

# ICPS newsletter<sup>®</sup>

## World Trade Organization accession depends on the Verkhovna Rada

***Accession to the World Trade Organization will significantly facilitate access of Ukraine's export-oriented economy to global markets. Opening domestic markets to imported goods and services should have a positive impact on competitiveness of the Ukrainian economy, as domestic producers will be forced to improve their production cycles and raise the quality of their products to global standards. If the Verkhovna Rada does not adopt the necessary bills now, Ukraine will be faced with stricter conditions in 2006. This was pointed out in the ICPS address to Members of the Verkhovna Rada prior to the vote on bills that are key to Ukraine's accession to the WTO***

### Which club will Ukraine join?

Ukraine started negotiations with the WTO back in 1993. At the moment, the country has a real chance to be finally admitted into this organization in December 2005. If Ukraine accedes to the WTO, other members of this organization will no longer be allowed to introduce non-tariff trade restrictions against Ukrainian goods or services or to launch anti-dumping probes without serious justification. This will improve access to global markets for Ukrainian exporters. Currently, the 148 countries who belong to the WTO represent 97% of overall global trade and 95% of global sales of food products.

Of course, Ukraine can survive without WTO accession. In this instance, Ukraine will find itself among such countries as Azerbaijan, Belarus, Bhutan, North Korea, and several dozen African countries.<sup>1</sup> Together, they account for less than 3% of global trade. If Ukraine wants to stay in this "club," it can forget about global markets: both WTO members and other countries will be able to set up barriers to Ukrainian goods. As for direct bilateral intergovernmental agreements, these, firstly, are a more costly approach and, secondly, they do not provide for an arbitration body to oversee the enforcement of such agreements.

### Timing is everything

The time of accession is extremely important. If Ukraine does not accede to the WTO in December 2005, it will have to re-draft the majority of its bilateral memoranda because new, stricter

conditions kick in 2006. These will, among others, restrict support to the farm sector.

On the other hand, an open economy means growing imports. Many opponents of WTO accession argue that such openness will destroy domestic producers because the market will be flooded with cheap imports. However, the experience of other countries that acceded during the last decade shows no evidence of this. Moreover, if domestic producers with built-in competitive advantages—lower transport costs, brand recognition and so on—are squeezed out of the market, they most likely have certain problems that they either will not or cannot fix because they either won't drop their prices or can't raise their quality to the level of import counterparts. The fact that Ukraine almost entirely supplies its domestic food market with Ukrainian-made products shows an inefficient use of resources<sup>2</sup> and the failure to apply international practices in the division of labor.

For Ukraine to accede in 2005, the Verkhovna Rada must adopt a slew of bills intended to bring Ukrainian legislation in line with WTO standards. Top on the list are ensuring property rights, especially intellectual property and making domestic markets such as farm sector, automobile, financial services, and so on more open.

<sup>1</sup> Russia is currently also negotiating accession.

<sup>2</sup> For instance, growing beets for sugar is extremely unprofitable. Ukraine would do better to use such land for other foods and import cane for refining.

### **New! A handbook on NGO management**

The Counterpart Creative Center has released a handbook on managing NGOs called *Four Steps to Success*. The handbook was published under the People's Voice project and covers four main areas:

- NGO management;
- project development;
- human resource management;
- community and business relations.

"The practical examples in this handbook apply theoretical materials that have been adapted and designed with the realities of Ukraine's third sector today in mind," reads the preface, quoting Counterpart Director Oksana Pavlova.

Hard copies are available at no cost through ICPS and can be delivered to any address in Ukraine. To order a copy, sent an A4 envelope with your return address and postal stamps for UAH 3.50 to Ms. Maria Kryvoruchko at ICPS, People's Voice Project, vul. Pymonenka 13A, Kyiv, 04050 Ukraine. You can also pick up printed copies at the ICPS office. For more information on distributing the handbook and ordering additional copies, contact Ms. Kryvoruchko by telephone at (380-44) 484-4409 or via e-mail at [mkryvoruchko@icps.kiev.ua](mailto:mkryvoruchko@icps.kiev.ua).

The handbook was published as part of the workshop and consultation component with the aim of increasing the capacities of NGOs in communities implementing the People's Voice project. This project is being carried out by the World Bank, PADCO and ICPS, with funding from the Canadian International Development Agency (CIDA).

If these bills are not adopted, Ukraine has no chance of being admitted to the WTO in 2005. Should this happen, Ukraine will be unable to fend off anti-dumping probes and quotas. This will lead to slower economic growth. Although the international community supports the Yushchenko government, politicians tend to be primarily concerned about voters at home. A statement in support of Ukraine will gain a foreign leader far fewer votes than the announcement that he has created new jobs for hundreds of his voters by opening the Ukrainian market for his country's products.

