Two Integration Projects in Europe: Dead End of Struggle

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Summary

This report represents the first part of a project targeting the problems and prospects of two economic integration projects in Greater Europe — the European project (European Union) and the Eurasian project (Russia, the Customs Union and the Eurasian Economic Union). This topic is particularly relevant in light of the Ukrainian crisis, the signing of Association Agreements with the EU by Georgia, Moldova and Ukraine, as well as the looming threat of 'continental fracture'.

The presented study pays particular attention to the EU's Eastern Partnership, Ukraine's gains and losses stemming from its internal crisis and implications of its "European choice", and the implications of this choice for Moldova. The authors have tried to maintain a position 'above politics' and focus on the economic and financial issues. The aggregate results and calculations as well as the underlying methodologies are substantiated in the full text of the report, which is available in Russian[1]. Apart from statistical analysis and various calculations on trade and investment flows, an IMF-style financial programming has been made to properly assess the financial requirement for Ukraine's development.

The authors plan to expand the list of issues for analysis, including those concerning Russia and the Eurasian economic project, and to spell out in more detail the possible drawbacks for Russia and the Customs Union (CU) given the realities of the new situation arising from the "European choice" of a number of states in the post-Soviet space. Nevertheless, the work already done, with calculations limited to the period of 2014—2018, allows for the following conclusions.

In order to overcome the crisis in Ukraine and the accompanying fractures in the European region, it is necessary to create a new platform for cooperation in Europe. The policies of the Eastern Partnership and Eurasian economic integration require serious corrections.

[1] Е. Винокуров, С. Кулик, А. Спартак, И. Юргенс. Тупик борьбы интеграций в Европе. М., 2014, 117 с. http://www.insor-russia.ru/files/INSOR20140620.pdf

For covering its budget and balance of payments deficit as well as servicing external debt in 2014, Ukraine requires nearly \$30 billion in aid in the case of the inertia (moderate) scenario within a single year and more than \$50 billion in the case of the negative scenario. In the inertia scenario the country needs \$85 billion to cover its current balance of payments deficit in order to stabilize its economy from 2015 to 2018.

Satisfying the need for development requires financing of a different order of magnitude: \$190 billion through 2018 in order to provide for the necessary capitalization of the economy. A sum of \$300 billion must be found in order to seriously address the structural imbalances which have accumulated in the economy over the past 20 years.

In case of a further worsening of economic relations with Russia and the Customs Union, Ukraine's losses could amount to approximately \$33 billion annually in the next years to come, which represents 19% of Ukraine's GDP in 2013.

The losses for Moldova stemming from two key factors — the reduction in export revenues and lower remittances from migrant workers — are estimated at \$1.5—1.6 billion annually, which represents 20% of Moldova's GDP in 2013.

The drawbacks of participating in the Eastern Partnership in its current format are great for both Ukraine and Moldova. Moreover, they are unacceptable for the European Union as well, as the EU is taking full responsibility for the fates of these countries, which will require expenditures and efforts comparable to the measures taken to overcome the EU's own sovereign debt crisis, which threatened the future of the European project. However, this time the threat comes from countries which will not in the foreseeable future become full-fledged participants of this project.

The drawbacks are also very perceptible for Russia and the recently formed Eurasian Economic Union (EEU). According to preliminary calculations in case of the negative scenario the possible direct lump-sum looses for Moscow, including mainly from Kiev's hard measures against Russian financial assets, are estimated to be \$55—60 billion.

The optimal solution is to build an interconnected package of agreements between three parties: the EU, the countries of the Eastern Partnership (most importantly, Ukraine) and the Eurasian Economic Union. Such a solution should be focused on deeper and comprehensive integration agreements which embrace the interested parties within a common European economic area stretching from Lisbon to Vladivostok.

