



Prospects for an upgrade in trade relations with Eastern Partnership countries

At the Vilnius Eastern Partnership (EaP) Summit on 28 and 29 November 2013, the EU hopes to sign an Association Agreement, including a Deep and Comprehensive Free Trade Area (AA-DCFTA) with Ukraine, and initial AA-DCFTAs with Georgia and Moldova. Initialling of a similar agreement with Armenia is however off the table. Trade relations with Azerbaijan and Belarus may be discussed too.

Recent developments

The EU's hopes of initialling (agreeing on the text of) the AA-DCFTA with Armenia were destroyed on 3 September 2013, when the country's President Serzh Sargsyan surprisingly [announced](#) plans to join a Customs Union (CU) with Russia, Kazakhstan and Belarus. Russia has been putting pressure on Eastern Partnership countries ahead of the EaP [Summit](#) in Vilnius to get them to join the CU. So far, Georgia, Moldova, and Ukraine have been able to resist these attempts. Russia is widely seen as the dominant force in the CU, and has plans to develop it into a "Eurasian Union".

EU Commissioner for the Neighbourhood Policy, Štefan Füle, has [said](#) that EaP countries could count on the solidarity of the EU if faced with Russian pressure. CU membership is [incompatible](#) with an AA-DCFTA with the EU, because a CU member would lose sovereignty over the areas covered in the trade chapters it had agreed with the EU. This covers technical and sanitary norms, as well as reduced customs tariffs – whereas the CU forces its members to raise tariffs. EaP countries could however, if they enter a DCFTA, cooperate with the CU, "perhaps as observers".

Ukraine

The Foreign Affairs Council is due to discuss on [21 October 2013](#) whether Ukraine has met the benchmarks set out in the [Council conclusions](#) of 10 December 2012, which would allow the AA-DCFTA to be signed. In particular, Ukraine should free jailed former Prime Minister Yulia Tymoshenko by [18 November](#), i.e. before the last Foreign Affairs Council meeting ahead of the Vilnius Summit.

In summer 2013, Russia started a "[trade war](#)" against Ukraine, with verbal threats, temporary increases in customs checks and a ban on imports of certain chocolates. This was despite Ukraine having signed a [memorandum](#) on closer cooperation with the Customs Union. After signature and certain procedures on both

sides, the DCFTA will be applied [provisionally](#), giving [trade advantages](#) to Ukraine. The country is also considering trilateral consultations with the EU and Russia on trade. The head of the Ukrainian Chamber of Commerce and Industry [considers](#) the DCFTA to be important for small and medium-sized enterprises, as large corporations already work on the EU market. Adjustment to the EU's stricter requirements will be hard, but ultimately, Ukrainian products will become more competitive.

The country conducts 31% of its [trade](#) with the EU and 19.9% with Russia. Its exports are relatively diversified.

Armenia

President Sargsyan's move seems to mark the end of Armenia's [balancing act](#) – relying on Russia as a military ally and on the EU as a trade partner. Russia has been supporting Armenia in the Nagorno-Karabakh conflict with Azerbaijan, but recently Russia [sold arms](#) to

European Parliament activities

The EP protested against Russian pressure on EaP countries in its [resolution](#) of 12 September 2013. A [recommendation](#) of 12 September 2013 on Belarus points to the importance of EaP sectoral initiatives in trade, energy, environment and transportation. The Foreign Affairs Committee is also preparing a [report](#) on "Assessing and setting priorities for EU relations with the EaP countries" (rapporteur: Paweł Kowal, ECR, Poland).

Azerbaijan instead. Füle [stressed](#) that the EU would not abandon Armenia and its civil society. [Arminfo](#) reports that an alternative to the AA/DCFTA is being prepared. Armenia conducts 27.3% of its [trade](#) with the EU, its largest trading partner, and with Russia 21.7%. A DCFTA, projections suggest, would have [increased](#) its exports to the EU by around 15%, its imports from the EU by 8%, and its GDP by 2.3%. The textiles and clothing sector in particular would have gained substantially.

Georgia

Prime Minister Bidzina Ivanishvili recently [said](#) that he would also "consider" Russia's CU, but subsequently gave [assurances](#) of Georgia's European / western orientation. The AA-DCFTA gives Georgia better access to the EU market and leads it towards trade-related reforms, such as hygiene standards for agricultural products, approximating regulations for industrial products, and diversification. [Oxford Analytica](#) considers that Georgia still lacks an economic agenda to foster long-term growth, to match the DCFTA. It needs in particular to prepare its wine sector for competition. Georgia could gain 12.5% in exports to the EU, 7.5% in imports, and 4.3% of GDP. The chemicals, rubber and plastics sector stands to profit the most.

Moldova

Imports of Moldovan wine and brandy were [rejected](#) as substandard at Russian borders in September 2013. In response, the Commission [announced](#) a proposal to open the internal market completely to Moldovan wine, even before provisional application of the AA-DCFTA, which would be possible from the moment of [signature](#). Despite Russian [threats](#) of raising gas prices and complicating efforts to resolve the Transnistria conflict, Moldova appears to be on a [firm track](#) to initial and sign the AA. It conducts 53% of its [trade](#) with the EU. Moldova mainly exports manufactured articles, machinery and transport equipment, and agricultural goods into the EU.

Azerbaijan

Azerbaijan mainly [exports](#) mineral fuels (99%) to the EU and [seems uninterested](#) in political reforms or further trade integration, although the EU is its biggest [trading partner](#) (45%). For

a DCFTA, it would first have to [join](#) the WTO, for which talks are scheduled for [early 2014](#). For the moment, the EU is just [negotiating](#) an upgrade of the existing Partnership and Cooperation Agreement with light trade-related provisions. Oxford Analytica nevertheless [explains](#) that Azerbaijan, fearing Russian hegemony in the Caucasus, has sought closer relations with the EU and Turkey since the Georgian-Russian war in 2008. The west also relies more on Azerbaijani hydrocarbons than Russia.

Belarus

Negotiations on an AA have so far been impossible because of the country's authoritarian regime and its membership of the CU, but not the WTO. Belarusian President Alexander Lukashenka [expressed](#) discontent that "they do not want to talk with us at all". Belarus might resume its WTO accession process, as Russia would like the [entire CU](#) to become an official WTO party. The country is also attempting to [improve](#) foreign trade operations. Foreign Minister Vladimir Makei expressed [concern](#) about the principle of equality across the EaP and said that the EaP should be made [more practical](#), by enhancing the business dimension and interaction in transport, trade, energy, and border management. Belarus [trades](#) more with Russia (47.1%) than with the EU (28.9%).

Academic and stakeholders' opinions

According to [CEPS analysts](#), DCFTAs with the EU would not prevent EaP countries from concluding a "high-quality" FTA with Russia's CU. By choosing the CU, Armenia will deprive itself of the possibility of becoming an "open, highly skilled, small economy". Furthermore, the [Commonwealth of Independent States \(CIS\)](#) free trade agreement already offers an almost fully liberalised market access for goods from most EaP countries.

Latvia's [chief economist](#) notes that Russia, Belarus (and also Azerbaijan) have shown impressive per capita income growth since the 2000s, but have failed to pull Armenia, Georgia, Moldova and Ukraine along. For these countries, the EU thus appears the better trading choice.