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European Union, Russia and Ukraine: Creating New Neighbourhoods

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Executive summary

The EU, on the one hand, and Russia and Ukraine, on the other, are very unequal partners in nearly all respects – a fact manifesting itself also in their economic relations. The EU is a relatively important trading partner for Russia and (although less so) for Ukraine. However, apart from being suppliers of energy carriers and metals, the role of Russia and Ukraine as trading partners for the EU is marginal (in the case of Ukraine even negligible). This is partly due to the existence of numerous mutual trade barriers, but, more generally, it reflects the slow progress achieved by both countries in restructuring their economies, attracting more FDI and upgrading their export structures in favour of goods with higher value-added.

Apart from the Partnership and Cooperation Agreements (PCAs) and the programmes of technical assistance, the EU's institutional relations with Russia and Ukraine have not progressed much, and even a free-trade area will most probably not be implemented in the short and medium run – definitely not before both countries join the WTO. This proved to be a particular disappointment for Ukraine, which – unlike Russia – considers integration into the EU structures and even EU membership as its ultimate goal. In fact, in a number of important respects, Ukraine's relations and economic integration with the EU are even less advanced than those of Russia. For the time being – and most likely in the future as well – Ukraine is, and will be, more integrated with Russia than with the EU.

Both Russia and Ukraine have recently been focusing their attention on the impact of the EU enlargement (May 2004) on their economies, trying to negotiate concessions in PCAs with the accession countries (Russia) and demanding 'compensations' from the EU for the alleged resulting losses (Ukraine). It appears that these claims are only partly justified, and – given the two countries' weaker economic position – the chances for any compensation are meagre. Politically, Russia may indeed face a somewhat harder EU line at the insistence of the new EU members, whereas Ukraine, which will find itself on the border of the enlarged EU, will most probably benefit. In purely economic (trade) terms, Ukraine is likely to lose from EU enlargement more than will Russia, at least in the short run. In turn, this will foster Ukraine's interest in further strengthening its economic ties with Russia, and signs of this are already visible as Russia is regaining its economic strength. The main challenge for the EU policy-makers in the present circumstances would be to foster a balanced economic integration with both Russia and Ukraine simultaneously, thus avoiding a costly disruption of trade links between these two countries. Such an approach will be indispensable for preventing the emergence of new dividing lines in Europe and promoting new neighbourhood relations.

Keywords: *foreign trade, foreign direct investment, integration, EU enlargement*

JEL classification: *F1, F15, F21*

Vasily Astrov and Peter Havlik

European Union, Russia and Ukraine: creating new neighbourhoods*

Introduction

This paper deals with the economic relations between Russia, Ukraine and the enlarged European Union. We start with some essential characteristics regarding the huge gaps in the size and trade structures of these three economic entities, before briefly outlining the development of their institutional relations. We discuss the impacts of EU enlargement on Russia and Ukraine, as well as the prospects for Russian–Ukrainian relations. Given all the complexities of these relations, the mutual interdependence and the uncertainties concerning the future, we conclude that rather than devising grand new schemes, Russia, Ukraine and the EU should focus on selected practical steps that would facilitate closer cooperation in areas such as the development of border regions, and energy and economic reforms. Regarding Ukraine, whose official aspirations of EU membership seem highly unrealistic at least in the medium term and whose already high economic dependency on Russia might become even more pronounced, the policy challenges will be formidable. Whether Ukraine will succeed in a fine-tuned balancing act to build up closer relations with both the enlarged EU and Russia simultaneously, remains to be seen. As concerns economics, Ukraine's already intense eastward integration may even deepen – despite possibly getting more hearing in the EU at the insistence of some new member states.

1 Economic asymmetries

The EU and Russia are very unequal partners in nearly all respects; their cohabitation in the 21st century has been paraphrased as that of the European elephant and the Russian bear.[1] This is in many respects true also for EU–Ukrainian (or, for that matter, Russian–Ukrainian) relations. In order to understand the complexity of EU–Russian and EU–Ukrainian economic relations, it is useful to recall a few basic facts:

– The EU population of 380 million before, and 455 million after enlargement with the eight Central and East European countries on 1 May 2004 (CEEC-8: Czech Republic, Hungary, Poland, the Slovak Republic, Slovenia, Estonia, Latvia and Lithuania) compares to the current 144 million (and declining) population of Russia, and the 48 million inhabitants of Ukraine, respectively. In terms of population (and territory), both

* This report is based on a presentation by the authors at wiiw's Spring Seminar 2004, held in Vienna, 26 March 2004.

[1] See Emerson (2001).

Russia and Ukraine are big countries – their combined population amounts to 42% of the enlarged EU-25.

– Russia's real GDP of about EUR 1100 billion (in terms of purchasing power parity, PPP) amounted in 2003 to some 12% of that of the EU-15; in nominal terms (EUR 385 billion, at current exchange rate) it was just 4% of the EU-15 level. The real size of the Russian economy is thus about 30% bigger than that of the eight CEECs combined (but smaller in nominal terms). Consequently, the real size of the economy in the enlarged EU-25 is nearly ten times bigger than that of Russia (see Figure 1).

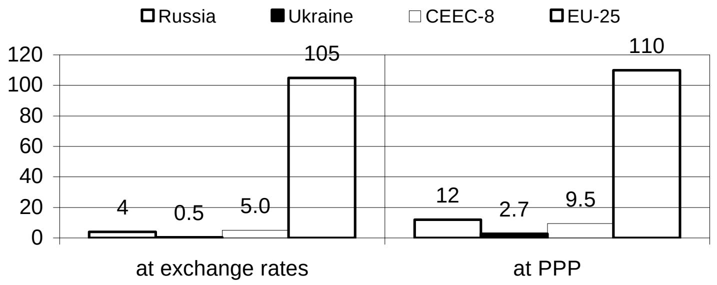
– Ukraine's GDP stood at about EUR 240 billion in real terms in 2003 (less than 3% of the EU-15) and at a mere EUR 43 billion in nominal terms – a tiny 0.5% of the EU-15. Ukraine's economy is thus rather small – about one fifth the size of Russia's.

Figure 1

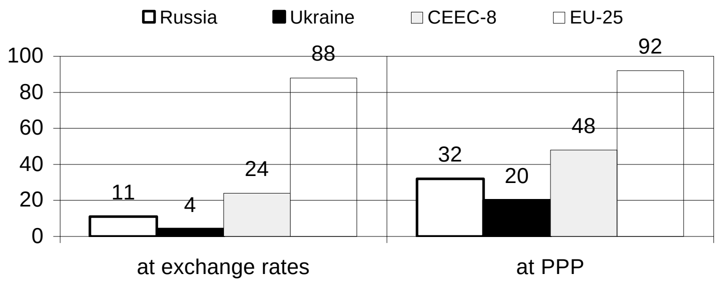
Economic size and GDP per capita in Russia, Ukraine, CEECs and EU-25, year 2003

EU-15 = 100

Economic size (GDP)



GDP per capita



Note: EU-25 includes Cyprus and Malta.

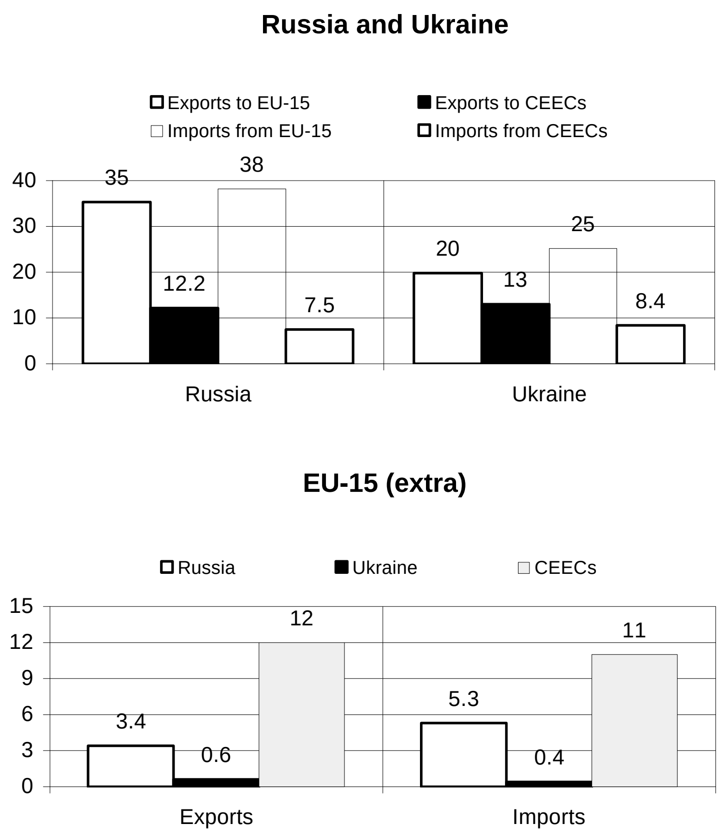
Source: Own calculations using national statistics and Eurostat.

