373-europeans-engagement-participatory-democracy#downloads>.

¹¹Nationwide survey of the Ukrainian population was conducted in September 18-October 3, 2017 by the "Democratic Initiatives" Foundation named after Ilko Kucheriv and Ukrainian Sociology Service. In total, 2 000 respondents were surveyed within a sample representing the adult population of Ukraine (except for the occupied territory of Crimea and certain territories in Donetsk and Luhansk oblasts). The sample error does not exceed 2.3%.

¹²The nationwide sociological survey "Human Rights in Ukraine" was conducted on October 22 - November 6 , 2016 by the "Democratic Initiatives" Foundation named after Ilko Kucheriv and Ukrainian Sociology Service, during which 2 002 respondents were surveyed. The maximum error (not taking the design effect into consideration) does not exceed 2.2% with probability of 0.954.

¹³Survey was carried out by TNS Opinion & Social network in the 28 Member States of the European Union between 30 May and 8 June 2015. Some 27,718 respondents from different social and demographic groups were interviewed face-to-face at home in their mother tongue on behalf of Directorate-General for Justice and Consumers.

oligarchic groups are eliminated, and economic reforms are implemented, the Ukrainian society will immediately perceive the general European values as its own.

Furthermore, the armed conflict with Russia and the EU's position on this issue will inevitably affect the assessment by Ukrainians of the relationship with the EU. In the context of an existential threat, Ukrainians will naturally seek support and assistance from the EU as a more powerful and implicitly friendly foreign power to Ukraine. Most Ukrainians expect economic and, especially, humanitarian aid from the EU member states. This includes EU solidarity with Ukraine in bringing Russia to responsibility for its aggression (e.g. through an effective sanctions regime), supply of military equipment from the EU, and military training of Ukrainian servicemen.

The weakening of such EU support or attempts to use it for imposing a solution to the conflict with Russia is projected to reduce the number of supporters of European integration, promote the spread of isolationist, nationalist sentiments (e.g. public support for economic protectionism), and disassociation with the EU.

1.2. Business: a gradual but steady transition towards Europe

The attitude of Ukrainian business to the country's economic integration with the EU has gradually but significantly changed during the period of independence of the state. According to a survey, conducted among the business owners by "Dilova Dumka", the share of supporters for exclusively "Western" (European) economic integration increased from 14.0% in 1998 to 61.3% in 2017. Whereas, the share of those who consider cooperation with Russia and the CIS countries to be the priority of the country's economic policy has decreased from 42.3% in 1998 to 9.4% in 2017, accordingly. This shift in the geographical preference of businesses to European integration was influenced by both, personal preferences and values of the heads of enterprises. Furthermore, by obviously, rational expectations related to conducting business.

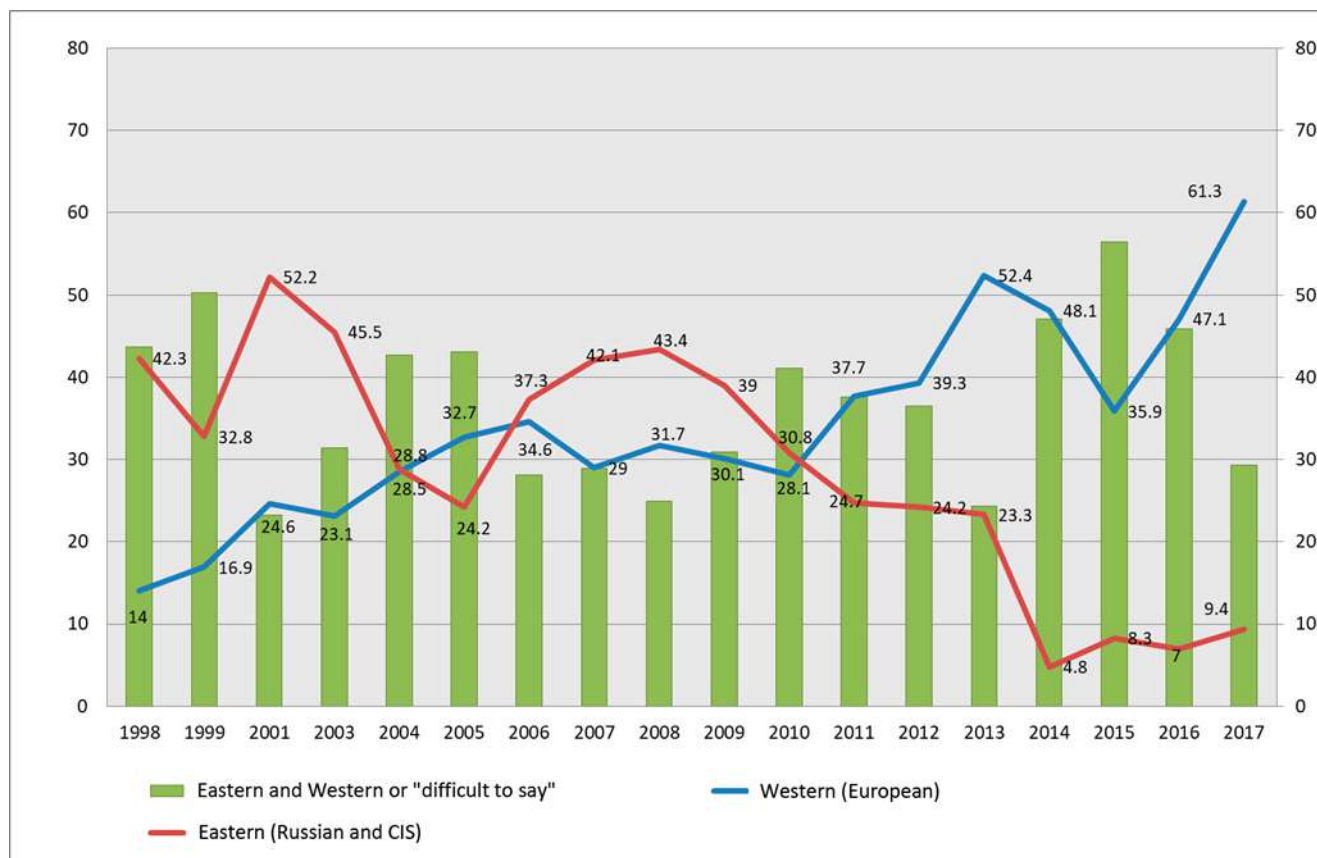
Further research has proven that Russian military aggression had a decisive impact on the dramatic decrease in the number of people who support Ukraine's "Eastern" economic integration. The beginning of the implementation of the EU-Ukraine AA and a visa-free regime for the Ukrainians likewise significantly increased the number of supporters for European economic integration.

1.2.1. Attitudes regarding Eastern economic integration: USSR legacy and the 1990s crisis

Based on the results of quarterly surveys conducted among business managers by "Dilova Dumka", in general, acceptability of European economic integration by businesses gradually and constantly grew in the 1990s. In 1998, for the first time, the Institute for Economic Research and Policy Consulting (IER) asked managers to select a priority direction of economic integration for the country. The responses demonstrated the existence of two trends. The first trend showed a significant prevalence (42.3%) of the share of supporters for Eastern (Russian and CIS) economic integration over the share (14.0%) of supporters for Western (European) integration. The second trend demonstrated a split opinion on the future direction of economic integration for businesses in general. For instance, in 1998 over 40% of respondents could not select a priority for economic integration and instead indicated – Eastern and Western – or "difficult to say". Evidently, this was related to the period of transition from an administrative economy to a market economy. This period was characterized by the destruction of economic connections between former partners, an absence of clearly defined new alternatives for business practices, the political development of the country. In other words, it was a time when business partnerships between former USSR countries were discontinued, but old mentalities persisted. Furthermore, from a purely political perspective, European economic integration was virtually never seen as an alternative to Eastern integration.

