SUMMARY

1. Ukraine is one of the largest and most populous countries in Europe, endowed with some of the world's most fertile soils which help make it an important agricultural producer and a major exporter of agricultural commodities, particularly grains and oilseeds. Ukraine also manufactures a broad range of industrial goods, mostly a legacy of its industrialization during the time of the Soviet Union. Industrial output has been shifting gradually from heavy to light industries and food processing, while Ukraine has maintained its significant aviation and aerospace sectors. Services sectors have expanded rapidly since the abandonment of central planning following independence in 1991.

2. Ukraine was hit exceptionally hard by the global financial crisis that started in 2008. A strong economic rebound in 2010-11 was subsequently dampened by political instability, developments in the Crimea and then followed by a severe economic contraction with the outbreak of conflict in Eastern Ukraine. Real GDP contracted by nearly 7% in 2014 and another 16% in 2015. The conflict and the withdrawal of capital from certain foreign investors reduced foreign direct investment, which fell from more than US$8 billion in 2012 to US$410 million in 2014. The repercussions on remittances from Ukrainians living abroad has been less pronounced though noticeable. Depleting reserves of foreign exchange and steady downward pressure on the value of the national currency (the hryvnia) led to a series of measures, including exchange rate liberalization, in early 2015. At that point, Ukraine's international reserves covered less than one month of import requirements. Measured in US dollars, current GDP per capita in 2015 was less than US$1,000, one quarter of the level in 2013. Nonetheless, some signs of stabilization of the economy have emerged in 2015 as Ukraine has begun to implement reforms, which are supported by a new IMF programme.

3. Ukraine acceded to the WTO in 2008 with wide-ranging commitments on market access for goods and services and few transitional arrangements vis-à-vis the WTO rulebook. Ukraine joined the Information Technology Agreement upon accession and the plurilateral Agreement on Trade in Civil Aircraft in 2010. The terms of Ukraine's accession to the plurilateral Agreement on Government Procurement were approved in November 2015, and Ukraine should deposit its instrument of ratification to the WTO by 11 May 2016. Ukraine's ratification of the WTO Agreement on Trade Facilitation was completed on 16 December 2015. Since 2010, Ukraine has been involved in four cases as a complainant and three as a defendant.

4. Ukraine reserved its rights to renegotiate its tariff bindings under GATT Article XXVIII:5 in October 2011, and submitted a reservation list comprising 371 tariff lines in August 2012. The request was not favourably received, no negotiations took place, and the list was withdrawn in October 2014. Like many other WTO Members, Ukraine has also reserved its rights under the GATT 1994 for the period 2015-17.

5. All Ukraine's tariff lines are bound. The simple average bound rate is 6.1%; 10.8% for agricultural products versus 4.9% for manufactures. Ukraine's applied MFN rates were slightly below the bound levels at 9.6% (agriculture) and 3.6% (industrial goods) in 2015. With the exception of beer, wines, and some tobacco products, import duties are levied at ad valorem rates. The average applied MFN tariffs on industrial products exceed 10% only for clothing, footwear, various accessories, and articles of animal gut. In agriculture, the ad valorem MFN rates do not exceed 20% on any item other than sugar (50%) and sunflower seed oil (30%). Imports of raw cane sugar are regulated by an MFN tariff quota of 267,800 tonnes per year. However, sugar imports have been insignificant over the last four years.

6. Ukraine introduced a 13% import surcharge on certain goods in March 2009. The surcharge was eliminated in two stages in May and September 2009. The WTO Committee on Balance-of-Payments (BOP) Restrictions concluded that Ukraine's BOP situation had not justified the imposition of the measure, which had also been applied inconsistently with WTO provisions. In December 2014, Ukraine's Parliament passed legislation introducing a temporary import surcharge of 10% on agricultural products and 5% on industrial goods. The legislation entered into force on 25 February 2015 and remained in place until the end of the year, when it was eliminated as Ukraine had indicated to the WTO. The surcharge raised Hrv 25 billion in government revenue according to the Ministry of Finance of Ukraine.