– Russia and Ukraine are also much poorer than the EU: their respective per capita real GDP was just 32% (Russia) and 20% (Ukraine) of the EU-15 average in 2003, much lower than the average of the CEE accession countries. Russia's per capita real GDP will amount to just 35%, and Ukraine's to just 22% of the enlarged EU (EU-25) average. These huge income gaps are likely to persist in the foreseeable future – despite possibly faster GDP growth in both Russia and Ukraine in the coming years.

Figure 2

Directions of trade: Russia, Ukraine, CEECs and EU-15, year 2003

in % of total



Source: Own calculations using national statistics and Eurostat.

A similar asymmetry exists in trade as well. After the collapse of the CMEA (Council for Mutual Economic Assistance) and of the USSR in 1991, the EU rapidly became *Russia's* main trading partner. In 2003, more than 35% of Russian exports and nearly 40% of imports were traded with the EU-15. And whereas EU exports to Russia fluctuated at around 3% of the total (they peaked in 1997 with 3.6% of total exports) during the second half of the 1990s, the CEECs' share exceeded 12% of total EU exports in the year 2003 –

compared to just 3.4% of EU exports going to Russia (see Figure 2). The difference in import shares is smaller, though still significant: about 5% of EU imports came from Russia in 2003 (as compared to 11% from CEECs). Russia is thus a relatively small trading partner for the EU – its importance is currently about the same as that of Hungary. At the same time, the EU is by far the main trading partner for Russia, accounting for a larger part of its overall huge trade surplus. The importance of the EU will grow further following the enlargement: the EU-25 (assuming current trade structures) will account for nearly half of total Russian exports and imports.

Since 1995, *Ukraine's* exports to the EU have more than doubled in euro (ECU) terms; they reached EUR 4 billion by 2003. This development was well in line with the general trend of former Soviet republics' export re-orientation towards non-CIS markets. Imports from the EU have increased dramatically as well, reaching EUR 5.1 billion in 2003. However, they underwent a temporary setback in 1999, following the Russian financial crisis (and the subsequent devaluation of the Ukrainian hryvnia), which brought about a temporary reduction of Ukraine's persistent trade deficit with the EU. Since 1999 that deficit has been on the rise again, reaching EUR 1.1 billion in 2003. Despite its growing importance, the EU-15 accounted for only 19.8% of Ukraine's merchandise exports and 25.2% of imports in 2003 (see Figure 2). Both figures are well below not only those for the CEECs (which conduct about 70% of their trade with the EU), but also e.g. Russia. Thus, Ukraine's integration with the EU when it comes to trade is even lower than Russia's. In turn, for the EU-15, the importance of Ukraine as a trading partner is negligible (0.6% in terms of exports and 0.5% in terms of imports), reflecting the huge gap in the size of the two economies.

The *commodity structure* of Russian and Ukrainian trade with the EU is also indicative of the existing enormous economic asymmetries. There is virtually no intra-industry trade between the two countries and the EU (or, for that matter, between them and the CEECs). Whereas the EU sells to Russia *de facto* only manufactured products (45% of which are made up of machinery, transport and electrical equipment), such products represent only 45% of Russian exports to the EU. Indeed, more than half of Russian exports to the EU consist of crude oil and natural gas.[2] Even within manufacturing industry trade, energy carriers (refined petroleum and nuclear fuel) as well as basic metals and fabricated metal products accounted each for more than 30% of Russian exports to the EU in 2002 (see Table 1). The evolution of the structure of Russian exports to the EU over time has not

[2] The Russia–CEEC trade structure is similar to that of Russia's trade with the EU, the share of energy carriers in exports is even larger. Energy-related products account for more than 80% of Russian exports to CEECs – an even higher share than in exports to the EU-15; see *Revue Elargissement*, No. 61, March 2004, p. 1 and Grinberg (2003).

Table 1

Structure of EU-15 trade with Russia and Ukraine

		Russia				Ukraine			
		EU-15 exports		EU-15 imports		EU-15 exports		EU-15 imports	
NACE rev. 1 classification		**1995**	**2002**	**1995**	**2002**	**1995**	**2002**	**1995**	**2002**
	Total (EUR million)	**15326**	**29102**	**17858**	**39130**	**2019**	**5236**	**1460**	**4029**
	shares in total (%)								
A,B	Agriculture	2.3	2.6	3.2	3.0	2.0	2.2	7.1	16.1
CA	Extraction of crude petroleum and natural gas, coal	0.0	0.0	29.0	51.6	0.0	0.0	4.2	7.2
CB	Mining of metals	0.2	0.1	0.3	0.2	0.0	0.0	0.1	0.3
CB	Stone and clay	0.0	0.1	0.9	1.0	0.8	0.6	1.1	2.5
DA	Food products; beverages and tobacco	21.2	9.5	3.0	1.6	13.7	4.6	8.8	6.1
DB	Textiles and textile products	5.1	5.9	1.2	0.7	7.8	10.7	10.8	11.2
DC	Leather and leather products	3.0	1.9	0.5	0.3	1.8	2.2	3.2	3.1
DD	Wood and wood products	0.9	0.8	2.4	1.8	0.4	0.5	0.7	2.9
DE	Pulp, paper & paper products; publishing & printing	3.3	3.9	2.6	1.1	3.0	3.9	0.1	0.1
DF	Coke, refined petroleum products & nuclear fuel	0.5	0.5	11.3	17.1	3.4	0.8	7.5	15.8
DG	Chemicals, chemical products and man-made fibres	8.5	12.3	7.1	3.4	11.2	13.8	14.0	4.9
DH	Rubber and plastic products	2.2	3.3	0.1	0.0	2.2	3.8	0.2	0.3
DI	Other non-metallic mineral products	1.7	1.9	0.2	0.1	1.4	2.0	0.8	0.4
DJ	Basic metals and fabricated metal products	5.7	5.7	32.1	15.5	4.9	5.2	29.7	21.2
DK	Machinery and equipment n.e.c.	18.7	18.9	0.7	0.4	19.1	19.1	1.2	1.6
DL	Electrical and optical equipment	14.9	19.5	0.6	0.5	11.9	14.8	1.4	1.5
DM	Transport equipment	7.2	9.7	2.1	0.4	12.9	12.3	7.0	2.8
DN	Manufacturing n.e.c.	4.5	3.2	2.2	1.0	3.4	3.3	1.9	2.0
E	Electricity	0.0	0.0	0.4	0.4	0.0	0.0	0.0	0.0
	Others	0.3	0.4	0.1	0.0	0.2	0.1	0.0	0.0

Source: Own calculations based on Eurostat Comext Database.

been encouraging either (see Appendix Table A1). Between 1995 and 2002, the highest gains in manufacturing industry were achieved by refined petroleum, nuclear fuel, iron and steel, fish products and wood, i.e. products with relatively low value-added. Generally speaking, apart from energy carriers and metals, Russia's role as a trading partner for the EU is marginal.