Moreover, from a political point of view, this period was characterized by multiple types of economic policies, which Leonid Kuchma, the president at the time, started to implement actively during his second term in office. The Ukrainians were still offered the Soviet approach of "brotherly nations" and there were no alternatives in the sphere of economic cooperation. It should be mentioned that there were also objective reasons for this type of policy. The 1990s economic crisis that led to a number of structural problems both, at a macro and micro level can be named as an example. Low productivity of work and the poor quality of Ukrainian enterprises also did not provide opportunities for those in Ukraine to find new business partners apart from former Soviet counterparts.

Figure 1. Priority Directions of Economic Integration, % respondents



Source: *Dilova Dumka* Project, 1998-2017, http://www.ier.com.ua/ua/proekt_dilova_dumka

1.2.2. Ambiguous priorities as a standard feature of business acumen in Ukrainian economy in the context of social development

As further observed by "Dilova Dumka", such ambiguity occurs over and over, with peaks experienced during elections and in the change of the ruling elite, as governments bring about change in political discourse. Specifically, this happened at the end of 1999, a time that was characterized as the beginning of a period of new economic policy, which was a result of Viktor Yushchenko's appointment as the Prime Minister of Ukraine. At that time, according to "Dilova Dumka", 50.0% of respondents could not name Ukraine's economic integration priority. There was specifically a high level of unclarity in 2004 and 2005 – the year of the Orange Revolution and the post-Orange *realpolitik* period, which by the end of 2005 caused political conflict among former allies and the resignation of the then Prime Minister, Yulia Tymoshenko. At this point, 42% (2004) and 43% (2005) of the respondents respectively hadn't a clear idea of the economic priorities or believed that a change in economic policy was necessary.

During the 2010 presidential elections when Viktor Yanukovich was elected, 41.0% of respondents did not have concrete opinions on the economic integration of the country. Furthermore, the shares of those who were not able to identify the priority for economic integration were high, 56.5% in 2015 and 45.9% in 2016. The occupation of Crimea by Russia and the armed aggression of Russian terrorist groups in the East of the country clearly were the main reasons for this, and thus, had a dramatic impact on Ukrainian society in general and, on industry representatives in particular.

1.2.3. Economic integration with the West: gradual growth of support

During the period from 1998 to 2017, the share of supporters of Western (European) economic integration among Ukrainian industry increased gradually. For instance, by 2001 it represented a quarter of respondents surveyed by "Dilova Dumka", whereas in 2004 – almost one third, and in 2005 – over one third of respondents believed that the only priority for Ukraine's economic integration should be with Europe or the West.

The dynamics in the shift of industry support for Western integration occurred quite differently. By 2001, the majority of industry reported that it should be a priority to integrate further with Russia or CIS countries. At the same time, it also showed a high degree of certainty amongst respondents. In 2004, for the first time since the survey was conducted, the share of those who supported Western versus Eastern integration was equal at 28.5% and 28.8% respectively. In 2005, the share of those that supported Eastern integration (24.2%) was for the first time lower than the share of supporters who preferred closer economic ties with the West (32.7%), while the segment of those undecided was one of the highest. In other words, the political narrative of the Orange Revolution for the first time provided a real alternative to cooperation with the former USSR countries, which immediately had an impact on the expectations of Ukraine's industry. The amount of supporters who backed furthering economic integration with the West began to increase, whereas those who believed in maintaining economic ties with the East started to doubt having seen some alternatives. As a result, there was a growth in the number of those who supported a mixed opinion or were undecided.

However, further developments in Ukraine, specifically the post-Orange political movement and the world's preference for unreformed Ukrainian industry (namely the growth of world prices for Ukrainian metallurgy products) slowed down both, the reforms in the country and interests in alternatives for Soviet economic cooperation. Therefore, in late 2006 an increase of both, the number of supporters for European economic integration (35% of respondents), and the share of supporters in favour of cooperation with Russia and CIS countries was to record. The latter, demonstrated a significant growth (37%) after its decline in 2004 and 2005 and once again exceeded the share of Western support.

In the next two years, 2007 and 2008, industry support for Eastern economic integration continued to grow rapidly and achieved the levels that had not been seen since 1998. 42.1% (2007) and 43.4% (2008) of respondents stated that they only preferred further economic integration with Russia and CIS countries. It is important to highlight, that this took place at the expense of those who had a mixed opinion on economic integration, as these numbers experienced a steep downfall. The share of backers for the West only saw a very minor change, specifically within a statistical margin of error of 5% (or statistically unreliable) and fluctuated from 29% - 34%.

In 2009, the number of supporters for Eastern economic integration saw another drop (however similarly to 2000 - 2008, not very statistically reliable). The share of those with a mixed opinion on the priorities of Ukraine's economic integration grew. The share of supporters for European integration remained almost unchanged compared to 2008, at 30.1% in 2009 and 31.7% in 2008 respectively.

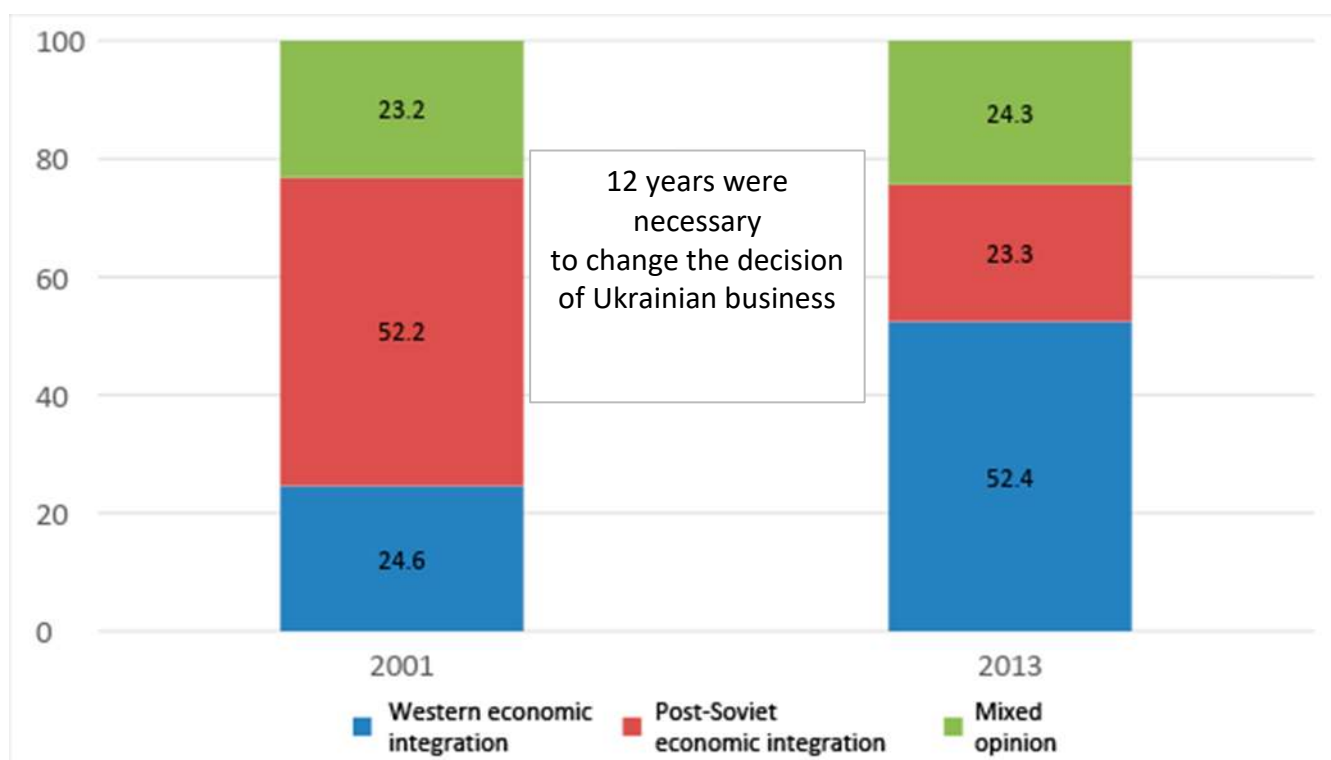
In 2010, when Viktor Yanukovych was elected and regained the powers and authorities provided for in the 1996 Constitution, the number of business owners who held an undecided opinion on the future economic integration priorities of the country significantly increased. This was clearly due to the decrease in those who supported exclusively Eastern European integration, which dropped from 39.0% to 30.8% in 2009. There was no major change in the share of supporters for the West, remaining at 28.1%. This resulted in another turning point of business attitudes as regards to European economic integration. In 2011, 2012 and 2013 the share of supporters of who solely supported European integration grew consistently.