The EU's Post-Soviet Project

The Eastern Partnership (EaP) is a key component of the European Neighborhood Policy (ENP) with 6 post-Soviet states (Azerbaijan, Armenia, Georgia, Moldova, Ukraine and Belarus) participating. The other part of the ENP includes 10 Mediterranean countries (Algeria, Egypt, Israel, Jordan, Lebanon, Libya, Morocco, Palestine, Syria and Tunisia). The institutionalization of the Eastern Partnership began at the initiative of Poland and Sweden and was reinforced by a declaration on the establishment of the EaP at a special summit in Prague in 2009. At the same time, the declared 'privileged relations' do not imply possible EU membership but rather are limited to the format of 'association'.

The Association Agreement (AA) is selected as the core agreement framework for these relations. As the EU documents indicate, the aim of the AA is political association and economic integration between the EU and the partner country in order to facilitate the creation of a Deep and Comprehensive Free Trade Area (DCFTA).

The EU leadership unwaveringly intends to continue its EaP program in the new situation. This intention is reflected in the budget for the 2014—2020 financial cycle. The ENP has been allocated €15.5 billion, which is somewhat larger than the sum allocated in the previous 7-year period (€11.2 billion), of which the countries of the EaP received only 30%, with the Mediterranean countries taking the lion's share. These proportions will remain in place going forward, with the EaP getting approximately €5 billion of the funds during the current cycle.

Although these allocations may at first seem insignificant compared to the budget of Brussels, the European Union also has major global financial obligations and remains a leading international donor to various joint development programs with outside countries. In 2012 alone the amount of foreign aid for these purposes originating from the EU and its member-states totaled €55.7 billion.

What is more important is that the EU has set a rather high ceiling for expenditures on its own development in light of strategies in effect through the year 2020. In current prices the EU budget for 2014—2020 slightly exceeds €1 trillion. Compared to the budget for 2007—2013, over the next 7-year period the funds allocated for the EU's own development are increasing. It is no surprise that due to the conflict situation in the EaP zone, there are high hopes for greater engagement of international financial structures and EU allies in aiding Georgia, Moldova and Ukraine, in particular. In light of the crisis in Ukraine and the complicated domestic political situation in Moldova, Brussels would be highly interested in accelerating the implementation of the EaP with these countries for the demonstrative effect of underscoring the correctness of the “European choice”. All of this is bound to create an additional financial burden for the EU, and the real size of this burden has yet to be fully spelled out.

It should also be noted that in this new situation due to the Ukrainian crisis the calculations made earlier concerning the gains and losses stemming from the DCFTA have lost their relevance. Moreover, relatively little sound work has been done on this issue with the use of mathematical modeling and statistical computations. In the studies the advantages of the DCFTA are predominantly projected to emerge only in the long-term perspective. For example, it has been suggested that in some remote future period Ukraine would see GDP growth of more than 5%. Brussels continues to cite this forecast without acknowledging that the corresponding calculations are now irrelevant. Many researchers have also calculated that the dividends for the EU would be rather small and significantly less than for the partners of the EaP program.

Regarding the immediate future, most calculations have indicated that the population of the countries signed AA’s with the EU would ‘have to suffer’. The scale and nature of the financial and economic burdens for the EU and its EaP partners envisioned for this initial period during the implementation of the DCFTA have generated substantial concern.

The fact that the economic scenarios of the Eastern Partnership have not been adequately thought through is indicative that this project is largely political in nature. In fact, this project led to, according to some experts, the emergence of the severe crisis in Ukraine (or, as others see it, at least had a substantial influence on it). In any case, the spark which lit the ‘Ukrainian fire’ was Kiev’s refusal to sign documents at the EaP summit in Vilnius. The situation in Moldova is also approaching the boiling point.

This serves a yet another reminder that the full range of economic realities and issues must be taken into account whenever undertaking major endeavors. Naturally, this also entails careful analysis of the gains and losses from interaction with major external players.

Ukraine is almost equally split in its economic orientation toward Russia and the Customs Union, on the one hand, and the European Union, on the other. All previous assessments of the economic effects of the Association Agreement for countries participating in the EaP have inadequately taken into consideration the rapid processes of Eurasian economic integration and the prospects for the formation of the Eurasian Economic Union by 2015. They also have not paid much attention to the functioning of a full-fledged multilateral free trade zone in the CIS.