Ukraine's export structure is somewhat better: around three quarters of its exports to the EU-15 are represented by manufacturing industry products, the most important items being basic metals (21.2% of total), fuels (15.8%), and textiles (11.2%, see Table 1). Exports of oil products have surged particularly fast since 2001 (as have exports of crude oil and natural gas), partly reflecting the high world market prices, but also the lifting of the ban by Russia on its fuels re-exports. However, basic metals are still the principal area of Ukraine's specialization vis-à-vis the EU. This is largely due to basic iron and steel: Ukraine commands a share of 5% in total EU imports of these products. By contrast, chemical products (in particular basic chemicals) have been the major loser: their share in manufactured exports to the EU contracted from 14% in 1995 to just 4.9% in 2002. Among other manufacturing industry products which suffered a considerable decline are e.g. dairy products and meat. Apart from the manufacturing industry, exports of agricultural products have been generally quite important as well, although their share has fluctuated widely, largely on account of the changing weather conditions for harvests. Similarly to the case of Russia, the structure of imports from the EU has remained relatively stable over time, with various types of machinery and equipment (including electrical, optical and transport equipment) accounting for almost half of total manufactured imports from the EU in 2002.

The current structure of Russian and Ukrainian exports does not provide much room for growth and makes these countries highly vulnerable to volatile commodity prices. However, the current account surpluses enjoyed by both countries could, at least theoretically, allow for more imports of *investment* goods, badly needed for the modernization of their economies. As illustrated by the example of the CEECs, such imports and more FDI inflows could also gradually form a basis for a subsequent upgrading of Russian and Ukrainian export structures.[3] Needless to say, the precondition for such a development is an improvement in the domestic climate for investments and the curbing of capital flight. However, despite a recent acceleration in domestic investment, both countries remain net capital exporters. So far, FDI inflows to Russia and Ukraine have been meagre, and FDI penetration is much lower than in the CEECs (see Figure 3). Besides, the share of the EU as a foreign direct investor in both countries is much below

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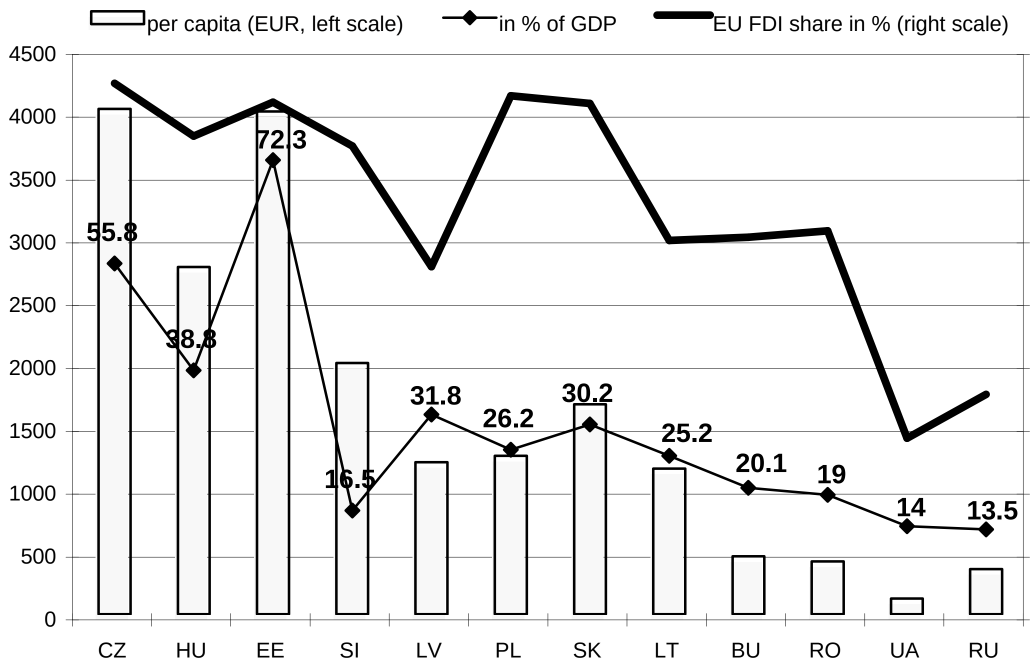
[3] Thanks to successful industrial restructuring facilitated by the high inflow of FDI, during the period 1995-2002, the CEECs' manufacturing exports to the EU grew by 16% per year, making strong inroads to the EU market in a wide range of manufactured products, such as motor vehicles, TV, radio and telecommunication equipment, office machinery and computers – see Appendix Table A3.

those observed in CEECs – another piece of evidence of the limited degree of integration, which is particularly alarming in the case of Ukraine.

Figure 3

FDI stocks in CEECs, Ukraine and Russia, 2003



Source: Own calculations based on wiiw-WIFO (2004).

2 Institutional relations

The EU's institutional relations with Russia and Ukraine largely reflect the above-mentioned economic asymmetries. The centrepiece of these relations over the past ten years or so have been the *Partnership and Co-operation Agreements (PCAs),* which support the respective countries' efforts towards democracy and the approximation of their legislations to EU standards. In the sphere of the economy, the agreements aim at fostering trade and investment by granting better access to each other's markets, creating a level playing field for investment, and promoting cooperation in a number of priority areas. In the area of *trade*, the PCAs contain the body of WTO rules and norms, despite the fact that neither Russia nor Ukraine have become WTO members so far. Most importantly, the agreements envisage the Most Favoured Nation (MFN) principle in merchandise trade.[4] The PCAs also mention the possibility of establishing free trade zones in the future and ensure the freedom of transit of goods destined for third countries. Any subsidies distorting free and fair competition between domestic and imported goods are unwelcome, except in the production of unprocessed agricultural and mineral products. Generally, the PCAs also forbid the application of quantitative restrictions in mutual trade, although they give the EU a right to impose import quotas for textiles and steel products. While the textiles quotas have been abolished in the meantime, the one for steel is still in place.[5]

Also, the PCAs aim to create a favourable and stable climate for *investment* by easing the establishment and the operating conditions for each other's companies. In particular, the EU grants 'national' (non-discriminating) treatment to Russian and Ukrainian companies operating on its territory, although certain 'sensitive' sectors (mining, fishing, real estate, audio-visual services, telecommunications, certain professional services, agriculture and news agencies) are exempted. In turn, European companies wishing to establish themselves in Russia and Ukraine are given the choice between 'national treatment' (the rules applied to domestic companies) and 'MFN treatment' (the 'best' rules applied to foreign companies). However, in certain sectors (banking, insurance, real estate, natural resources, fishing, hunting, agriculture, lease of state property, telecommunications, mass media, certain professions and operations affecting historical monuments) the MFN principle is applied uniformly.

The EU has also been assisting Russia and Ukraine within the framework of the *Tacis* (Technical Assistance to the Commonwealth of Independent States) programme. The focus of the programme has been on the support of institutional, legal and administrative reforms, as well as on addressing the social consequences of transition. However, its performance has so far been mixed.

2.1 EU–Russia relations

The EU had recognized Russia as the legal successor of the Soviet Union in December 1991. Negotiations on a PCA started in early 1992, and in December 1997 it took effect. Also, Russia was admitted to the Council of Europe on 1 January 1996, though there were serious reservations whether it qualifies in view of e.g. its observation of human rights and other democratic principles. However, the envisaged start (already for the year 1998) of negotiations regarding the possible establishment of a free-trade area has not yet materialized. The *Common Strategy* of the EU on Russia from June 1999 stated that 'a

[4] In reality, many items of Russian and Ukrainian exports to the EU enjoy even lower import tariffs provided by the so-called Generalized System of Preferences (GSP).

[5] Ukraine, Russia and Kazakhstan are the only countries whose exports of steel to the EU are subject to quantitative restrictions.

stable, democratic and prosperous Russia, firmly anchored in a united Europe free of new dividing lines, is essential to lasting peace on the continent'.[6] Maintaining the PCA as the core of the mutual relationship, the strategy had three major economic dimensions: support of Russia's efforts to achieve WTO membership, the future establishment of an EU–Russia free-trade area, and the creation of a Common European Economic Space.