For instance, in 2011 37.7% of respondents saw no alternative to European economic integration. In 2012, this number stood at 39.3% and by 2013 it increased to unprecedented levels of 52.4%. As such, in 2013 for the first time since 1998, the start of when the surveys were conducted, the share of supporters that preferred European economic integration exceeded half of the respondents. While the share of those who had a mixed opinion about the economic integration priorities decreased, with the amount of supporters for Eastern economic integration experiencing a decrease to 24.7% in 2011, remaining unchanged in 2012 and 2013.

1.2.4. Impact of the Revolution of Dignity on economic integration priorities of Ukrainian business: growing clarity

The timing of the 2013 survey coincided with the beginning of the Revolution of Dignity. It was prompted by a sharp change in foreign policy and direction of foreign economic integration of the Yanukovych regime, namely his refusal to sign an Association Agreement with the European Union, and the plans for economic rapprochement with Russia. As a result, the data of "Dilova Dumka" demonstrated the most clearly stated position of Ukrainian business during this entire period with only 24.3% of respondents not being able to respond or being undecided. A similar situation was observed in 2001 (23.2% respondents could not answer) and in 2008 (24.9% respondents could not answer). However, in 2013 the assessment of the economic development priorities changed dramatically compared to both, 2001 and 2008. In 2001, the share of supporters who preferred economic integration with Russia and CIS countries amounted to 52.2%, and the share of supporters for European economic integration stood at 24.6%, while in 2013 52.4% of respondents backed European integration, and only 23.3% saw no alternative to post-Soviet economic integration. In other words, it took Ukraine 12 years to change its attitude as to its priorities of economic integration.

Figure 2. Change of priorities during 12 years: 2013 - 2001, % respondents



Source: *Dilova Dumka* Project, 1998-2017, http://www.ier.com.ua/ua/proekt_dilova_dumka

1.2.5. Dynamics of pro-Western and pro-Russian priorities of economic cooperation, in the period from 2014 - 2017

In the preceding four years, assessments and expectations of Ukrainian business and the society in general were significantly influenced by Russian military aggression. More specifically, the share of supporters for Eastern (Russian and CIS countries) economic integration decreased from 23.3% in 2013 to 4.8% in 2014. This is the lowest share experienced over the span of 19 years, the total amount of time the surveys have existed. In the years 2015, 2016 and 2017, an insignificant increase in support for Eastern economic integration was seen. However, it should be highlighted that such changes are statistically unreliable, i.e. within the error margin for the data received from the sample size used by “*Dilova Dumka*”. More specifically, the share of supporters for Eastern economic integration equalled 8.3% in 2015, 7.0% in 2016, and 9.4% in 2017. It should be mentioned separately that in 2017 among these 9.4% supporters of economic integration with Russia and CIS countries, the majority of respondents originated from the border region known as Kharkiv, which demonstrates, among other things, problems with re-orienting exports of businesses located in the Eastern regions of the country. Furthermore, one should not disregard the impact of respondents’ personal considerations and values even if there is no data to demonstrate this.

In the context of the substantial decrease in support for economic integration with Russia and CIS countries, the share of those who held a mixed opinion actually increased from 24.3% in 2013 to 47.1% in 2014. At the same time, the share of supporters for exclusively Western economic integration somewhat decreased from 52.4% in 2013 to 48.1% in 2014 (it should be mentioned that the decrease is within the margin of error).

However, the results received in 2015 demonstrate that it is possible to see some new trends that emerged from 2014 onwards. More specifically, despite Ukraine government was displaying some certain pro-European characteristics post-2014. In 2015, the number of respondents that named Western economic integration as a priority, decreased to 35.9%, whereas the share of those who could not decide or had a mixed opinion increased to an unprecedented level (the highest during

the entire period of surveys) of 56.5%. Thus making it seem that Ukrainian businesses were in a state of uncertainty over the direction of economic integration in the country. However, one can assume that the situation was caused by completely different factors compared to the previous years. This includes the delay in the ratification of the AA by the EU due to procedural issues, Ukrainian society's and businesses disillusionment of the processes in the EU, and public disappointment with the EU's reaction to Ukraine's casualties resulting from the Russian aggression.

In 2016, the share of respondents that exclusively preferred Western economic integration again increased to 47.1%, whereas the share of those who were undecided decreased to 45.9%. Evidently, these are the initial results of the impact of the economic aspects of the AA, the special preferences given by the EU to Ukrainian businesses, as well as other expected actions of the EU regarding the situation in Ukraine, namely the prolongation of economic sanctions against Russia.

In 2017, the opinion of Ukrainian business for European economic integration experienced a notable increase. 61.3% of managers believed that the integration with the West should be a priority for Ukraine. This figure increased by 14.2 % compared to 2016 achieving an unprecedentedly high level across the entire period. Such an increase was a result of those undecided respondents taking a stance in favour of the West. In total, the share of those respondents who could not decide or had a mixed opinion about the economic integration priorities decreased from 45.9% in 2016 to 29.3% in 2017. It thus seems as if the opinions on integration priorities were influenced by both the introduction of the visa-free regime with EU countries and the successful experience of economic cooperation with partners from EU member states, in accordance with the EU-Ukraine AA.

Thus the survey results clearly demonstrate the further positive experience of economic cooperation with the EU, the fixed Euro-Atlantic policies, and the success of pro-European reforms in the country. These include an improved business climate, the elimination of corruption at the highest levels, and the effectiveness of democracy and self-governance to strengthen support for pro-European integration both by the Ukrainian society and by Ukrainian businesses.

At the same time, internal discussions and challenges of European unity faced by the EU member states today can result in Ukrainian businesses attempting to find more partners outside the EU. This is more of a positive sign rather than a negative, from the point of view of economic interests of Ukraine.

