Ukraine to Sign EU Trade Deal That Could Revive Economy

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KIEV, Ukraine (AP) — On Friday, Ukraine will sign a sweeping economic and trade agreement with the European Union, a 1,200-page telephone book of a document crammed with rules on everything from turkeys to tulips, cheese to machinery.

Yet the agreement is far more than just fine print for experts — it was the catalyst of a revolution that killed scores of Ukrainians and toppled a president. The hope now is that it will spark another kind of revolution, this one in Ukraine's corrupt, underperforming economy.

The deal holds out the promise of sweeping change in a country rich in people and resources, but which has lagged behind many of its former Soviet peers.

Consider: When the Soviet Union broke up in 1991, Ukraine and Poland — the first a part of the bloc, the second ruled for decades by Moscow-backed communists — were on par economically. Ukraine's economy is still based largely on privatized Soviet enterprises in mining, steel and machinery. By contrast, Poland created better conditions for business and new industries arose. Poland joined the European Union in 2004 and is now roughly four times richer than Ukraine, measured in economic output per person.

The deal offers "potentially as great a transformation as in Poland," said Nicholas Burge, head of the trade and economic section at the EU's delegation in Kiev. "That is what is potentially on offer for Ukraine, if they can sustain the pace of reform."

Former President Viktor Yanukovych had planned to sign the deal but reneged under pressure from Moscow, setting off months of protests that eventually forced him into exile and led to new elections. The new president, Petro Poroshenko, is due to sign the document Friday at a ceremony in Brussels.

Here's a look at the deal and its potential benefits and risks.

TRADE

The heart of the agreement is a comprehensive trade deal that eliminates 98 percent of EU tariffs and 99 percent of Ukrainian ones — taxes that governments put on imports to protect their domestic producers.

Eliminating tariffs on goods and services should spur more trade, jobs and growth. The prime beneficiary would be Ukraine, which sends a quarter of its exports to Europe. Ukrainian exporters get more access to Europe now, while Ukraine will open its markets more slowly. In particular, it bargained for a 15-year transition period to protect its auto industry.

Still, the EU kept restrictive quotas in agriculture, a traditionally sensitive sector, to protect against low-cost competition from Ukraine. For instance, the deal allows only 36,000 tons of duty-free chicken imports a year from Ukraine. That's not much; Ukraine produces more than 1 million tons.

The trade deal is already kicking in because Europe lowered tariffs unilaterally in April to help Ukraine. Foodproducer Nestle, whose Ukrainian business was originally aimed at the local market and which obtains 70 percent of its raw materials locally, has seen a twofold jump in export demand to Europe.

Opening trade further will depend on concrete, closely monitored progress in putting the agreement into effect.

MODERNIZING

Perhaps more important than the trade deal is an accompanying 10-year plan for Ukraine to adopt EU product regulations. Such rules — which determine, say, what food coloring is allowed in rum (only caramel) — are important because they ease the way for international trade beyond Europe.

The deal also demands that Ukraine change the way it does business. Adopting EU rules on government contracts, competition policy and the copyright for ideas and inventions should improve the economy by reducing corruption and making the economy more investor-friendly.

"The question is the modernization of the whole economy," said economist Volodymyr Sidenko at the Razumkov Center research institute in Kiev. "Without institutional change, all the trade and investment will not be very efficient."

But meeting the EU's technical and health requirements will take time. For instance, Ukraine can't sell dairy products in Europe because regulations aren't up to scratch. Big milk producers have invested in up-to-date milking stations and meet international standards, but they can't sell to Europe until laws are passed, inspectors are trained and EU officials certify companies are complying.

Agricultural officials say it will be 2015 at the earliest before Ukrainian milk and cheese have a chance to appear in Europe.

POLITICS

A key short-term risk for Ukraine is Russia's reaction. Officials in Moscow say that if Ukraine signs, Russia will drop Ukraine's current free-trade privileges and start imposing tariffs on goods.

It's not an empty threat, since Russia is Ukraine's largest export market, at 25.6 percent slightly larger than Europe. This year, Russia blocked imports of cheese from several Ukrainian producers, ostensibly on quality grounds, drawing accusations from Ukrainian and European officials that the move was political.

"We need markets without such surprises," said Viktor Pynzenyk, a member of the Ukrainian parliament's economy committee and a former finance minister. In fact, he says, trade with Russia isn't really free: "At any moment the Russian side can introduce technical barriers to the entrance of Ukrainian goods. Any thinking politician would expand any trade, including with Russia, but we want to live by rules, not by decisions where it's not clear what's motivating them."

FOLLOWING THROUGH

Ukraine has flubbed several attempts at reform. Twice, in 2008 and 2010, Kiev signed up for International Monetary Fund assistance, pocketed loan money to pay urgent bills, and then refused to make reforms. Both programs were canceled; a third IMF program is just starting.

Economist Sidenko said the protest movement shows that many ordinary people are ready for change, even if politicians are not. And getting the EU involved will improve the chances for success: "After several failures to reform this country, an external anchor is needed. External discipline is needed."

Deputy Pynzenyk said Ukrainians have to embrace change to benefit themselves — not for Europe, the IMF or anyone else.

"The problem isn't in the prescriptions," he said. "The key is the problem of will."