The economic implications of continued instability in Ukraine have clearly been underestimated. In addition to dealing with the economic burden and needs of Ukraine, all economic relations between the two major components of Greater Europe — the European Union and the Customs Union-CIS — are under increased risks. Not only the scope of these economic relations is immense, it also has dimensions not measureable by volume or value.

The worsening of the crisis in Ukraine and the introduction of sanctions are having additional consequences for Russian GDP growth. However, the clear slowing of the Russian economy also means a substantial weakening of domestic investment and consumer demand, which could hurt the interests of European business in Russia.

Furthermore, according to the IMF, these factors could have an impact on the economies of European countries as well. In addition to unpleasant disruptions of natural gas flows, the negative impacts for these countries could come through trade and financial channels as well. For example, Cyprus, Austria and Hungary are at risk with their substantial banking assets in Russia and Ukraine (from 4% to 13% of the GDP of these EU countries)[2].

In its economic forecast this spring, the European Commission highlighted the growing risks stemming from the slowing of the Russian economy, expansion of sanctions and the continued conflict in Ukraine for the Baltic republics, Finland, Cyprus, Bulgaria and Montenegro as well as Hungary, Poland and Ireland.[3] However, these forecasts do not yet take into consideration the consequences for the EU in the case of the need for mobilization of substantial financial resources to assist Ukraine in the near future or over the long term.

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[2] Central, Eastern, and Southeastern Europe. Regional Economic Issues / IMF. April 2014, p. 11.
[3] European Economic Forecast, Spring 2014 (European Economy 3/2014) / European Commission, pp. 4, 25.

Some financial and economic consequences of the crisis in Ukraine

This report takes into consideration two options: (1) covering only the country's critical financing needs, (2) both critical needs and development needs. Here the development needs imply compensating the country's chronic underinvestment and providing for normal investment conditions in the mid-term perspective.

The assessment of the critical financing needs for Ukraine in the coming years can only be an approximation due to the highly fluid situation in the country. At the same time, our analysis of the critical needs is based on the quantitative analysis of the country's balance of payments.

For 2014 (and the period which follows) it is reasonable to consider two scenarios: the inertia (moderate) scenario and the negative scenario. There is no positive scenario, in our view. The inertia scenario foresees a gradual normalization of the situation, including of the Russian-Ukrainian relations, while the negative scenario involves a further worsening of the conflict.

Trade balance. The calculations of Ukraine's trade balance in 2014 indicate a trade deficit of $5.6 billion according to the inertia scenario and $9 billion according to the negative scenario.

International investment income. In 2014 the total financing needs of the Ukrainian government amount to approximately $20 billion. Only a portion of this sum will be serviced in 2014. With a rate of around 12% payments on servicing this debt will amount to approximately $1 billion. However, Ukraine's sovereign foreign debt is only the tip of the iceberg. The total volume of Ukraine's external debt as of January 1, 2014, was $142.5 billion. Servicing this debt at a rate of around 8% requires currency reserves of approximately $12 billion per year, which together with the $1 billion mentioned above amounts to $13 billion for the year in the inertia scenario.

It cannot be ruled out that foreign investors will choose not to reinvest income into the country's economy and instead will withdraw all investment returns from Ukraine. In this case the balance of investment income movement will reach a negative $16 billion.

Migrant labor remittances and transfers. Income from labor migrants transferred to Ukraine is an important source of revenue which has helped stabilize the country's balance of payments for many years. Approximately 60—70% of these remittances come from migrant labors working in Russia. They fluctuate between $11—13 billion annually, representing approximately 7% of the country's GDP. The further worsening of relations with Russia could reduce this surplus to $8 billion annually in the inertia scenario and to $5 billion in the negative scenario.