Russian military aggression and occupation in Ukraine will not facilitate the rebuilding of support for integration with Russia. At the same time, special attention should be paid to businesses located in the regions neighbouring with Russia that, due to their geographic location, traditionally were focused on economic connections with Russia. In these regions, effort should be intensified in order to increase awareness about possibilities of cooperation with the EU in general, and about the technology of developing contacts with the EU business partners in particular.

1.3. Economic connections between Ukraine and the EU: what do the statistics say?

Ukraine, economically, cooperates closely with the EU. The signing of the AA, the establishment of a free trade zone, and the introduction of a visa-free regime with the EU, created conditions for deeper cooperation between countries. As of today, the most noticeable changes have taken place in trade, the movement of people, as well as in money transfers.

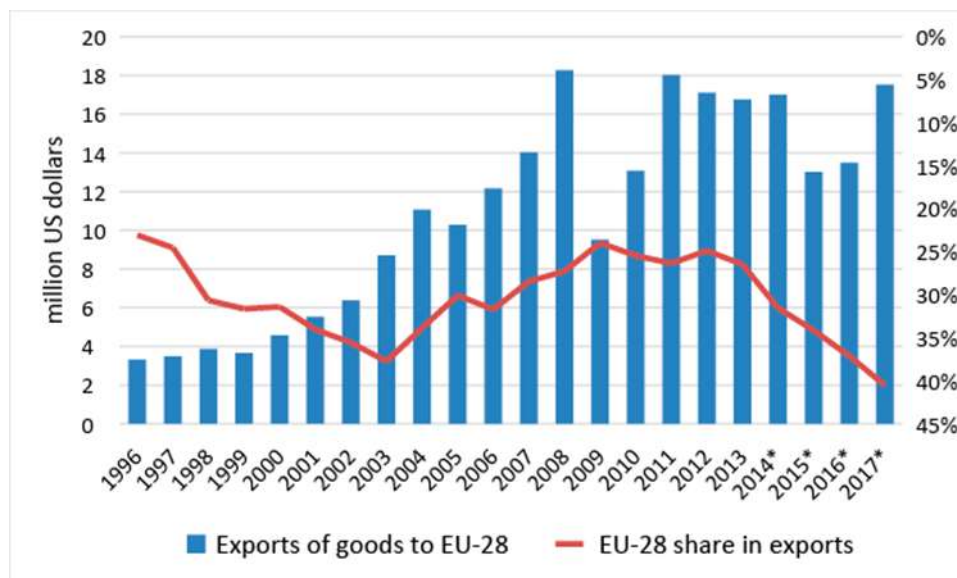
The duty-free regime for exports to the EU came into effect for most Ukrainian goods in April 2014, when autonomous trade preferences were introduced with the same conditions that were envisaged for the first year of existence of the Deep and Comprehensive Free Trade Area (DCFTA) with the EU.

In 2017, Ukraine was truly able to experience the advantages of the duty-free regime for the first time. According to the results of that year, exports of goods to the EU increased by 30%, which was

more than twice higher compared to other countries in the rest of the world. Furthermore, the real growth was achieved due to the increase of real exports, i.e. exports measured in sustainable prices whereas the volumes of real exports to other countries remained almost unchanged.

Nominal volumes of exports to the EU achieved an unprecedented level of 17.5 billion US dollars (data provided by the State Statistics Service of Ukraine (Ukrstat)), which is the highest indicator since 2012. For the first time since the beginning of surveys, the EU share exceeded 40% of overall commodity exports of Ukraine with the previous highest level being that of 2003 (38%).

Figure 3. Dynamics of nominal exports of goods to EU-28, 1996-2017



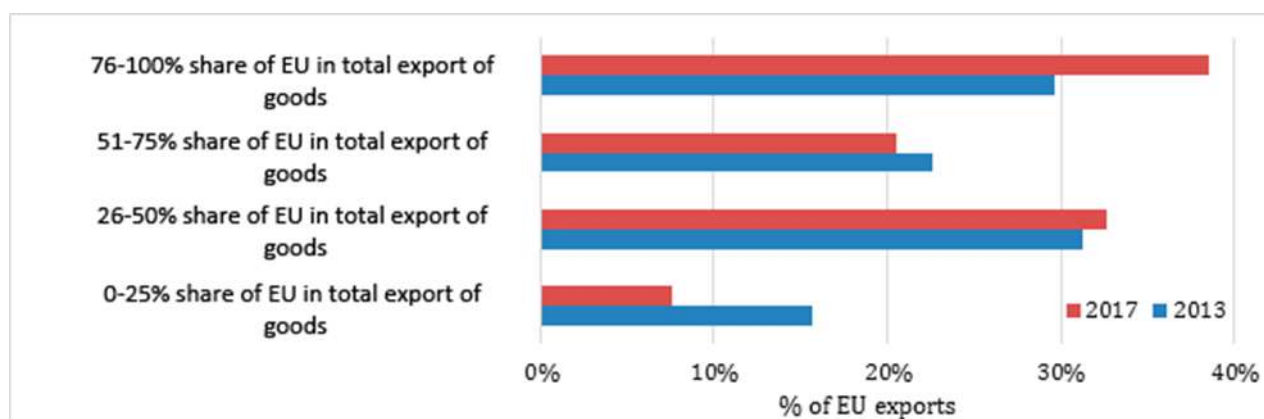
Source: State Statistics Service of Ukraine (Ukrstat)

Note: *Without temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol and the ATO area

In the structure of commodity exports, the share of processed products increased from 32% in 2013 to 43% in 2017, whereas the share of raw materials decreased from 34% to 29%. Approximately two thirds of processed products are supplied to industrial consumers in the EU, which makes Ukrainian exporters part of the European production chain.

The importance of the EU market is growing not only for the country's exports in general, but also for producers of certain goods. In 2013, 30% of exports to the EU were goods for which the EU was a dominating market (more than 75% of total exports of this type of goods went there). In 2017, this share reached 39%. This is the result of the reduction of the share of goods with a low level of orientation to the EU market, e.g. goods with an EU share in exports below 25%.

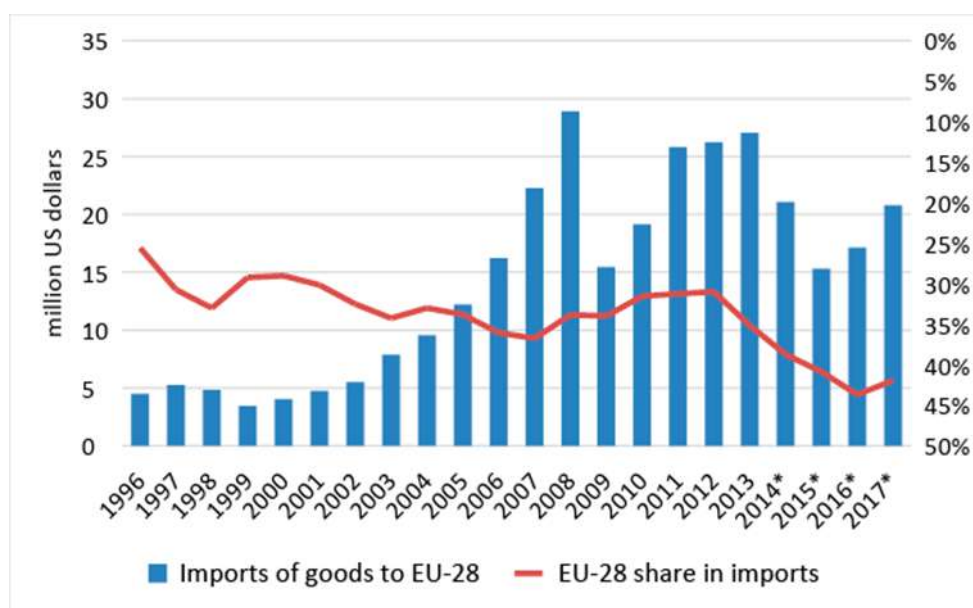
Figure 4: Structure of Ukrainian exports to the EU by degree of orientation to the EU market, 2013 vs 2017



Source: IER calculations based on the State Statistics Service of Ukraine (Ukrstat) data, UN ComTrade

Although the main goods of Ukraine's export to the EU remained the same in the period 2013-2017, new goods actively entered the EU market. While in 2013, Ukraine supplied 75% of total exports to the EU member states, in 2017, the range of goods supplied to the EU totalled 81%¹⁴. At the same time the number of goods of Ukraine's overall exports grew gradually during this period. This refutes the myth that Ukrainian producers are not able to compete in the EU market and that only a limited number of items in Ukrainian commodity exports will find consumers in this market. In fact, an absolute majority of goods exported by Ukraine also go to the EU member states.