7. Excise taxes are levied on beer, wine and spirits; tobacco and tobacco products; petroleum products, denatured alcohol, and biodiesel; motor vehicles; and electricity. The rates are revised annually. Most rates are specific, stipulated in national currency for alcoholic beverages and tobacco, and in euro for other goods. Ukraine introduced an electronic VAT administration system on 1 July 2015. Value added tax is levied on domestically produced and imported goods and services at a general rate of 20% and, since 1 January 2014, a reduced rate (7%) on medicines registered in Ukraine, medical supplies, and equipment for clinical trials. Exports, international transportation services, the maintenance of aircraft flying international routes, and supplies for sea vessels are zero rated. Other activities not subject to VAT include banking, insurance and reinsurance, asset management services, and lotteries. Time-limited VAT (and import duty) exemptions are accorded to the development of certain industries and projects, although the use of such benefits has been variable. Special and rather complex VAT regimes apply to agriculture, forestry, and fisheries where VAT is assessed on the output of the domestic primary producers and placed. However, the resulting amounts are not remitted to the Treasury, but accumulated in special accounts which the producers may use to finance investment goods, inputs or services. The "VAT accumulation" regime is by far Ukraine's most important support scheme for agriculture.

8. Agriculture benefits from support and, for some products, relatively high import protection, but is taxed through trade-related policies. The Government has applied various measures such as export quotas and export duties, and enterprises have experienced problems with the reimbursement of VAT on exports. Overall, according to OECD estimates, agricultural producers in Ukraine were taxed in recent years, as the incidence of the taxation measures has outweighed support and protection _ which could distort agriculture by decreasing incentives to produce.

9. Ukraine has notified industrial subsidies in the form of sectoral programmes (coal mining, shipbuilding, aircraft and aerospace manufacturing, agricultural machinery, and publications) and horizontal support measures, essentially tax concessions, available to firms operating in special economic zones, priority territories, and technological parks. The coal industry has been the principal recipient of this support, although payments declined during 2014 as production was affected by the conflict in the east. In addition, the challenging economic environment in recent years has prompted transfers from the state budget, capital injections, or tax concessions. In response to a banking crisis that erupted in 2014, the Government and the National Bank of Ukraine have provided liquidity support to banks, recapitalized banks or withdrawn licences and liquidated insolvent banks. The Ukrainian government raised Hrv 52.3 billion from the issue of special bonds between 2008 and 2011, using the proceeds to acquire stocks in ailing banks.

10. State guarantees, concessional credits, direct financing and share capital are also used in the energy sector to encourage the construction or rehabilitation of power plants, power transmission lines, and to increase the reliability of the electricity supply. The registered capital of the State-owned "Naftogaz Ukraine" was raised by nearly Hrv 100 billion from 2010 to 2015 to cover losses from the sale of imported natural gas to the users, i.e. the general population and heating plants. Gas prices charged to households were increased by 285% on average in April 2015 and a further 67% in May 2015, although full cost recovery on gas and heating tariffs is not programmed until April 2017.

11. The production of biofuels is supported by VAT and duty exemptions on imported machinery and equipment, zero-rated excise duty on bioethanol, and exemptions from corporate income tax. The Law "On Electric Power Industry" was amended in June 2015, replacing earlier local content requirements with a premium payment on the feed-in tariff for "green" (i.e. alternative source) energy. The premium amounts to 5% when the local component ratio is at least 30%, rising to 10% for a local component ratio of 50% or more, and is applicable to equipment and plants commissioned between 1 July 2015 and 31 December 2024. Local content requirements for manufacturers of agricultural machinery have been in effect since May 2013.

12. The Law "On Foreign Economic Activities" provides the basic legal framework for the imposition of non-tariff measures. Activity licensing has not been required for the importation (or exportation) of any products since June 2015. However, alcoholic beverages and tobacco products are subject to import/export permits under separate legislation. Wine and spirits are also subject to minimum wholesale and retail prices, imposed only on domestic production in 2008, but extended to imports since 2014.

13. The Cabinet of Ministers is authorized to establish lists of goods subject to import or export licensing and import/export quotas. In 2015, automatic licensing was applied to ozone depleting substances and products containing such substances (Montreal Protocol), optical polycarbonates and machinery for the manufacture of disks for laser-reading systems. Import quotas were enforced on coking and bituminous coal, coke and semi-coke during a seven-month period in 2013. At present, import quotas (enforced through non-automatic licensing) are only applied in connection with safeguard measures on certain seamless steel pipes. Additional import duty, as a safeguard measure, is applied to tableware and kitchenware of porcelain. In response to a WTO panel's findings, a safeguard duty on certain motor vehicles was terminated on 30 September 2015. Ukraine imposes no countervailing measures, but one investigation is on-going. Anti-dumping measures in force affect imports of certain goods from Belarus, China, Kyrgyz Republic, and the Russian Federation.

