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## **EU–Ukraine trade agreement finally enters into force > Implementation is overshadowed by Russia’s retaliation**

The free trade part of the EU–Ukraine Association Agreement, which triggered the ongoing crisis in Western–Russian relations, entered into force on 1 January after an unhelpful delay. The EU must learn from the lessons of the recent past and invest in the implementation of the deal, made more costly by Russia’s retaliatory measures.

Rarely has a trade deal acquired such epic dimensions as the Deep and Comprehensive Free Trade Agreement (DCFTA) between the EU and Ukraine. The DCFTA is part of the Association Agreement, negotiated during 2007–2012. Initially, it was a delayed and lukewarm response by the EU to Ukraine’s Orange Revolution of 2004.

In November 2013, just weeks before the planned signature of the agreement, a U-turn by the then President Viktor Yanukovich towards Moscow sparked mass protests leading to a change of power in Kiev, the annexation of Crimea by Russia and war in the eastern parts of Ukraine. The Association Agreement was eventually signed in June 2014, but in September the EU announced the postponement of the implementation of the trade part until the end of 2015.

Now that the deal has finally entered into force, it is time to work on implementation. This requires extensive support from the EU. Expert assessments foresee up to 6% of additional GDP growth for Ukraine over the coming years, resulting from improved access to the EU market, a better business climate and reduced corruption. However, the potential gains will not materialize without actual reforms

undertaken by Ukraine. This is not easy amidst political instability, economic hardship and growing discontent among the population. The success of domestic reforms is crucial for Ukraine’s future.

Russia responded to the DCFTA by suspending Ukraine’s participation in the CIS free trade agreement (dating from 2011) and banning imports of agricultural and food products from Ukraine (i.e. applying the same sanctions that are in place against the EU). The cost of these measures for Ukraine is limited by the fact that Russia’s share of Ukrainian trade has more than halved since 2012.

Russia claims that the DCFTA harms its economic interests, but it has failed to substantiate such claims in a credible manner. The DCFTA and CIS FTA are legally compatible. The trilateral talks conducted between the EU, Russia and Ukraine during July 2014–December 2015 confirmed that Moscow’s objections were (geo)politically motivated. The trade-related concerns that Russia raised in the talks were partly unconnected to the DCFTA, and could have been addressed in part by practical cooperation. Following more than 20 rounds of talks, the EU Commission concluded that Russia was not aiming at ‘obtaining practical solutions’.

It is important to learn from the messy process thus far. The first lesson to be drawn is that postponement was a mistake. It was caused not by credible trade-related concerns, but by the Russian threat to impose major economic sanctions on Ukraine and the EU’s fear that Russia would escalate the fighting in Donbas. It did not stop Russia from escalating the conflict anyway somewhat later, and from imposing the sanctions that are now in place.

The postponement looked like a concession proving that might is right. It created false expectations on the Russian side, encouraging Russia to try to derail the agreement once and for all. Yet, from the Russian viewpoint, it was not a real concession, as both the EU and Ukraine maintained their position that the agreement would not be changed or rejected. A real concession – that is, scrapping the agreement – would have meant recognizing Russia’s right to coerce Ukraine into its sphere of influence, which would violate the core norms and principles of the European security order.

The postponement provoked some in the EU to argue that it had been a mistake not to include Russia earlier in the EU–Ukraine negotiations or even in the Eastern Partnership at large, due to Russia’s

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‘legitimate interests’ or the importance of Ukraine for Russia. Such inclusion would have meant de facto acknowledging the Russian view that Ukraine is not a sovereign state. Moreover, according to the European Commission, Russia never raised the issue before late 2013.

The second lesson is that the EU’s Eastern Partnership policy is alive and well and deserves to be taken seriously, in spite of its limitations. Both the EU and Ukraine have proved more resilient to Russian pressure than expected. The EU’s attraction for its Eastern neighbours has not vanished. The Eurasian Economic Union (EEU) has been marred by trade conflicts and unhealthy dominance by its largest member. Other EEU members (Armenia, Belarus, Kazakhstan and Kyrgyzstan) are unnerved by Russia’s aggressive posture and keen to explore opportunities to reduce their vulnerability. They did not join Russia’s sanctions against the EU.

While there is a zero-sum logic at play between the two unions, the EU has not pressured its neighbours to choose EU orientation. (Ukraine never wanted to join the EEU, even under Yanukovich after the above-mentioned U-turn.) Unlike Russia, the EU has also refrained from punishing countries that have chosen the

other orientation. Armenia made its U-turn in favour of the EEU in 2013 as a result of heavy pressure from the Russian side. In December 2015, the EU and Armenia launched negotiations on a new, comprehensive agreement that is set to be compatible with the EEU. This agreement will indicate the room for manoeuvre allowed by EEU membership.

The Eastern Partnership is based on the EU’s method of building order through economic integration and the extension of its normative structures. What the EU failed to recognize prior to the Ukraine crisis was that this order-building practice is a form of power that provokes resistance on the part of Russia.

A key question over the longer term concerns the form of power that will prove more sustainable: the EU’s emphasis on normative and economic power, or Russia’s heavy reliance on different forms of coercion.