Figure 5. Dynamics of imports of goods from the EU-28, current prices, 1996-2017



Source: State Statistics Service of Ukraine (Ukrstat)

Note: *Without temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol and the ATO area

Imports of goods from the EU also resumed after the 2014-2015 crisis and, based on the results of 2017, increased by 21%. Respectively, deficit of trade in commodities from the EU decreased to 3.2 billion US dollars (approximately 3% GDP). The EU supply of goods to Ukraine rapidly increased in

¹⁴Calculations are based on the commodity nomenclature HS 2007 at the level of six digits, the minimum volume of exported commodity – 1, 000 dollars. If the minimum volume of exports is raised to 5, 000 dollars, the respective shares of goods exported to the EU in the general commodity nomenclature of Ukrainian exports will total 73% in 2013 and 78% in 2017.

the period of 2014-2017 as a result of re-orientation of gas purchase from Russian and European suppliers. An average share of the EU in imports over these four years totalled 41%, while for the previous four years (2010-2013) it was approximately 32%. Yet, in nominal terms imports from the EU remained significantly lower than the maximum achieved in 2008. Machines, vehicles, i.e. means of production, account for one third of Ukraine's total imports from the EU, and their imports are growing rapidly, which reflects an increase of domestic investment demand in the country.

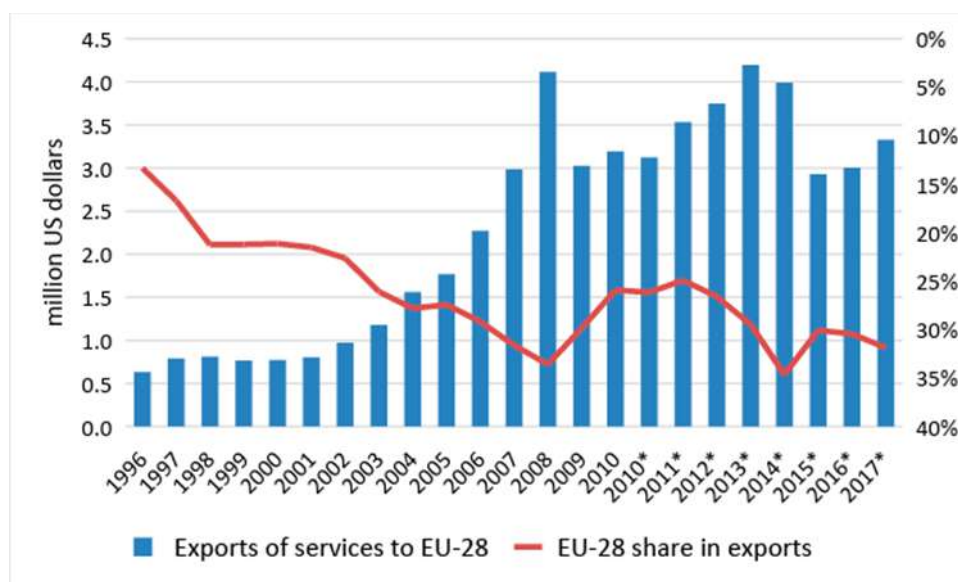
Unlike trade in commodities, trade in services from the EU did not change significantly during the first years after the AA came in force.

Regarding exports of services, the EU share in 2017 accounted for 32%, gradually recovering after a sharp decline amidst the economic crisis in Ukraine in 2015. One third of exports of services to the EU is accounted for by transportation services that are gradually increasing in the growing trade in commodities. At the same time, Ukraine still provides the largest share of transport services to Russia by ensuring gas transit through its territory to Europe. Ukraine has a valid contract with *Gazprom* until 2019, on gas transit services, conditions, which were confirmed in February 2018 by the Stockholm Arbitration Court. However, the transit after 2019 is still uncertain as the ten-year contract is due to expire, and the extension of the contract is very problematic. The primary reason that the contract is an issue is because Russia does not want to sign the contract and would rather lobby the construction of bypass gas pipelines. The EU has yet to come together on this issue. For instance, in 2018, Germany gave consent to the construction of the *Nord Stream 2* gas pipeline, which virtually eliminates the need for the Ukrainian gas transportation system to supply Russian gas to Europe, and significantly increases economic and political risks for Ukraine.

Exports of computer services, for instance to the EU Member States, have become more active in Ukraine over the recent years.

The share of telecommunication, computer and information services in overall exports is 19%.

Figure 6. Dynamics of exports of services to the EU-28, current prices, 1996-2017



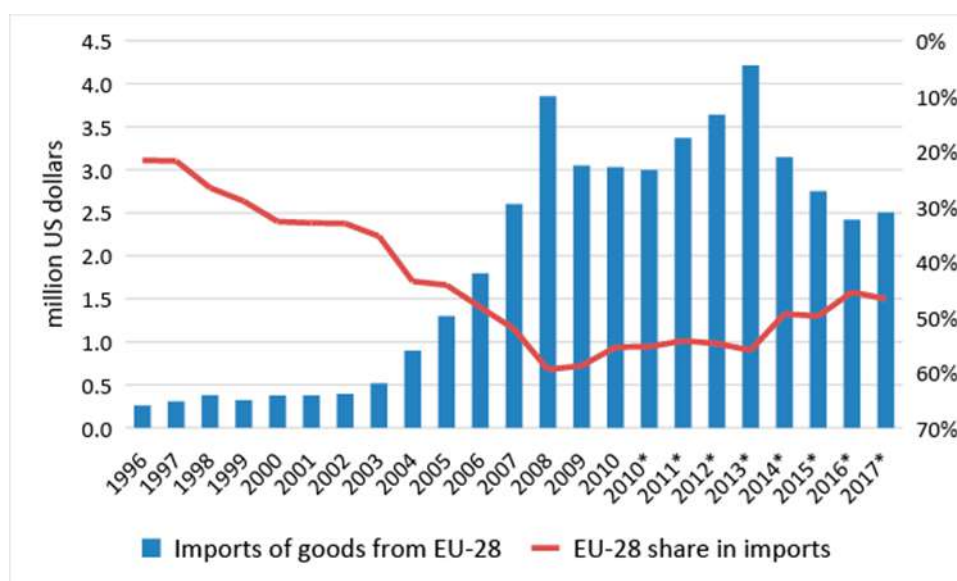
Source: State Statistics Service of Ukraine (Ukrstat)

Note: *Without temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol, and for 2014–2017 also without the ATO area

The EU was and still is the main supplier of services to Ukraine. However, the volumes of their imports remain lower than before the 2014-2015 crisis because of the rather low purchasing

power of Ukraine. As with exports, the basis for the imports of services from the EU stems from transportation services (27% in 2017) as well as business services.