At the end of December 2001, the EU Commission adopted the '*Country Strategy Paper 2002-2006*' for the Russian Federation.[7] The strategy reiterated the importance of the PCA and stressed the EU's important strategic and economic interest in Russia's development, *inter alia* as a bridge between the EU and Asia; it did no longer mention free-trade negotiations. The main EU concern is about the unbalanced trade structure and the EU's excessive dependence on energy imports from Russia; therefore, access restrictions to the Russian market (including trade in services) should be removed. According to the Strategy, Russia's accession to the WTO would represent a major support to the reform process and ensure a framework and structure for continued economic growth and the attraction of investment.

In 2002 the EU announced (after the USA) its readiness to recognize Russia as a *market economy.* This important step made the application of various import restrictions somewhat more difficult, e.g. on steel, textiles, nuclear fuel, and space technologies, which allegedly cost Russia some USD 2.5 billion per year.[8] In February 2004 the EU Commission called for measures to improve the effectiveness of EU–Russia relations, particularly in view of growing interdependencies and the forthcoming EU enlargement.[9]

Apart from the above-mentioned numerous political declarations, the Tacis programme, the Northern Dimension Action Plan[10], and the launching of an 'energy dialogue' in late 2000, EU–Russia economic cooperation has not progressed very far yet. In fact, during 2003, EU–Russia relations deteriorated substantially as the positions on a number of issues (ratification of the Kyoto Protocol, WTO accession, overflight rights, PCA extension to new member states, etc.) were increasingly diverging, and the Russian stance became generally more assertive.[11] The Russian side also complains that its statutory relations with the EU are not only weaker than those of the CEE countries, but also below those of many EU associate countries from Africa and Latin America.[12] However, some pragmatic

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6 See http://europa.eu.int/comm/external_relations/ceeca/com_strat/russia_99.pdf

7 See http://europa.eu.int/comm/external_relations/russia/csp/index.htm. A similar 'strategy' has been elaborated by Russia as well.

8 See President Putin's speech at the Stockholm EU Summit in March 2001 (*The Moscow Times*, 26 March 2001, p. 3).

9 See EU Commission (2004).

10 See http://europa.eu.int/comm/external_relations/north_dim/

11 See EU Commission (2004).

12 See *Moscow News*, 17-23 January 2001, p. 4.

Russian scholars point out that, in view of Russia's distorted export structure and the low competitiveness of its industry, the bulk of Russia–EU trade is *de facto* liberalized. The average EU tariff on Russian exports is just 1.5%, and nearly 90% of Russian exports face no tariffs at all. Moreover, Russian export quotas in the EU have not been fully used, and the Russia's annual loss resulting from various EU import restrictions has only been around USD 200-300 million.[13] Besides, it can be argued that the EU requirement on meeting technical norms and standards, though initially associated with some costs, brings eventually benefits to exporters as well – especially in the context of Russia's accession to WTO and overall modernization efforts. The latter would provide the key impetus for an upgrading of the Russian export structure, including exports to the enlarged EU.[14]

In view of the above-discussed economic asymmetries between Russia and the EU (not to mention political and institutional considerations), Russia's EU membership (or even an association status) is not on the agenda in the foreseeable future. Therefore, after the EU's recognition of Russia as a market economy, practical steps towards closer economic cooperation should include, first, the support of Russian regions bordering the EU (particularly Kaliningrad) and, second, the establishment of a free-trade zone between Russia and the enlarged EU. The latter has to be aligned to WTO accession and coordinated with simultaneous trade agreements with other CIS countries, in particular Ukraine, in order to avoid potential trade diversion costs. Still, the idea of a *Common European Economic Space*, put forward by the EU and encompassing free movement of goods, services, capital and labour between the EU and Russia, is yet to be specified.[15] As for the border regions, they are to be tackled in the framework of the newly launched 'Wider Europe – Neighbourhood' strategy, although the proposed financial instrument (less than EUR 1 billion for all neighbourhood programmes during the period 2004 to 2006) appears not very generous.[16]

2.2 EU–Ukraine relations

The history of institutional relations between the EU and independent Ukraine goes back to December 1991, when the European Communities adopted a 'declaration on Ukraine' stressing *inter alia* the democratic character of Ukraine's referendum on independence held earlier that year. A PCA was signed in June 1994 and went into force in March 1998, although its trade provisions had taken effect already in February 1995 by way of an Interim Agreement. The agreement was concluded for ten years, with an option of automatic prolongation in case neither party wishes to withdraw from it. It provided a

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[13] See Schmelyev (2000).

[14] See Grinberg (2003).

[15] See Samson and Greffe (2002) for more details.

[16] EU (2003). During 1995-2002, the EU committed EUR 900 million in bilateral assistance to Russia.

framework for a political dialogue between the two sides, which has been conducted through yearly summits.[17]

The subsequent years witnessed a further rapprochement between Ukraine and the EU. In June 1996, the EU gave Ukraine the status of a country with an economy in transition, and in June 1998, Ukraine announced its intention to become an EU associate member. In December 1999, a Common Strategy covering a four-year period was adopted by the EU. The Strategy welcomed Ukraine's European choice and outlined a strategic partnership between the EU and Ukraine on the basis of the PCA. As far as the economic sphere was concerned, the Strategy's priorities included supporting economic transition in Ukraine; ensuring environmental protection, energy and nuclear safety; strengthening cooperation between the EU and Ukraine in the context of enlargement; and assisting Ukraine's integration into the European and world economy.

Ukraine has been the recipient of substantial technical assistance from the EU, largely channelled through the Tacis programme. In the energy sphere, Ukraine benefited from the EU's 'Fuel Gap' programme, aimed to help the country cover its fuel imports after the Chernobyl nuclear plant had been closed at the end of 2000. In addition, Ukraine is receiving financial assistance from the EBRD to construct a shelter for the Chernobyl nuclear reactor (EUR 100 million has been earmarked for this purpose in 2001-2004). Over the past ten years, total assistance from the EU to Ukraine amounted to about EUR 1 billion, notably in the form of technical (Tacis), macro-financial and humanitarian aid.

Despite the above positive developments, there are several stumbling blocks hampering the relations between Ukraine and the EU. Ukraine – unlike Russia – has not been officially recognized by the EU as a country with a market economy yet. Officially, the reasons for that have been the slow progress in economic reforms and the failure to improve Ukraine's human rights record, combat corruption and reform the judiciary system.[18] In January 2004, the Council of Europe adopted a declaration expressing concern over the country's constitutional reform, which is widely perceived as a tool of the unpopular ruling elite to retain power after the October 2004 presidential elections. Although EU officials hail Ukraine's aspirations to become an EU member at some point in the future, no concrete dates have been specified so far. Instead, relations with Ukraine are now covered by the EU programme *'Wider Europe – Neighbourhood'* adopted in March 2003 and encompassing EU relations with the 'European periphery'. Within the framework of that programme, the EU has launched the so-called New Neighbourhood Programmes (NNPs). These programmes are aimed at avoiding new dividing lines in Europe after the EU

[17] The latest such summit took place in Yalta in October 2003.

[18] Such accusations were particularly fuelled by the killing of the critically-minded journalist Georgi Gongadze in 2000 and the subsequent 'tape scandal' suggesting the involvement of Ukraine's President Leonid Kuchma.

enlargement by boosting cross-border cooperation with the 'left-out' countries. For Ukraine, four such NNPs are envisaged for 2004-2006. Finally, the EU visa regime for Ukrainians (just as for Russians and citizens of other CIS countries) remains highly restrictive, and at least a re-admission agreement will be indispensable to ease it.

3 The impacts of EU enlargement on Russia and Ukraine

3.1 Impact on Russia

The political and economic changes in Central and Eastern Europe after 1991 have had extremely adverse effects on Russian trade with that region. Though comparisons are difficult,[19] there is little doubt that Russian exports to the CEECs declined substantially already immediately after 1989. However, the decline in (registered) Russian imports from the region was even more pronounced, and the Russian trade balance with the CEEC region has since been in surplus (more than EUR 10 billion in 2003). Another major trade setback occurred in 1993 when Russian imports from the region dropped by more than half as a result of the abolishment of special accounts linking the remaining centralized inter-state deliveries. In particular trade with civilian machinery and equipment declined sharply. Russian exports of machinery and equipment to CEECs have essentially been limited to some spare parts for earlier machinery deliveries and some equipment for existing nuclear power plants. Nevertheless, Russian exports to the CEECs doubled between 1995 and 2003 (to a greater part as a consequence of rising energy prices), yet imports from the CEECs nearly stagnated (+16% increase in the same period). In the year 2003, imports from CEECs accounted for just 7.5% of total (registered) Russian imports.