Net capital movement. In the inertia (moderate) scenario with a rather rapid normalization of the situation net capital outflow in 2014 would reach a level of \$6—10 billion (with \$8 billion used hereinafter as the average). Considering the actual capital outflow trends and the size of the assets which belong to foreign investors in Ukraine, in the negative scenario the annual total could reach \$22 billion.

Ukraine's critical (emergency) financing needs in 2014. External creditors will need to cover Ukraine's balance of payments deficit in an amount ranging from \$4.5 billion to \$28 billion with full depletion of the country's FX and gold reserves in both scenarios, or from \$18.6 billion to \$42 billion if the reserves are to be kept at the current level.

For 2015—2018 the inertia scenario suggests a worsening of the trade balance as imports rise and exporters encounter problems on external markets. A further worsening of the situation with investment income movement is expected due to the substantial rise in Ukraine's foreign debt in 2014—2015 and the high cost of borrowing for the country on international capital markets.

The required amount of financing over this period is estimated at approximately \$85 billion. This is much higher than the expected volume of foreign economic aid and Ukrainian economy's capacity for mobilization of resources.

When taking into consideration the volume of funds needed for investment for development, the following conclusion is reached: since 2005 the economy of Ukraine has received only half of the needed volume of investment and the aggregate underinvestment which has cumulated over the years is estimated to be around \$300 billion. Indirectly this can be seeing in the level of depreciation of fixed assets, which over the past 12 years has grown from 44% to 78%. Without taking into account cumulative underinvestment, an acceptable level of investment for the period of 2014—2018 is approximately \$190 billion.

Estimate of possible reduction of Ukrainian exports to Russia and other Customs Union countries. The placement of emphasis on cooperation with EU countries creates risks for a substantial part of the Ukrainian economy which is oriented toward trade with Russia and other CIS countries. The hardest hit will be the machinery and technology sectors, which clearly are not capable of finding substitute markets domestically, in Europe or elsewhere.

Additionally, cooperative relationships remain between enterprises in the CU countries and Ukraine in practically all resource processing industries. The most significant ties are in the machinery industry of Russia and Ukraine. One result of Ukraine's signing of the Association Agreement with the EU may be the gradual dismantling of projects in Ukraine's high-tech sector and an increasing number of investment projects in Russia aimed at reducing dependence on imports from Ukraine. The minimum loss for the Ukrainian economy from this factor is 1.5—2% of its GDP.

The structure of Ukraine's exports to the Customs Union and European Union is rather diversified. However, exports to the EU are dominated by resources and commodities, which account for 60% of the EU's imports from the country. For the Customs Union this figure is only 10%.

Russia is by far the single largest recipient of Ukrainian exports. In 2013 Russia accounted for 24% of Ukraine's exports, more than all of the next four countries combined — Turkey, China, Egypt and Poland — which accounted for 6%, 4.3%, 4.3% and 4% respectively.

According to our calculations done on Ukraine's 13 largest categories of exports to the Customs Union, substitute markets can only be found for approximately 15% of these exports. Considering the fact that these categories account for more than 75% of Ukraine's exports to the Customs Union, this level of substitution is probably representative for combined exports.

This means that of the $19.2 billion in exports to the Customs Union in 2013, Ukraine is capable of redirecting to other market exports worth $2.9 billion. For the remaining $16.3 billion in exports (or 25.7% of the country's total exports in 2013) would be very difficult to find buyers outside the Customs Union. Of this amount, the portion of critically important supplies which the countries of the Customs Union would be reluctant to immediately decline is around $1—2 billion. These goods are primarily machinery and technology supplies mainly for the military-industrial complex.

Thus, based on 2013 results, the maximum amount of export revenues which Ukraine could possibly lose with an acute worsening of relations with the Customs Union is $14.3—15.3 billion per year.

Investment and business activities of Russian companies. Cumulative FDI from the CIS and Georgia in the Ukrainian economy at the beginning of 2013 stood at $17 billion, with FDI from Russia accounting for $16.7 billion of this amount. Approximately 60% of Russian FDI in Ukraine is related to the services sector (primarily telecommunications and the financial sector).