Figure 7. Dynamics of imports of services from the EU-28, current prices, 1996-2017

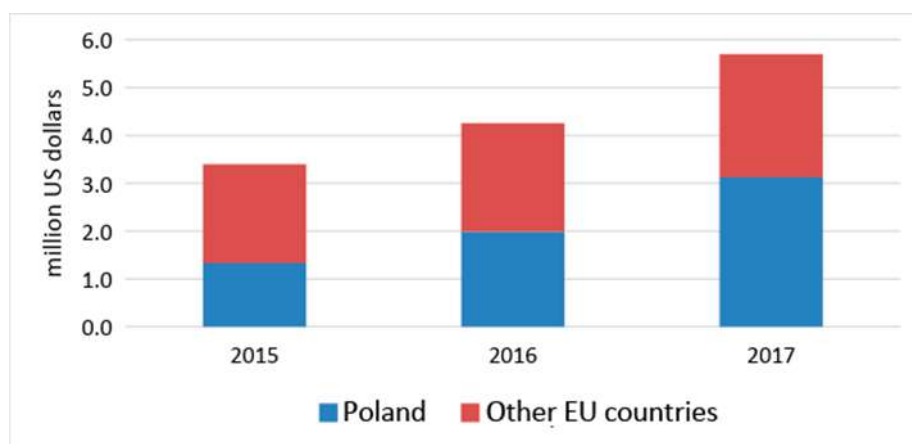


Source: State Statistics Service of Ukraine (Ukrstat)

Note: *Without temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol, and for 2014–2017 also without the ATO area

It is expected that the introduction of a visa-free regime with the EU will increase imports of tourist services from the EU, which accounted for 12% in 2017. However, a significant part among those travelling to the EU are *de facto* labour migrants who use the visa-free regime for entering the EU countries and receiving permits for further employment. For instance, Poland significantly simplified the procedure for issuing work permits, which resulted in a combination of an inflow of workers and an increase in the amount of money transfers to Ukraine. Using the updated methodology of assessment of money transfers recently introduced by the NBU, in 2017 the volume of money transfers from the EU totalled 5.7 billion dollars, or 61% of total revenues. Transfers from Poland totalled 3.1 billion. Although it should be noted that the absolute majority originated from unofficial channels. Official transfers from these countries totalled only 160 million US dollars.

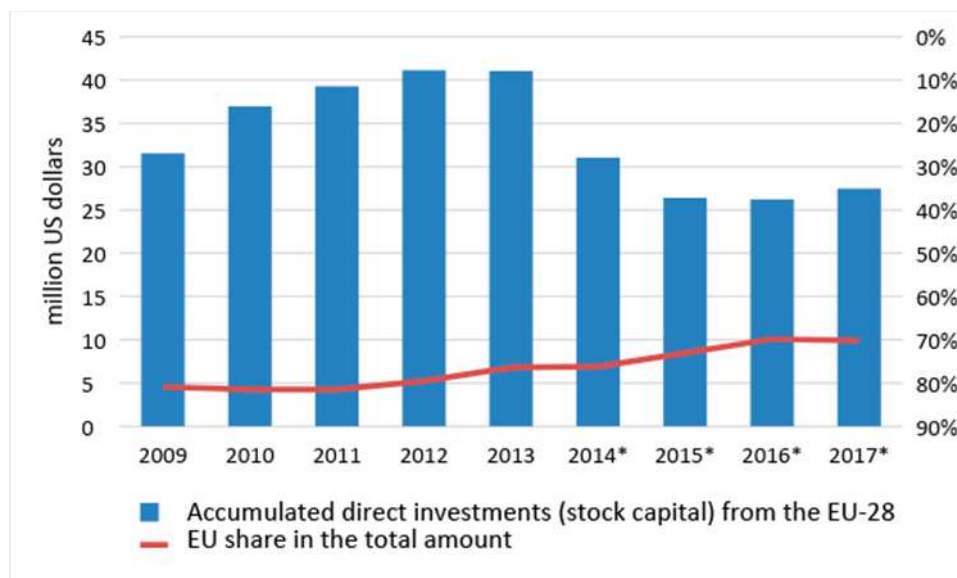
Figure 8. Dynamics of money transfers from the EU-28, 2015-2017



Source: National Bank of Ukraine

The volume of accumulated direct foreign investments (stock capital) from the EU between 2014-2016 decreased compared to the previous years, and totalled 27 billion US dollars in 2017. Such a decrease was caused by a number of factors, first of all by the revaluation of capital as a result of the devaluation and the crisis in the country. Furthermore, the EU share in the total amount of involved investments decreased to 70%, which to a large extent can be explained by capital inflow from Russia in the process of banks recapitalization.

Figure 9. Volumes of accumulated direct investments (stock capital) from the EU-28, 2009-2017



Source: State Statistics Service of Ukraine (Ukrstat)

Note: *Without temporarily occupied territory of the Autonomous Republic of Crimea, Sevastopol, and for 2014–2017 also without the ATO area

However, despite this fact the EU remains the main financial donor for Ukraine. In 2017, the inflow of direct foreign investments from EU member states totalled 1.2 billion US dollars or 67% of total revenues. The growth of inflow of direct investments depends on the success of the implementation of Ukraine's commitments within the framework of the AA, specifically ensuring the implementation of the provisions of the political parts of the AA, in relation to the rule of law. Adherence to this fundamental value of the EU through restoring trust in the judicial system, continuing the fight against corruption, and strengthening protection of property rights is of key to ensuring the future success of Ukrainian reforms.

In addition to foreign direct investments, Ukraine also receives large-scale technical and financial support from the EU. For instance, in 2017 the volume of non-repayable assistance from the EU totalled nearly 190 million Euros, or almost 5 Euro per a person per year. The EU also provides macro-financial assistance to Ukraine, and the country also receives loans from the EBRD and EIB.

In sum, it can be said that in the period of 2014-2017, economic relations between Ukraine and the EU gradually deepened. This includes exports of Ukrainian goods characterized by the growth of both nominal and real volumes, and an extension of the list of supplied commodities. Cancelling visas for short-term visits to the EU and liberalization of employment procedures for foreigners, namely in Poland, also stimulated the growth of short-term labour migration from Ukraine to EU member states. Likewise, this can be seen in the increase in the amount of financial transfers from EU member states to Ukraine. At the same time, it can be expected that in the medium-term the visa-free regime will also lead to increased exports stemming from the ease at which to find partners within Schengen, and through participation in exhibitions. For example, the survey results show that respondents who had partners in Russia and were unable to redirect their exports, even after the

Russian military aggression started in Eastern Ukraine, still consider such integration as a priority. Even though they are the minority.

At the same time, Russian military aggression has had a decisive influence on the dramatic reduction of the share of supporters who completely support Ukraine's economic integration with the East. While, it is also evident that the entry into force of the EU-Ukraine AA and the visa-free regime for Ukrainians has impacted and resulted in the substantial increase in the share of proponents of "western" or European economic integration.

Further economic cooperation with EU partners, the continuation of the permanent political course of Ukraine towards Western development, the success of pro-European reforms within the country (i.e., improving the business climate, reducing high-level corruption, and strengthening democracy and self-governance) will all contribute to increasing the support of "Western" (European) integration.