The tight timeframe announced by the Government for WTO accession has weakened Ukraine's position, forcing it to make concessions as to the degree of openness of its markets that even some WTO members have not made: Canada still restricts access to its market for foreign financial organizations. Still, experience shows that integration into the WTO is not a "zero-sum game:" as a rule, all sides gain economic benefits from accession.

### Tripping over a laser

On 23 June 2005, the Verkhovna Rada failed to adopt a number of bills related to WTO accession. The bill on the distribution of pirated laser disks, the main sticking point in negotiations with the US, was returned to committee. The legislature failed to adopt two farm bills on quotas for imported raw sugar and rawhide exports. The SPU faction and part of the National Party faction, which used to be the Agrarian Party, did not support these bills and abstained from the vote. The Socialist position seems particularly strange, as this faction was given the Agricultural portfolio. It may have been easier for the Government to agree these bills with opposition factions: according to one member of the Party of the Regions faction, Deputy Volodymyr Bronnikov, his party was prepared to support these bills in first reading.

The bill amending certain laws of Ukraine to harmonize with the requirements of the multilateral WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) is key to reaching an agreement with the US on granting Ukraine market economy status. If this bill is not adopted, Ukraine has no chance to accede to the WTO in

2005. According to the Office of the US Trade Representative, Ukraine remains one of the leaders in the manufacture and distribution of pirated laser-readable disks.

However, the Verkhovna Rada failed to adopt this critical bill for the second time this year, and VR Deputies have been talking about the negative implications adopting it. In particular, they argue that companies that manufacture laser disks are hi-tech and highly profitable enterprises and therefore closing them down would have a negative impact on the Ukrainian economy.

Such statements have no basis in reality. For one thing, there is a lively debate internationally about switching from CD-ROMs and DVDs to other technologies such as Blu-ray. On the other hand, millions of regular PC users around the world are able to write information to blank CDs, and the majority of pirate studios are small operations that use similar inexpensive equipment. As to the profitability of pirated production, people often mix the cost of manufacturing and burning laser disks, which is really very low—in the tens of pennies—with the cost of the product (software, songs, movies) being written to CDs. With the majority of licensed laser-readable disks, the cost of the information—that is, the intellectual property—being reproduced is enormously more than the cost of making an additional copy of the disk itself.

### Regulating the farm

The bill amending the Law "On regulating sugar production and sugar sales" was supposed to withdraw B and C sugar quotas from the text of the existing law.<sup>3</sup> These quotas are against WTO rules. The main point, however, is that they have never been applied since this law was adopted. This is because world sugar prices have been much lower than domestic prices for sugar. As a result, higher prices are officially maintained to support domestic sugar producers.

However, the adoption of these restrictions did not result in any qualitative changes. Ukrainian sugar refineries artificially inflate their production costs because a number of unrelated "social" assets such as kindergartens, clubs, and so on remain

on their balance sheets. In addition, the opaque distribution of sugar quotas and the difference in profitability between sugar refined from domestic sugar beet and that refined from cane have led to corruption in this sphere. This, in turn, has made the sector as a whole very inefficient.

The bill amending the Law "On export duty for livestock and rawhide" was intended to make this market more transparent. Currently, 99.6% of exported rawhide is delivered to Moldova duty-free under a Free Trade Agreement. If this artificial export is stopped, it could result in growing exports of finished leather and leather goods.

These agriculture-related bills should be passed even without accession to the WTO in mind. They would "edit out" of existing laws conditions that have never been used or raise barriers to shadow exports that use legislative loopholes. Neither of the bills would have a negative impact on Ukraine's agro-industrial sector.

### Putting WTO on the front burner

The Verkhovna Rada is supposed to re-consider the bills necessary for WTO accession before the end of the current session. Otherwise, Ukraine's accession will be postponed at least for another year. In the fall, it is likely to be overly complicated to adopt bills because of the looming spring elections to the Verkhovna Rada. Moreover, purely technical delays in adopting these bills in Autumn 2005 might make it impossible for Ukraine to accede to the WTO in 2005. ■

*On 6–7 July, the Rada finally approved bills meeting TRIPS requirements, on auditing, on vehicle imports, on insurance and other key accession legislation.*

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### **A Quarterly Predictions archive to be abridged**

The electronic archive of **quarterly predictions** on the ICPS website will be changed as of 1 September 2005:

- Issues from 1997–1999 will, as before, be in their full version.
- Issues from 2000–2005 will be only in a shortened version.

Full electronic versions of the abridged quarterlies will be e-mailed upon request.

<sup>3</sup> The Government sets the A quota for the maximum amount of sugar that can be supplied to the domestic market in a given year, the B quota for sugar volumes that may be exported under international contracts, and the C quota for the amount of sugar produced over and above the A and B quotas. This can only be exported.