The Association Agreement with its rapid transition to the technical norms and standards of the European Union could become a hindrance to FDI originating from Russian, Kazakh and Belarussian companies whose businesses involve technological cooperation with Ukraine.

In 2012, a relatively calm year for Ukraine and Russian-Ukrainian relations, growth in Russian FDI totaled approximately $2 billion. This amount can be considered an opportunity cost for Ukraine (the lack of additional inflow of FDI from Russia each year) due to worsening of bilateral relations.

Transit through Ukraine. The estimate of the maximum possible loss of income for Ukraine due to reduction of transit services provide to Russia (including the complete halting of Russian pipeline transit through Ukraine) is equal to the net amount of these services provided in 2013 — $3.7 billion with subsequent increases to $4.2 billion in 2014, $4.3 billion in 2015, $4.4 billion in 2016, $4.5 billion in 2017 and $4.6 billion in 2018.

Labor migration. An addition to the above mentioned authors' estimates, taking into consideration the unofficial (unlawful) living arrangements of a substantial portion of Ukrainian migrant workers and the possibility of more rigorous control by Russian authorities due to the worsening of relations, the minimum volume of remittances at risk is approximately $7—8 billion (4—5% of Ukraine's GDP).

Trips by Russians to Ukraine. The potential decrease in trips to Ukraine and associated travel spending by Russian citizens can be estimated at 30—35% and at 55—60% stemming from Crimea's move into Russian jurisdiction. The cost of this decline is estimated at $1.5—1.6 billion annually. However, there is a likelihood that the losses will be even greater due to the reduction in the average amount of time spent in the country and the corresponding amount of money spent per trip.

The negative scenario and losses for Ukraine. In 2015—2016 the annual possible losses for Ukraine in such a scenario are estimated at average $33 billion, which is nearly double the aid package promised by the IMF for 2014—2015.

During this period the most substantial risk for Ukraine stems from the reduction exports to Russia and other countries of the Customs Union: the maximum losses could reach $14.3—15.3 billion annually. This is followed by the risk of lower remittances from migrant workers ($7—8 billion annually), Russia's complete abandonment of pipeline transit through Ukraine ($3.9—4.2 billion depending on the year), continued high prices on natural gas from Russia (an additional $2.2—3.7 billion to the level of 2013 and depending on the year), opportunity lost on potential investments from Russia (approximately $2 billion annually), a sharp reduction in visits by Russian citizens to Ukraine ($1.5—1.6 billion annually), the rejection by Russian companies of reciprocal transportation arrangements with Ukrainian operators (approximately $0.4 billion annually).

For 2015—2018 the calculations include the full amount of the greatest possible losses for the first two years and, at least, half of the expected losses for the subsequent two-year period. Based on this (the full impact of the negative scenario in 2015—2016 and gradual recovery from this in 2017—2018), *the total amount of losses for Ukraine could reach $100 billion*.

Consequences for Russia

In 2010—2013 Ukraine was in the 4th—6th position among Russia's trading partners. Since the start of this century its share has been in the range of 4.5—6% of Russian exports. The total sum of these exports to Ukraine reached a peak of $30.5 billion in 2010—2011 and contracted to $23.8 billion in 2013.

The structure of Russian exports to Ukraine is more diversified than to other country, but energy remains the key — 59.2% in 2013. Other major export categories include machinery and equipment (9.1% in 2013) and chemicals (7.9%).

Substitute export markets for Russia. According to calculations done on Russia's 14 largest categories, besides energy, substitute markets can be found for 48% of its exports. These categories account for approximately 73% of Russia's non-energy export to Ukraine. Considering the relatively low level of marketability of other categories which were not covered, it would be reasonable to estimate that substitute markets could be found for 40—45% of Russia's non-energy exports. It is expected that substitute markets can be found for 100% of Russia's energy exports to Ukraine.