Russia's stance towards the enlargement of the European Union has been mainly sceptical, though EU enlargement is officially welcomed and Russia is not explicitly opposed, as has been the case with the enlargement of NATO. Some Russian experts and officials fear a further deterioration of trade with the CEECs after the latter's accession to the EU. However, the above-quoted foreign trade figures suggest that there is not much scope for a further decline of trade – in particular not as a consequence of the CEECs' EU accession (and their adoption of EU external trade policies from 1 May 2004). In fact, as the CEECs adopt the EU's lower external import tariffs (4.4% instead of their present 6.5% on average – see Table 2) after accession, the effect on trade with Russia should on balance be rather *positive*. This effect will be particularly pronounced in the case of Poland, where the average tariff will fall by 9.5 percentage points (p.p.). In Hungary, the average

[19] In 1989, more than half of Soviet (largely Russian) trade was conducted with the CMEA countries. A number of statistical problems, in particular the application of unrealistic exchange rates in intra-CMEA trade, makes these comparisons highly tentative – see also Havlik (1991, 1995).

Table 2

Applied import tariffs (on most-favoured-nation basis), in %, by country

Import market	Year	Average	Agricultural products	Wood, pulp, paper and furniture	Textiles & clothing	Leather, rubber, footwear and travel goods	Metals	Chemicals & photographic supplies
Czech Republic	2001	5.0	10.0	5.1	6.5	4.1	3.7	3.8
Estonia	2002	1.7	12.2	0.0	0.0	0.0	0.0	0.0
Hungary	2001	9.5	25.8	5.4	8.2	6.6	5.0	5.2
Latvia	1999	4.1	11.9	2.2	6.9	3.6	0.8	1.0
Lithuania	2001	3.4	9.8	2.9	9.1	2.8	0.1	0.4
Poland	2001	13.9	41.9	7.9	13.1	11.5	9.7	8.6
Slovak Republic	2001	5.0	9.9	5.1	6.5	4.1	3.7	3.8
Slovenia	2002	9.6	11.3	9.5	12.7	10.6	7.5	7.7
CEEC-8 average		**6.5**	**16.6**	**4.8**	**7.9**	**5.4**	**3.8**	**3.8**
EU-15	2002	**4.4**	**5.9**	**1.8**	**8.4**	**4.2**	**2.3**	**4.7**
Russia	2001	9.9	8.9	13.1	10.8	8.0	9.5	7.0
Ukraine	2002	7.0	10.8	7.9	6.4	10.3	5.3	6.0

Import market	Year	Transport equipment	Non-electric machinery	Electric machinery	Mineral products, precious stones and metals	Manufactured articles not specified	Fish and fish products	Petroleum
Czech Republic	2001	6.1	3.6	3.5	3.4	3.2	0.1	2.4
Estonia	2002	0.0	0.0	0.0	0.0	0.0	3.1	0.0
Hungary	2001	10.8	8.3	9.7	4.8	7.7	16.7	0.8
Latvia	1999	3.1	0.0	1.0	4.6	3.9	8.4	0.0
Lithuania	2001	0.1	0.2	0.4	1.5	1.3	4.6	2.5
Poland	2001	16.7	8.1	7.6	6.9	10.7	19.9	9.9
Slovak Republic	2001	6.1	3.6	3.5	3.4	3.3	0.1	0.0
Slovenia	2002	11.5	9.2	9.5	5.7	10.6	7.1	2.4
CEEC-8 average		**6.8**	**4.1**	**4.4**	**3.8**	**5.1**	**7.5**	**2.3**
EU-15	2002	**4.1**	**1.7**	**2.5**	**2.0**	**2.5**	**11.6**	**3.1**
Russia	2001	10.5	9.1	12.2	12.0	13.4	10.5	5.0
Ukraine	2002	7.3	4.7	7.8	8.4	10.1	10.4	0.0

Note: All averages are simple averages of the *ad valorem* MFN applied Harmonized System 6-digit duties.

Source: WTO, own calculations.

tariff will fall by 5.1 p.p., in Slovakia and the Czech Republic by 0.6 p.p. In reality, the decline in tariffs will be even stronger, since many Russian export goods qualify for the preferential GSP rates granted by the EU (aluminium being an important exception). Russia's major export commodities to these countries have a rather low value-added and are sold at world market prices, which Russia as a small supplier (except in the case of oil and gas) is not able to influence. Therefore, as a first approximation, it is safe to assume that the changes in tariff rates will not translate into changes in prices. This, in turn, implies that the full benefit of the tariff reduction will be reaped by suppliers, i.e. Russian exporters.

The Russian concern that new non-tariff barriers may emerge is not fully substantiated either, and an agreement on extending the EU import quota for Russian steel has reportedly already been reached. Also, accession to the EU is expected to lead to a higher market growth in the CEECs. In several other important respects, EU policies towards Russia have also been more favourable than those currently applied by several CEECs.[20]

At the same time, some Russian *fears* regarding adverse consequences of enlargement are definitely real. First, the CEECs have introduced the Schengen visa regime on their (future EU) borders for Russian citizens, even before accession. It is therefore important that no new 'Iron Curtain' emerges and that the border regions are not adversely affected by enlargement.[21] Second, Russian energy exports to the EU may suffer in the medium and long run due to the EU strategy of diversification of energy supplies. The strategy stipulates that not more than 30% of the EU's energy needs may come from one source, whereas most CEECs are heavily dependent on imports of Russian fuels. Finally, the future new members will affect EU voting procedures, and there is at least a possibility that they may twist EU policies towards Russia – and that not necessarily in a direction favourable for Russia.

3.2 Impact on Ukraine

Ukraine is likely to be directly affected by the enlargement, since three of the acceding countries – Poland, Slovakia and Hungary – are bordering Ukraine, whereas another three – Lithuania, Latvia and Estonia – enjoy free-trade agreements with it (excluding agricultural products in the case of Latvia and Lithuania), which will be scrapped in the wake of EU enlargement.

The accession countries are at present a quite important market for Ukrainian exporters. In 2003, the CEECs were the destination of 13% of Ukrainian exports and the source of 8.4% of Ukrainian imports. Among the CEECs, Hungary and Poland are the most important trading partners, accounting for more than half of all Ukrainian exports to the region.

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[20] For example, the treatment of Russian speakers in the Baltics has in fact already improved due to EU pressures to respect minority rights (one of the Copenhagen criteria for EU accession). The EU Commission has proposed that long-term resident stateless persons will have full rights of movement, employment and residence in the whole EU (see EU Commission, 2001). This will apply e.g. also to stateless Russian minorities in Estonia and Latvia.

[21] See the recommendation on 'Friendly Schengen Border Policy' adopted by the Conference on New European Borders and Security Co-operation in July 2001, reproduced in Emerson (2001). A simplified visa procedure for residents living near EU borders is under consideration.

Similarly to exports to the EU, Ukrainian exports to the CEECs are dominated by basic metals and mineral fuels (see Table 3).

Like Russia, Ukraine has recognized the benefits of EU enlargement for the country in the *medium and long run*. Of course, in the case of the Baltic states, the average tariff applied to imports from Ukraine will rise after the existing free-trade agreements have been abandoned.[22] However, due to the limited volume of trade between Ukraine and the Baltic countries, the net effect from tariff adjustment in the CEECs as a whole is expected to be marginally positive and may amount to some EUR 5 million per year.[23] Also, the quotas currently applied to selected Ukrainian imports by some accession countries (e.g. by Hungary on textile products and sugar, and by the Czech Republic on coal) will be abolished. Probably even more importantly, the EU enlargement will result in a single set of trade rules and administrative procedures applied across a market of some 450 million consumers. Together with accelerated economic growth in the new EU members this will lead to rising demand for imports, also from Ukraine.