Likewise, internal discussions and large-scale challenges facing EU countries in recent years, as well as the dynamics of world markets may increase the aspiration of Ukrainian businesses to seek partners outside the EU. On the other hand, Russian military aggression and occupation in Ukraine will not contribute to restoring commitment to economic integration with Russia.

In the context of "geopolitical" sentiments, Ukrainian businesses in the neighbouring regions with Russia require special attention. Due to their geographical location and previous experience, they are traditionally focused on economic relations with Russia, and these attitudes have not changed. This also relates to a number of large companies (including military industrial enterprises), for which the loss of the Russian market has caused a significant economic shock, and deeply impacted their ability to restructure and find markets elsewhere.

2. EU-Ukraine Cooperation: What's on the EU Side of the Road?

In general, the EU is currently looking for answers to three interrelated strategic questions:

1. How to react to the geopolitical and geo-economic changes taking place in the modern world?
2. How will Brexit and the internal contradictions that exist today within the Union affect the European project?
3. How is it possible to ensure the unity of the EU (e.g. communicating with one single voice) in the global context in terms of solving the key issues of our time (security, climate change, etc.) and how will it be possible to promote the interests of the EU and its allies?

Evidently, the dynamics, intensity and format of EU cooperation with third countries including Ukraine will depend directly on the answers to these questions. This will also fully address the issues of EU enlargement. In this regard, the following should be noted:

1. The further development of the EU - Ukraine relations and the perception of the EU in Ukraine will depend on the course and intensity of the discussion in terms of "values vs real interests (real politics)" within the EU itself.
2. Evidently, the decision on further (non)enlargement of the EU will depend on what arguments prevail, e.g.:
 - whether the EU has exhausted its potential for enlargement, or simply the geographic enlargement of the EU has been and remains an instrument for EU development;
 - should the EU decide not to further expand, and instead, solve its own problems within its borders;

- should a new EU enlargement policy be introduced with more stringent political and economic requirements for potential members, given the contradictions that exist in the EU today;
 - whether the enlargement of the EU can be considered as an instrument of new global EU leadership, or if the EU merely decides that it would rather "minimize" the burden of leadership, and thus refuse to expand.
3. The political and economic processes in the new EU member states resulting in a departure from traditional democratic values complicate relations both within the EU, including with regard to its enlargement, and with third countries in terms of the perception of the model of the EU.
 4. In many aspects, a geopolitical dimension has arisen out of the EU's cooperation with Ukraine (and to some extent with Moldova and Georgia). This has become a challenge for the EU in terms of its ability to protect democratic values within the EU and amongst its political allies, from a large-scale hybrid attack on the part of Russia.
 5. The EU's policy on Russia will affect the EU's relations with third countries in general and with Ukraine in particular. At the same time, it is extremely important that the EU - Ukraine relationship does not become entangled in the attempts to avoid further confrontation with Russia. In particular, this refers to the principle rejection in all types of trilateral interaction (EU – Ukraine – Russian Federation), in which Russia becomes a full-fledged participant in the relations between Ukraine and the EU.
 6. The deepening of Ukraine's political and security integration should be considered as an important component of building a new architecture for global and European security. It is about the need to adequately respond to traditional and new security challenges (international terrorism, cybercrime, etc.) in general, and to prevent Russia's attempts to destabilize the situation in Europe and in the world.
 7. These and other considerations indicate the need to adjust the Eastern Partnership policy in general and specifically, the Eastern Neighbourhood policy.

3. Ukraine: Homework

European integration is, first and foremost, the process of political, economic and social assimilation of EU policies by a state. Obviously, the speed and scale are conditional and based on the country's willingness to take the appropriate steps. What does this mean for Ukraine?

1. Successful progress through the implementation of political and economic reforms as a prerequisite for further development of cooperation with the EU. An unreformed Ukraine cannot effectively become fully integrated with the EU today and fulfil its obligations, associated with the EU membership.
2. Ensuring and safeguarding the progression of the policy of reforms and the progress achieved to date, from various attempts to slow down the process of modernization of Ukrainian society and the discrediting of the option of European integration.
3. The politically proclaimed goal of achieving EU membership in itself imposes certain responsibilities and obligations on the country. Taking into account the fundamental changes taking place in the world and within the EU itself, Ukraine must develop its own European integration strategy. Unlike the strategic documents on the implementation of the AA, such a strategy should reflect the priorities of cooperation development in security and defence, bilateral relations with certain EU member states in the context of Ukraine's European integration, Ukraine's position on integration into the individual EU markets, and specific actions related to goals and ways of cooperation with the EU which are currently undefined.

4. The globalization process as a whole and the legitimate development of cooperation with the EU requires a revision of the roles of the Ukrainian Parliament and Government in terms of functional interaction in order to provide a sufficient response to any challenges that might prevent such a cooperation, or, which might prevent the Parliament or Government from fulfilling their international obligations.
5. European integration policy should become the sole integral process that needs to be properly planned, implemented and monitored. To do this, it is necessary to ensure clear distribution of powers between the state authorities dealing with the relevant issues and to improve the effectiveness of the mechanism for coordinating these activities.
6. Further development of the communication system between the relevant structures in Ukraine and the EU at different levels is a critical precondition for continuous cooperation. This means it is necessary to ensure that the relevant Ukrainian state (government) institutions have the functional competencies, resources and qualifications.
7. In addition to the implementation reports and plans, the government should produce White and Green Books and position papers on certain European integration issues, which will facilitate the development of a competent and qualified public debate on European integration issues and the formation of conscious and sustained public support for European integration policy in the broadest sense of the word.
8. A priority should be the creation of a national pool of experts on different topics of European integration, who are able to properly understand the "nuances" of the processes taking place in the EU, the challenges faced by Ukraine, and to formulate relevant policy and cooperate with European experts on these issues in various formats and on an equal footing.
9. Analysis of the effectiveness of the use of financial and technical assistance and the ability to formulate an adequate request for assistance and to develop the country's absorption capacity of the resources provided through these channels. In fact, it is about the formation of a national policy for the attraction and use of international technical assistance.
10. Today, Ukraine should focus its efforts and resources on integration with the EU in the sectors in which the development is critical for the security and economic growth of Ukraine. For instance, the energy sector, as the economic growth and integration is critical for the country.

4. Sectoral Integration: Energy Sector

The Protocol on the Accession of Ukraine to the Treaty Establishing the Energy Community sets the framework for Ukraine's implementation of relevant EU legislation, on the basis of which the future common energy market is formed. This makes the energy sector significantly different from other sectors where Ukraine and the EU cooperate, as it will have significant spillover effects with other sectors of Ukraine-EU cooperation. The corresponding legally-binding commitments also contribute to accelerating energy reforms in comparison with other sectors.

The creation of a single energy market between Ukraine and the EU addresses two key issues: security and competition. In terms of security, the common market will provide a free flow of gas and electricity, which will provide Ukraine with the opportunity to purchase gas both, from the East and the West. The approximation of Ukrainian legislation to the EU Regulation on the Security of Supply will help protect vulnerable consumers, with the help of neighbouring countries.

Ukraine's well-developed infrastructure and volumes of gas deposits can strengthen not only its own energy security but also the security of the EU member states. The implementation of the Third Energy Package in Ukraine will guarantee that gas transit through its territory will be carried out in compliance with the European legislation, which is a significant advantage compared to the bypass gas pipelines, such as *Nord Stream 2*.