Based on a total of $9.7 billion worth of non-energy exports to Ukraine in 2013, Russia is capable of redirecting $3.9—4.4 billion in exports to other markets (and fully redirecting energy deliveries worth $14.1 billion). It follows that Russia will have a very difficult time selling the remaining export products worth $5.4—5.8 billion (22.4—24.5% of Russia's total exports to Ukraine in 2013 or 1—1.1% of all exports). Critically important imports (primarily nuclear fuel cells as well as certain types of machinery products) amount to $1 billion. Thus, based on the trade level of 2013, the maximum losses for Russia total $4.5—5 billion annually.

Substitution of imports from Ukraine. In case of the unfavorable development of relations between Russia and Ukraine, the following rough estimates can be made:

- critically important imports over the next three years will amount to $2 billion annually (components for the military industrial complex and a number of strategic machinery enterprises);

- the remaining imports ($13.8 billion in 2013) are substituted: (1) through domestic production, the Crimean effect and reduction of noncritical imports — $4.3 billion (27% of all imports from Ukraine in 2013); (2) imports from the CIS — $1.9 billion (12%); (3) imports from other regions — $7.6 billion (48%);

- the total additional costs on transport and the transit to substitute markets could amount to up to $2.6 billion.

Financial sector and property risks. The estimates take into account the possible failure of Ukraine to pay its debt to Russia, the placement of limitations on access to the deposits of Russian legal entities and individuals in Ukraine, and the seizure of Russian property in Ukraine. The maximum sum at risk (as of June 2014) is $40—45 billion (without consideration of the debt of Ukrainian companies to Russian companies, including Naftogaz's debt to Gazprom).

Reduction of labor resources from Ukraine. It should not be assumed outright that the Ukrainian workforce in Russia, estimated at ca. 2.5 million workers, can be relatively seamlessly substituted by other sources of imported and internal labor. This might not be the case. At least some short-term sizable disruptions of the labor market should be expected, with subsequent economic costs, which are hard to quantify outright. We can quantify, however, the loss for purchasing potential. The expenses of Ukrainian workers in Russia are estimated at $13—14 billion annually. Approximately $8—8.5 billion of this amount are at risk due to the potentially more rigorous enforcement of labor migration rules.

In addition, there are other associated economic problems, for example, the defaulting on consumer loans provided to Ukrainians in Russia and the substitution of more professional and qualified workers from Ukraine by less qualified labor migrants from other post-Soviet countries, etc. Overall, the losses for Ukraine will be much more substantial than for Russia. However, Russia also has much to lose — and not only in quantitative terms but also in terms of the much-needed cooperation between enterprises and various sectors of Ukraine's economy, not to mention other qualitative costs.

Economic risks for Moldova

Moldova's financial and economic position is unstable. The current balance of payments deficit exceeds 5% of GDP (estimated to be 5.9% in 2014 and 6.4% in 2015) and its total foreign debt is more than 80% of GDP.

The CIS accounts for 35% of Moldova's foreign trade, with Russia receiving 30% of all Moldovan exports. The country's main economic sectors, including its agricultural exports, remain very highly focused on the markets of Russia and the Customs Union.

The negative scenario for exports to Russia and the Customs Union. Even without considering the worst case scenario, exports to Russia could fall by one-half, with exports to other countries of Customs Union declining by 30%. After

2015, exports to Russia and the Customs Union as a whole could start growing, albeit weakly.

As a result, from 2014 to 2018 Moldova's cumulative export volume to the Customs Union will likely amount to only $2.5 billion, with Russia accounting for $2 billion. The decline in exports to Russia and other countries of the Customs Union can only partially be compensated by an increase in exports to the EU and other markets. Exports to the EU could potentially increase by $500 million while other markets could absorb another $200 million. In such a scenario, Moldova faces a loss of approximately $1.4 billion in exports over 2014—2018 (approximately 18% of the country's GDP in 2013).

Risks for migrant labor remittances. Tightened immigration and labor control in Russia could put at risk approximately 40% of Moldova's annual transfers by migrant workers in Russia, which translates into $1.2—1.3 billion (15—16% of Moldova's GDP in 2013).