Table 3

Ukraine: main export items to CEECs, 2002

Importing country	**Main items* (with shares in total exports to the importing country)**
Hungary	mineral fuels (22%); wood and wood products (13%); aluminium (11%); organic chemicals (10%)
Poland	ores, slag and ash (17%); mineral fuels (16%); ferrous metals (12%); organic chemicals (8%)
Slovakia	ores, slag and ash (20%); aluminium (17%); ferrous metals (13%); mineral fuels (9%)
Czech Republic	ores, slag and ash (49%); ferrous metals (17%)
Latvia	tools, implements and cutlery (38%); mineral fuels (17%); nuclear reactors, boilers, machinery and mechanical appliances (11%)
Lithuania	ferrous metals (22%); raw hides, skins and leather (17%); nuclear reactors, boilers, machinery and mechanical appliances (9%)
Estonia	ferrous metals (18%); mineral fuels (17%); locomotives (15%); grain (11%)

Note: * According to the 2-digit Harmonized System classification.
Source: Derzhkomstat (State Statistics Committee), Ukraine.

However, things might look different in the *short run*. First, it appears that Ukraine's exports of steel to the accession countries (some 800,000 tons) will fall under the present (EU-15) quota. In 2001, the EU and Ukraine elaborated a new draft agreement on trade in steel envisaging e.g. the expansion of the quota up to 355,000 tons. However, the agreement

22 Obviously, exports of the Baltic countries to Ukraine will face higher tariffs as well. As far as exports from other EU accession countries are concerned, no changes in Ukrainian import tariffs applied to them will occur.

23 See International Centre for Policy Studies (2003b).

was never signed (allegedly due to the failure of the Ukrainian government to refund VAT to metals exporters), and since then the EU quota has been set unilaterally and revised on an annual basis. In 2003, it stood at 117,944 tons, although Ukraine's actual steel exports amounted to only 102,066 tons (86.5% of the quota).[24] For 2004, the quota size has been set at 184,546 tons.[25] In any case, a substantial upward revision of the EU quota will be necessary to accommodate Ukraine's steel exports to the CEECs, and respective negotiations between Ukraine and the EU are already underway. The losses which Ukraine's steel exporters might incur in case no quota revision takes place are estimated at EUR 230 million per year in 2004-2005. Second, the incidence of anti-dumping measures against Ukrainian chemicals and metals may increase due to the lobbying efforts of the new member countries.[26] In addition, exports of machinery and equipment will be subject to new certification requirements of the EU, and those of agricultural products will face tougher EU sanitary and phytosanitary standards. As a result, the Ukrainian side estimates the total losses of domestic producers in 2004-2005 at over EUR 300 million per year, corresponding to some 1.5% of Ukraine's exports. In the medium run, losses are expected to be much smaller, as the steel quota will be re-negotiated, and other Ukrainian export products will increasingly correspond to the EU standards.

Finally, cross-border trade may suffer from the more restrictive visa regime ('Schengen border') applied by the accession countries towards Ukrainian citizens. Of particular importance is the visa regime with Poland, which has a long border with Ukraine. Hungary and Poland introduced a visa regime in autumn 2003, while the Czech Republic and Slovakia did so already in 2000. According to the Ukrainian border offices, in the three months following the introduction of the visa regime by Slovakia, the number of Ukrainian tourists entering Slovakia fell by 76% against the three preceding months. The number of private trips (usually involving petty trade) plunged by 57%, and business trips by 64%. The number of Slovaks entering Ukraine dropped by 64%, 53% and 58%, respectively.[27]

Whereas the introduction of a visa requirement by Poland has reportedly already caused damage to the cross-border movement of labour between Poland and Belarus,[28] the disruptions in the case of Ukraine are reportedly limited, since Polish visas are issued to Ukrainians free of charge (in exchange for visa-free entry of Polish citizens into Ukraine). In addition, a special visa type (the so-called 'local visa') is now under consideration by the

[24] The reason for that might have been a favourable market situation in other countries which made the exports of steel to the EU less attractive.

[25] See www.recyclingtoday.com, 15 January 2004.

[26] At present, among the CEECs, only Poland and Hungary apply anti-dumping measures against Ukrainian metals, and these measures are softer than those applied by the EU.

[27] See International Centre for Policy Studies (2003a).

[28] The Polish visa for Belarusians reportedly costs EUR 30 and is often difficult to obtain – see *Christian Science Monitor*, 12 February 2004.

EU, which will be issued to the residents of border regions and will entitle them to multiple entry into neighbouring regions on the other side of the border.

Foreign direct investment inflows into Ukraine may accelerate somewhat, as the country will find itself on the border of the enlarged EU, and not least due to the very low initial base. However, we do not expect a marked turnaround in FDI inflows, as long as the main impeding factors of domestic nature – political uncertainty, bureaucratic hurdles, corruption, and the lack of the rule of law – persist. An acceleration of FDI from Ukraine into the CEECs is more likely, following the transfer of the production of 'sensitive goods' (e.g. metals) aimed at avoiding the restrictive EU import regime. Ukrainian investments into the metals industry of CEECs are already noticeable,[29] although at present they represent acquisitions of privatized assets (rather than greenfield investment) and are driven by the good liquidity position of Ukrainian producers of metals (rather than by market access considerations).

Summarizing, it appears that Ukraine's fears of short-term losses from the EU enlargement are not completely unfounded, justifying the country's government's demand for 'compensation' from the EU. If Ukraine were a WTO member, it would automatically be eligible for compensation for any trade losses resulting from the enlargement. However, Ukraine is not expected to join the WTO before 2005 (and that under an optimistic scenario). Therefore, Ukraine's demands for any compensation from the EU will require at least tough negotiations and, given the unequal bargaining power of the two sides, appear rather unrealistic.

4 Relations between Ukraine and Russia

Despite the substantial decline in trade between Russia and Ukraine following the collapse of the Soviet Union, economic inter-dependence between the two countries is still pronounced. For Ukraine, Russia is the biggest trading partner in terms of both exports (18.7% in 2003) and particularly imports (37.6%), reflecting the geographical and cultural proximity, but also the common history. In addition, Russia (together with Cyprus, which represents, at least partly, Russian capital that fled the country over the years of transformation) is an important investor in Ukraine. This is especially true for the oil industry, with four out of six refineries being owned by Russian companies. Also, in autumn 2003, Ukraine allowed Russia's electricity monopoly RAO UES to participate in the partial privatization of its energy complex.

[29] E.g., the Ukrainian *Donbas Industrial Union Corporation* in 2003 acquired a majority stake of the *Dunaffer* metallurgic plant in Hungary.

Predictably, for Russia trade with Ukraine is not as important. In 2003, the latter accounted for only 5.7% of Russian exports and 7.7% of imports. However, Ukraine (along with Belarus) is important for Russia as a transit country, in particular for the exports of Russian oil and natural gas to Europe. A share of some 90% of Russian natural gas exports is reportedly being shipped via Ukraine, providing the country with some EUR 1 billion in annual transit fees.

Over the post-Soviet years, Ukraine has invariably been running a huge *deficit* in its trade with Russia (reaching EUR 3.8 billion according to Ukrainian, and EUR 3 billion according to Russian sources in 2003), with the value of imports from Russia exceeding approximately two times the value of Ukrainian exports to this country. This deficit is largely structural, as mineral fuels account for about two thirds of total *imports* from Russia. The structure of Ukrainian *exports* to Russia is more diversified, the biggest export items in 2002 being non-electrical machinery (18.4%), ferrous metals (16.4%) and meat (6.6%). Many of these products face high barriers to entering the Russian market. Both countries apply rather high import tariffs, standing on average (unweighted) at 10% in Russia and 12.7% in Ukraine.[30] (In the latter, import tariffs for a number of agricultural commodities such as sugar, butter and potatoes are particularly high and stand at 50%.) Tariffs apart, a major point of contention prior to mid-2001 was the Russian policy to charge VAT (as well as excises) on its exports to the CIS countries according to the 'country of origin' principle.[31] Since Ukraine shifted to the 'country of destination' principle already in the mid-1990s, at some point Ukrainian exports to Russia were *de facto* exempted from any indirect taxation, leading to a number of problems in bilateral trade relations.[32] By contrast, these days the problem appears to be rather the opposite: Ukrainian exporters often face considerable delays in the reimbursement of domestically charged VAT.