In doing so, Ukraine will not only be the recipient of such assistance but by having its gas infrastructure and the volume of gas storage facilities developed, it can essentially help other EU member states quickly deliver the necessary volumes of gas throughout the EU.

In terms of competition, the common market will open the country, with its consumption of more than 30 billion cubic meters of gas and 149 billion kW-h, to a large number of suppliers and traders. This will help create a pan-European energy market. In Ukraine it will increase competition for consumers and will ensure not only that there will be an energy market price but also that there will be a high quality of service from suppliers.

The creation of the common market will help Ukraine maintain its role as a transit country. Today, EU companies do not have the opportunity to work directly with the Ukrainian gas transportation operator, as gas transportation services are officially provided by Gazprom. The creation of a single gas market will transfer the "entry point" to the Eastern border of Ukraine and will ensure that the gas transportation operator complies with EU rules.

As a member of the Energy Community, Ukraine must implement relevant EU legislation. Currently, positive dynamics can be seen with regard to adoption of the EU legislation in Ukraine, but at the same time, the processes of its implementation are slowing down. In order to accelerate the reforms, the political will of the country leadership needs to exist. Additionally, the capacity of the state authorities to formulate policies and control their implementation needs to be vastly improved. In turn, this will require additional training, new approaches to work, better internal communication and communication with society overall, as well as administrative reform.

A successful energy reform will facilitate changes in other sectors – it will provide a stable and reliable signal for investors regarding the “rules of the game”, it will stimulate business development of new technologies (increasingly used in the energy sector), and it will improve the quality of service both in the energy and associated sectors.

At the same time, Ukraine has clearly stated that it does not only want to be an "executor", but also to participate in the development and discussion of new EU rules. For example, the Parliament of Ukraine has signed the joint statement of the parliaments of specific EU countries regarding the threat of construction of the Nord Stream 2 pipeline. Ukrainian government officials have also repeatedly stated the need for Ukraine to join the Energy Union. Ukraine has the experience that enables it to be a co-author for new EU rules – for instance, in the domain of cyber-security, in the energy sector, or through the early warning mechanisms in critical situations related to supply of energy resources. Practical participation of Ukraine in the development of a new legislation would only be possible upon introduction of appropriate amendments to the Treaty establishing the Energy Community, which gives all members equal rights to formulate and implement a pan-European energy policy.

5. Ukraine – EU: Beyond the Horizon

It is clear, that the future model of the EU-Ukraine relationship will be greatly impacted by the steps Ukraine and the EU take to respond to the challenges discussed earlier. By combining different processes taking place in the world, and thus in the EU and Ukraine, different paths for the development of Ukraine-EU interaction in the medium-term and long term can be built.

The amount and content of these methods will directly depend on Ukraine's choice of factors affecting the development of bilateral relations and the way they are considered. Such an exercise is extremely useful for understanding the intensity and scale of cooperation under different scenarios.

We believe that today we must discuss possible scenarios of cooperation proceeding from the fundamental motivation driving the behaviour of the different parties. Based on this approach we can identify the following strategies of interaction:

1. Integration is a modernization tool of Ukraine's development and as an instrument of furthering the EU project in terms of internal consolidation and strengthening EU global leadership.
 - 1.1. Ukraine can submit a request for the EU membership at any time in accordance with the requirements of Article 49 of the Lisbon Treaty. Recognizing Ukraine as a "European state" in the Preamble of the AA gives the legal right to do so as only "European countries" are entitled to submit a membership request. Such request can consolidate Ukrainian society and the political elite. The European Council can examine the membership request and grant "candidate country" status to Ukraine, and start negotiations on accession that can take an unspecified amount of time depending on Ukraine's progress in the implementation of internal reforms and harmonization with the EU legislation. This will enable the EU to use the "conditionality" policy with regard to Ukraine in its strictest form, as was the case with the EU member states that recently joined (Bulgaria, Romania, Croatia). Furthermore, in accordance with Article 49 of the Lisbon Treaty, the EU Council can revise and significantly strengthen the Copenhagen criteria of EU accession, and at any time apply the EU absorption capacity criterion. In the future EU-Ukraine relations, this option will be aimed at gradually narrowing Ukraine's national sovereignty since acquisition of full EU membership will mean transferring implementation of certain state functions to the EU agencies. However, the formal transfer of sovereignty within the framework of the EU competency will take place only if the Treaty of EU Accession is signed.
 - 1.2. The Norwegian scenario would envisage Ukraine's joining EFTA as a full member, which would mean the automatic termination of the AA and, as a result, Ukraine joining the EEA Agreement. By doing so, Ukraine would become a "shadow member" of the EU through gaining access to the EU domestic market, involvement in EU policy-making processes, and access for Ukrainian citizens to the freedoms of movement in the EU. In order to join the EFTA, Ukraine would have to fulfil requirements similar to the Copenhagen criteria of EU accession and get consent from EFTA member states (as it is required by national constitutions) during the EFTA accession referendum. This option would imply an indirect reduction of sovereignty through participation in the procedure of ensuring "homogeneity" of national legislation with the EU *acquis* as provided for in the EEA. Additionally, the EEA allows representatives of the EFTA member states to take part in the EU decision making process, as observers. As such, if Ukraine joined the EFTA, they would be able to take part in these processes.
2. Cooperation as a reaction to mutual fatigue ("Ukraine fatigue" in the EU, "Pro-European reforms fatigue" in Ukraine).

In case of mutual fatigue of the EU and Ukraine, several options for EU-Ukraine cooperation still exist. First, there is the continuing application and implementation of the AA. Second, there is the "restarting" of relations between the EU and the Russian Federation in view of the association relations between the EU and Ukraine. In this case, the EU could resume the negotiations and potentially sign a new framework agreement with the RF as well as the negotiations to find an agreement between the EU and the EAEU. Such an agreement would see the creation of an FTA between the EU and the EAEU, the gradual liberalization of trade, harmonization of legislation and partial access of EAEU actors to the EU domestic market. However, this would lead to negative political impacts for Ukraine, and cause economic and legal problems. Currently, Ukraine has no contractual relations with EAEU, and does not participate in this organization as an observer. If contractual relations were established with the EU, Ukraine (as well as Moldova and Georgia) would have to sign a framework agreement with the EAEU that would allow for political cooperation, harmonization of legislation and regulatory policies, and the creation of an FTA under WTO and EU

rules. This situation would lead to a gradual decrease in the level of relations between Ukraine and the EU, the elimination of the Eastern Partnership policy as well as Ukraine's acquisition of its status of an observer in the EAEU.

3. Cooperation "by force of habit" within existing formats and framework established by the AA.

The AA is signed for an indefinite period, and thus its implementation can take quite a long time. On the one hand, the AA has strong potential for the development and safeguarding of close relations between Ukraine and the EU. The AA provides for advanced political, legal and economic cooperation and the establishment of a DCFTA within 10 years. The political "umbrella" for EU-Ukraine relations is developed through EU foreign policies such as the Eastern Partnership and the European Neighbourhood Policy. The AA foresees major reforms for the Ukrainian government in order to harmonise legislation, as well as, significant effort for ensuring the functioning of the EU common democratic values within the country. Such a scenario, however, will provide an impetus and a long lasting dynamism in relations with the EU. Although, the limited long-term goals of the AA (absence of a prospect for EU membership, numerous commitments concerning reforms and harmonization of legislation) could lead to certain fatigue in the society and demotivation of pro-European political forces in Ukraine. As a result, powerful Euro-sceptical political forces may emerge in Ukraine that will be able to change the pro-European direction of Ukraine's foreign policy.