14. As part of its WTO accession terms, Ukraine committed to reducing its export duties on live cattle, oilseeds, raw hides and skins, and scrap metal. Natural gas produced in Ukraine, and exported in liquefied or gaseous form, became subject to export duties in 2008. However, the tax was cancelled for exports to members of the Energy Community in 2014. Export duties were applied temporarily on certain cereals in the second half of 2011. A ten-year ban on the export of unprocessed timber came into force on 1 November 2015. For pine logs, the ban is applicable from 1 January 2017.

15. Ukraine has concluded free trade agreements with the EFTA States, the Former Yugoslav Republic of Macedonia, Montenegro, and Canada. The latter agreement is not yet in force. Within the Commonwealth of Independent States, Ukraine has ratified the Agreement on the CIS Free Trade Area and participated in some earlier common agreements, although de facto market access has largely been determined by the bilateral free trade agreements between the constituents of the former Soviet Union. As Ukrainian tariffs are generally low - nearly 38% of the tariff lines face no import duty on an MFN basis - the preferential margins offered through the FTAs are limited.

16. Regarding the European Union, relations based on a Partnership and Cooperation Agreement (1998) took a step further with the launch of negotiations to reach an Association Agreement, including a Deep and Comprehensive Free Trade Area (DCFTA), in 2007. Provisional application of parts of the Association Agreement began on 1 November 2014, followed by full application from 1 January 2016. The EU and Ukraine have agreed to establish a free trade area over a period of maximum 10 years. Import duties on industrial products are generally eliminated up front, while import duties on agricultural products are either eliminated immediately, gradually (over 10 years), or with the use of tariff quotas. Ukraine will terminate its export duties in trade with the EU by 1 January 2024. The parties have not foregone the right to apply trade remedy legislation in bilateral trade, but a public interest test may be required before the imposition of measures. Ukraine may maintain a safeguard measure on passenger cars imported from the EU for 15 years.

17. Ukraine will be aligning its technical regulations and standards to those of the EU. In the future, an Agreement on Conformity Assessment and Acceptance of Industrial Products is to be concluded, ensuring that Ukrainian goods may circulate on the same conditions as EU products in a single market for the products covered by the agreement. Ukraine has also committed to aligning its SPS and animal welfare legislation with the EU aquis communautaire.

18. The DCFTA provides for a mutual right of establishment in all sectors, including services, except for those recorded on a negative list. Ukraine is to implement the existing and future EU acquis in financial services, telecommunications, postal and courier services, and international maritime services. Once accomplished, Ukrainian services providers will have the same access to the internal market as EU suppliers. In government procurement (except defence-rated procurement), open and non-discriminatory mutual access is to be achieved though Ukraine's gradual adoption of the EU acquis. Enforcement of intellectual property rights is to be based on EU internal rules which, once effectively applied, should improve IP protection in Ukraine. Under the DCFTA, Ukraine is to implement the most relevant EU legislation governing electricity and gas. For industrial subsidies, Ukraine is to set up a system of independent control of state aids similar to that of the EU, and particularly distortive subsidies are to be eliminated. The DCFTA does not extend to agriculture and fisheries subsidies.

19. Although many privatizations have been carried out since 1992, some 3,500 enterprises remain in public ownership, of which about 1,400 are economically active. Objects of "national

importance" for reasons of national security, public health, environmental considerations, social development and the like have been excluded from privatization. The public sector, accounting for approximately 37% of Ukraine's GDP according to official estimates, dominates sectors relating inter alia to infrastructure, mining, and energy. The economic performance of many SOEs is poor, their combined operational losses weigh heavily on the state budget, and accumulated liabilities could be a long term threat to the financial stability of the economy. The present government has embarked on a reform agenda including objectives such as budgetary consolidation and better transparency of budgetary expenditures, strengthened corporate governance, corporate restructuring, and more transparent privatization. In the insurance sector, Ukraine has amended its legal framework in line with its WTO accession commitments and opened its market to branches of foreign insurance companies (effective since May 2013).

20. WTO Membership locked Ukraine into a generally liberal and non-discriminatory trade regime towards the rest of the world. Through implementation of the Association Agreement with the EU, Ukraine has chosen benchmarks for further development and modernization of the Ukrainian economy according to EU standards. Nonetheless, political and economic reforms may face challenges from vested interests and corruption. In the short to medium term, Ukraine's economic performance will be determined by the path for resolving the conflict affecting parts of the country. However, in the long run, consistent and determined implementation of reforms will help lift the Ukrainian economy from its present doldrums towards its true potential.