However, economic links between the two countries may strengthen as an (indirect) consequence of EU enlargement and as a result of the recent 'Agreement on the Formation of the *Common Economic Space (CES)*' between Ukraine, Russia, Belarus and Kazakhstan, which was signed on 19 September 2003.[33] While there are serious doubts about how far the actual (re-)integration of the post-Soviet space may go, at least a free-trade area between the participating countries may well be implemented. The latter particularly corresponds to the aspirations of Ukraine, which – unlike Russia – appears reluctant to enter the more advanced stages of integration with Russia, given its EU membership aspirations. On the one hand, as a result of the CES agreement, Ukrainian producers may gain access to the formerly protected Russian market. Indeed, some liberalization of access to the Russian market for Ukraine's goods is reportedly already

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30 See Elborgh-Woytek (2003).

31 See Andrianov (2003).

32 See UN ECE (2003).

33 More on that, see Astrov (2004).

taking place. For instance, in February 2004 Russia lifted import restrictions on most rolled steel products imported from Ukraine.[34] With an average wage of just half the Russian level, Ukraine remains a potentially competitive supplier for the Russian market.

On the other hand, Ukraine will be able to benefit from the lower prices for oil and natural gas imported from Russia. Russia still applies the 'country of origin' principle of VAT taxation with respect to exported fuels, effectively making them 20% more expensive for the Ukrainian side. While the VAT is obviously levied on Russian domestic sales of fuels as well, the price paid by Ukraine is higher than the Russian domestic price – and that for a number of reasons, such as the discrimination of Russian transport tariffs between domestic and export shipments. The proposed unification of tariffs (including those for transportation), along with the universal application of the 'country of destination' principle of VAT taxation, will bring about a convergence of prices for energy carriers between Russia and Ukraine. The reverse side of the coin is that cheaper energy may further aggravate the already high energy intensity of the Ukrainian economy inherited from Soviet times.

In the longer perspective, given the strong performance of Russia's economy, access to the Russian market may prove crucial for Ukraine's growth prospects. In turn, Russia's interest in the CES appears to be driven primarily by geo-strategic considerations, including the safety of its energy exports routes.

Conclusions

The EU, on the one hand, and Russia and Ukraine, on the other, are very unequal partners in nearly all respects – a fact manifesting itself also in their trade relations. The EU is a relatively important trading partner for Russia and (although less so) also for Ukraine. However, apart from being suppliers of energy carriers and metals, the role of Russia and Ukraine as trading partners for the EU is marginal (in the case of Ukraine even negligible). This is partly due to the existence of numerous barriers in mutual trade, but, more generally, it reflects the slow progress achieved by both countries in restructuring their economies, attracting more FDI and upgrading their export structures in favour of goods with higher value-added.

Apart from the existence of PCAs and the programmes of technical assistance (mainly Tacis), the EU's institutional relations with Russia and Ukraine have not progressed much, and even a free-trade area will most probably not be implemented in the short and medium run – definitely not before these countries join the WTO. This proved to be a particular disappointment for Ukraine, which – unlike Russia – considers integration into the EU

[34] See *Zerkalo Nedeli*, 21 February 2004.

structures and EU membership as its ultimate goal. In fact, in a number of important respects, Ukraine's relations and economic integration with the EU are even less advanced than those of Russia (e.g. the absence of a market economy status granted by the EU, lower shares in trade and FDI). For the time being – and most likely in the future as well – Ukraine is, and will be, more integrated with Russia than with the EU.

In their diplomatic efforts, both countries have recently been focusing their attention on the (possibly negative) impact of the May 2004 EU enlargement on their economies, trying to negotiate concessions in PCAs with the accession countries (Russia) and demanding 'compensations' from the EU for the resulting losses (Ukraine). It appears that these claims are only partly justified and, given the two countries' weaker economic position, the chances for any compensation are meagre. Politically, Russia may indeed face a somewhat harder EU line at the insistence of the new EU members, whereas Ukraine, which will find itself on the border of the enlarged EU, will most probably benefit. At the same time, in purely economic (trade) terms, Ukraine is likely to lose more from the EU enlargement than will Russia, at least in the short run. In turn, this will foster Ukraine's interest in further strengthening its economic ties with Russia, and signs of this are already visible as Russia is regaining its economic strength. While this partial 're-orientation' of Ukraine towards Russia has provoked criticism on the part of the EU, such stance may actually be counter-productive. The main challenge for the EU policy-makers in the present circumstances would be to foster a balanced economic integration with *both* Russia and Ukraine simultaneously, thus avoiding a costly disruption of trade links between the two countries. Such an approach will be indispensable for preventing the emergence of new dividing lines in Europe and promoting new neighbourhood relations.

APPENDIX

Table A1

Russia: gaining and losing industries in exports to the EU-15, 1995 to 2002

	NACE rev. 1	Exports 2002 EUR mn	Average annual change in %	Competitive gain,1995-02 EUR mn	Market share in the EU-15 2002 in %
30 biggest winners					
Refined petroleum and nuclear fuel	232	6025.7	20.3	3409.0	29.46
Other first processing of iron and steel	273	206.3	-6.6	431.4	17.83
Nuclear fuel	233	615.9	8.4	206.9	50.62
Fish and fish products	152	458.9	9.9	132.4	4.25
Sawmilling, planing and impregnation of wood	201	515.9	7.5	128.6	10.04
Textile weaving	172	102.3	17.1	62.6	1.96
Coke oven products	231	59.6	26.4	43.2	5.43
Cement, lime and plaster	265	30.6	34.8	25.6	4.32
TV, radio and recording apparatus	323	25.9	37.2	21.5	0.10
Other special purpose machinery	295	74.6	10.1	21.3	0.52
Ships and boats	351	33.7	24.8	21.2	0.42
Panels and boards of wood	202	149.4	4.2	19.0	6.47
Other products of wood; articles of cork, etc.	205	23.8	25.7	16.9	1.16
Vegetable and animal oils and fats	154	16.5	25.3	12.1	0.24
Cutlery, tools and general hardware	286	20.9	18.5	11.7	0.35
Basic iron and steel, ferro-alloys (ECSC)	271	1564.9	5.1	11.1	14.07
Instruments for measuring, checking, testing, navigating	332	22.6	14.5	9.8	0.15
TV, and radio transmitters, apparatus for line telephony	322	13.4	25.5	8.9	0.08
Electricity distribution and control apparatus	312	18.6	15.2	8.8	0.23
Office machinery and computers	300	13.8	16.1	6.8	0.02
Structural metal products	281	16.4	14.3	6.5	0.78
Weapons and ammunition	296	12.0	15.8	6.4	3.45
Man-made fibres	247	14.5	11.7	6.0	0.65
Detergents, cleaning and polishing, perfumes	245	21.6	10.5	5.4	0.71
Publishing	221	8.9	17.0	5.2	0.34
Other general purpose machinery	292	21.6	9.5	4.5	0.16
Electrical equipment n. e. c.	316	32.7	8.9	4.4	0.26
Other chemical products	246	38.1	6.3	4.2	0.36
Motorcycles and bicycles	354	4.9	18.6	2.9	0.11
Medical equipment	331	8.4	13.7	2.9	0.06
10 biggest losers					
Pharmaceuticals	244	6.3	-16.4	-31.0	0.02
Dairy products; ice cream	155	26.7	-11.8	-51.6	2.37
Other wearing apparel and accessories	182	121.2	-0.3	-53.6	0.28
Pulp, paper and paperboard	211	425.1	-1.1	-64.7	4.26
Motor vehicles	341	37.0	-13.4	-126.7	0.10
Meat products	151	64.5	-14.5	-166.6	1.15
Jewellery and related articles	362	316.7	-1.4	-199.8	3.13
Basic chemicals	241	1255.3	0.6	-316.5	3.65
Aircraft and spacecraft	353	29.2	-26.0	-338.2	0.08
Basic precious and non-ferrous metals	274	4148.5	-0.2	-1042.3	11.92
Manufacturing industry	**Total**	**17159.6**	**5.5**	**2107.5**	**2.22**
Exports	**Total**	**39129.7**	**11.8**	**.**	**4.42**

Source: Eurostat Comext database, own calculations.