Problems with natural gas contracts with Russia. The cumulative debt of Moldova and Transnistria to Gazprom as of the end of 2013 totaled nearly $5.2 billion, with Transnistria accounting for $4.7 billion of this sum. Moldova is paying for most of its current supplies, but its debt is increasing and new arrears are accumulating. Transnistria has not paid for any natural gas delivered since 2009 and is not servicing its debt.

Investment activity of Russian companies. Cumulative Russian FDI in Moldova at the beginning of 2013 totaled $562 million. The distribution of this investment largely reflects the structure of the Moldovan economy: machinery, agriculture and energy industries (38%), communication, IT and infrastructure networks (32%), wholesale and retail trade (18%), education, finance and tourism (12%).

A slowing of growth in cumulative FDI from Russia has been observed for the following reasons: the small size of the Moldovan economy, the country's unstable financial condition due to various deficits and a high level of foreign debt, the complicated political situation in and around the country, and uncertainty regarding Moldova's integration prospects and what obligations the country may assume before signing the AA. The strong position of Russian business in key infrastructure and industrial sectors of Moldova presents certain risks for the country in light of the abovementioned trends, up to and including the withdrawal of Russian business from certain projects if the situation develops along an unfavorable track.

A new platform for cooperation in Greater Europe

In the case of a gradual resolution of the conflict in and around Ukraine, Russia has no compelling reason to reject economic cooperation with Kiev. One of the key tasks will be to develop a mechanism for information exchange which allows for effective control of goods' supplies from Ukraine within the existing free trade regime while, if necessary, also allowing for application of a reservation for protective measures for the Customs Union stipulated in Appendix 6 of the Treaty of October 18, 2011. In parallel the groundwork should be laid for a long-term solution for the establishment of a sufficient set of trade regimes between the Eurasian Economic Union, Ukraine and the European Union.

The Ukrainian crisis has created a situation in which internal and external stakeholders and observers are best served by finding a solution which creates a legal framework for economic reconstruction and political stabilization of the Ukrainian state. This can be achieved while moving forward on the path toward economic agreements between Ukraine, the European Union and the Eurasian Economic Union.

The long-term objective is to build mutually beneficial and joint sets of agreements for a trilateral partnership of the EU, Ukraine and the EEU. These agreements, in our view, should go beyond a simplistic free trade zone regimes and include more profound and comprehensive agreements, including between the EU and the EEU. Due to the structure of their foreign trade, the countries of the EEU are not interested in a simple agreement introducing free trade on goods: in their interest is to achieve a comprehensive agreement providing for deep economic integration which would encompass dozens of different issues.

Among these issues are: trade of goods; rules for e-trade; elimination of non-tariff barriers; free movement of capital; liberalization of access to financial markets; regulatory convergence (norms and standards); intellectual property rights; mutual recognition of diplomas, including for professional education; visa-free travel, including readmission agreements; the Kaliningrad region; neighborhood programs for border regions; massive educational exchange programs (Erasmus Mundus and others); development of international transport infrastructure (automotive and rail corridors); the Third Energy Package; creation of a common electricity market; establishing rules for economic competition; and mechanisms for conflict mediation.

In the short-term perspective it would be useful to sign several documents.

- Ukraine and the EEU should sign a protocol on the elimination of technical trade barriers. The signing of such a protocol is stipulated in a December 17, 2012 Agreement between the Customs Union and countries of the CIS outside the Customs Union. Ukraine and the EEU should sign a document on the electronic exchange of customs declaration information.
- The two parties should also sign protocol on a mechanism for joint control over the origin of goods which would make the supplier liable for any falsification of such information.

Such agreements along with the existing CIS free trade agreement and other agreements stipulating Ukraine's obligations in other areas (the use of national currencies in settlements, guarantees of investor rights, agreements on investment projects) should become an indelible part of an international plan to rebuild the Ukrainian economy with the participation of Russia, the EU, the US, international financial institutions and other donors.