Table A2

Ukraine: gaining and losing industries in exports to the EU-15, 1995 to 2002

	NACE rev. 1	Exports 2002 EUR mn	Average annual change in %	Competitive gain,1995-02 EUR mn	Market share in the EU-15 2002 in %
30 biggest winners					
Refined petroleum and nuclear fuel	232	623.13	28.4	451.25	3.05
Basic iron and steel, ferro-alloys (ECSC)	271	554.34	11.4	220.33	4.98
Other wearing apparel and accessories	182	379.41	16.4	194.58	0.88
Vegetable and animal oils and fats	154	120.59	98.3	119.31	1.73
Sawmilling, planing and impregnation of wood	201	82.46	47.9	75.71	1.61
Tubes	272	58.75	31.5	46.59	2.95
Basic precious and non-ferrous metals	274	147.34	7.4	32.01	0.42
Tanning and dressing of leather	191	68.08	13.3	29.03	2.33
Footwear	193	52.52	17.0	26.29	0.50
Structural metal products	281	27.89	54.5	25.86	1.33
Other chemical products	246	27.24	35.0	22.63	0.25
TV, radio and recording apparatus	323	22.59	48.2	20.37	0.09
Furniture	361	28.38	26.4	19.52	0.24
Domestic appliances n. e. c.	297	18.43	80.5	17.97	0.27
Fruits and vegetables	153	29.19	16.0	16.66	0.56
Made-up textile articles	174	17.78	53.3	16.44	0.33
Panels and boards of wood	202	20.62	24.9	15.36	0.89
Sports goods	364	20.35	27.0	14.84	0.80
Coke oven products	231	13.63	43.4	12.08	1.24
Other textiles	175	12.54	41.7	11.17	0.37
Ships and boats	351	22.98	18.1	10.71	0.29
Knitted and crocheted articles	177	17.42	21.1	10.41	0.22
Other special purpose machinery	295	13.99	27.0	10.16	0.10
Jewellery and related articles	362	30.32	10.3	7.86	0.30
Parts and accessories for motor vehicles	343	7.97	37.4	6.62	0.05
Other non-metallic mineral products	268	11.20	18.8	6.38	0.88
Leather clothes	181	6.26	109.0	6.21	0.45
Other general purpose machinery	292	9.97	18.5	5.28	0.08
Machinery for production, use of mech. power	291	15.45	11.6	4.81	0.08
Office machinery and computers	300	6.46	28.2	4.78	0.01
10 biggest losers					
Cement, lime and plaster	265	0.00	-66.4	-5.60	0.00
Other food products	158	9.01	-3.3	-5.80	0.16
Fish and fish products	152	0.16	-40.3	-7.80	0.00
Textile fibres	171	5.22	-10.9	-9.50	0.17
Man-made fibres	247	11.04	-5.6	-10.61	0.50
Dairy products; ice cream	155	37.30	-1.0	-16.45	3.32
Meat products	151	40.40	-3.8	-26.57	0.72
Other first processing of iron and steel	273	48.36	-4.2	-29.05	4.18
Aircraft and spacecraft	353	64.66	-3.6	-68.51	0.18
Basic chemicals	241	157.52	-2.0	-80.78	0.46
Manufacturing industry	**Total**	**2975.4**	**12.9**	**1223.3**	**0.38**
Exports	**Total**	**4029.4**	**15.6**	**.**	**0.42**

Source: Eurostat Comext Database.

Table A3

CEEC-8: gaining and losing industries in exports to the EU-15, 1995 to 2002

	NACE rev. 1	Exports 2002 EUR mn	Average annual change in %	Competi-tive gain 1995-2002 EUR mn	Market share in extra-EU imports '02 in %	Market share in total EU imports '02 in %
30 biggest winners						
Motor vehicles	34.1	13575.3	28.0	9674.76	35.57	6.98
Parts and accessories for motor vehicles	34.3	5767.4	34.2	4600.69	34.16	7.60
TV, radio and recording apparatus	32.3	4236.0	37.0	3504.26	16.66	9.60
Office machinery and computers	30	3689.3	45.0	3293.62	6.00	2.86
Furniture	36.1	5081.9	17.1	2327.83	42.98	19.33
TV and radio transmitters, apparatus for line telephony	32.2	2330.7	69.3	2234.11	13.63	5.33
Electrical equipment n. e. c.	31.6	2901.1	25.0	1944.93	23.45	12.23
Machinery for production, use of mech. power	29.1	2497.6	22.1	1578.52	13.33	5.12
Other general purpose machinery	29.2	1952.5	23.9	1301.42	14.88	4.59
Electricity distribution and control apparatus	31.2	1863.0	23.9	1270.28	23.46	9.38
Rubber products	25.1	1986.1	22.0	1262.22	28.28	9.29
Other special purpose machinery	29.5	2055.4	18.0	1151.60	14.31	5.04
Plastic products	25.2	1718.2	20.1	1030.64	15.19	4.12
Electric motors, generators and transformers	31.1	1877.2	17.8	991.92	22.26	10.22
Other fabricated metal products	28.7	2345.4	13.2	921.68	24.83	8.86
Electronic valves and tubes, other electronic comp.	32.1	1266.2	20.3	793.54	4.37	2.19
Domestic appliances n. e. c.	29.7	1594.2	16.3	704.34	23.45	7.70
Instruments for measuring, checking, testing, navigating	33.2	906.5	22.4	586.97	6.02	3.01
Other first processing of iron and steel	27.3	249.4	-9.3	581.49	21.55	4.22
Pulp, paper and paperboard	21.1	1270.5	10.1	579.22	12.74	3.03
Isolated wire and cable	31.3	1024.5	18.4	551.69	29.90	13.52
Refined petroleum and nuclear fuel	23.2	1882.3	12.2	551.52	9.20	3.97
Cutlery, tools and general hardware	28.6	877.8	20.4	533.74	14.50	5.08
Structural metal products	28.1	1246.5	13.4	448.70	59.30	19.17
Sawmilling, planing and impregnation of wood	20.1	1416.6	8.7	431.06	27.57	14.14
Machine-tools	29.4	784.2	13.0	387.00	9.48	4.23
Glass and glass products	26.1	1105.4	11.3	336.75	29.41	8.77
Other textiles	17.5	454.2	23.4	331.50	13.48	3.97
Printing	22.2	403.7	34.1	329.43	33.27	10.47
Railway locomotives and rolling stock	35.2	547.5	21.5	327.35	48.14	16.60
10 biggest losers						
Tubes	27.2	407.1	4.1	-1.71	20.42	4.94
Vegetable and animal oils and fats	15.4	62.1	2.0	-8.52	0.89	0.46
Watches and clocks	33.5	16.8	-2.9	-8.75	0.40	0.33
Coke oven products	23.1	412.8	4.7	-9.11	37.59	25.63
Cutting, shaping, finishing of stone	26.7	39.8	2.4	-17.50	7.23	2.56
Tanning and dressing of leather	19.1	201.4	2.7	-17.86	6.88	3.91
Footwear	19.3	989.5	5.6	-27.16	9.39	4.56
Basic iron and steel, ferro-alloys (ECSC)	27.1	2199.8	3.5	-220.87	19.78	4.77
Cement, lime and plaster	26.5	95.3	-16.6	-354.38	13.45	5.39
Other wearing apparel and accessories	18.2	4484.2	3.4	-531.56	10.35	6.66
Manufacturing	**Total**	**100268.2**	**15.8**	**50081.11**	**12.95**	**4.80**

Source: Eurostat Comext Database.

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