

**More than a Neighbour**  
– proposals for the EU's future  
policy towards Ukraine

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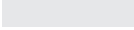
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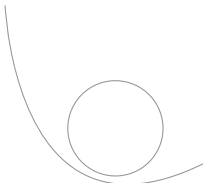
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# I. Justification

The borders of the European Union and Europe do not currently coincide, nor will they do so after the EU's next eastern enlargement. How will relations be after enlargement between the EU and countries to the East, the so-called Wider Europe? This group comprises Moldova, Ukraine, and Belarus, the countries which have widely different aspirations *vis-a-vis* the Union. Largely owing to the challenges of deepening integration, internal reforms and enlargement, challenges presented by these countries have received limited attention from the EU, in a marked contrast to the Western Balkan countries.

This ambivalence has left a country like Ukraine neglected, in spite of its persistent efforts in seeking closer ties with the Union. In 1996, the intention to join the EU was first voiced, and, in June 1998, a strategy on Ukraine's integration with the European Union was adopted, formally establishing Ukraine's membership of the EU as a long-term strategic goal. A more detailed programme for Ukraine's integration with the EU was adopted in September 2000. Since then Ukraine has repeatedly articulated its principal foreign policy objective – membership of the European Union.

The Union has so far been reluctant to acquiesce to this desire, considering the Partnership and Cooperation Agreement (PCA), which came into force in 1998 and which is due for renewal by 2008, as a sufficient and appropriate framework for future relations. Mindful also of the precedent set by relations with Turkey and experiencing enlargement 'overstretch', the EU has been

unwilling to acknowledge any prospect of membership for Ukraine.

Ukraine has done a lot to undermine the credibility of its stated intentions. Ukraine's pro-European declarations have not so far been matched by deeds, as evidenced by stuttering economic and political reforms. The 'stop-go' pattern of economic reforms, combined with a marked regress in the democratization process in recent years and social deprivation on a massive scale, has created an image of Ukraine as a case of 'post-Soviet failure'. But Ukraine has not experienced the type of conflict or crises characterizing the experience of several countries in the Western Balkans, something which, ironically, would most likely have pushed Ukraine up the EU's agenda.

Since 2000, Kyiv has flooded EU capitals with a series of initiatives for enhanced co-operation, the only effect of which has been to create a sense of 'Ukraine fatigue' in Brussels and the capitals of EU member states. The failure of Ukrainian officials to get the attention of their western European counterparts is beginning to elicit the perception of exclusion from 'EU-Europe,' and significant and increasingly widespread dissatisfaction among Ukrainian diplomats, experts and policy-makers. It has not gone unnoticed that the cooperative and constructive way adopted by Ukraine towards the EU is less effective than the more assertive policy, such as those of, for instance, Russia and Turkey.

There are a number of reasons why the imminence of enlargement gives an urgency to the task of overcoming the current impasse in EU-Ukrainian relations. Although Kyiv welcomes enlargement, it has repeatedly expressed concern over negative consequences of the step for Ukraine. Of particular concern is the introduction of the Schengen regime for the external border policy of the new EU member states in central and eastern Europe. The removal of barriers to the movement of people between the former Soviet Union and its satellites in central and eastern Europe in the early 1990s was one of the main benefits of the ending of the Cold War. The enlargement process now threatens to partially reverse this process, to the detriment of the wellbeing of the people on both sides of the future eastern border of the EU. It now seems that the final removal of the 'Iron Curtain' will be accompanied by the raising of a new 'paper curtain' a few hundred kilometres to the east.

Despite proclaiming the aim of developing good-neighbourly relations after the next round of enlargement, until 2002 the EU paid scant attention to the negative external effects of enlargement on its future neighbours. Although the overall effects of enlargement are widely expected to be positive for east-central Europe, the ‘benign neglect’ of Ukraine on the part of the EU is not conducive to fostering good neighbourly relations.

In order to avoid a new dividing line in Europe, a more coherent and durable basis for relations with Ukraine is needed. This would aim, in the short term, to limit, where possible, the negative consequences of enlargement and thereby counteract the growing sense of exclusion of Ukraine; and in the longer term, the aim would be to enable the EU to extend its constructive influence more forcefully to aid Ukraine’s transition to a liberal market-based democracy, in a similar fashion to that seen in east-central Europe. The postponement of any attempt to exploit the new opportunities created by enlargement to develop relations with Ukraine would be detrimental to the objectives that the EU sets itself in the Wider Europe, notably promoting stability, prosperity, shared values and the rule of law. In other words, the Union is in danger of contributing to the development of a scenario, which it wants to avoid.

Rather than focusing on the present political predicaments associated with the Ukrainian power elite in general and key political figures in particular (as of spring 2003), the aim of this policy paper is to propose a medium- to long-term strategy towards Ukraine. It is in the interest of both the EU and Ukraine not to equate the EU’s attitudes towards the incumbent president with those towards the country at large. A more sophisticated long-term approach is overdue for EU-Ukraine relations, one of the key relationships that to a significant extent will determine the degree of (dis)unity and (in)stability in Europe.

## II. Ukraine in the context of the EU's European policy

### 1. The need for a new EU strategy towards its European neighbours

The EU needs to address the process of foreign policy formulation following the upcoming, 'big bang' enlargement. This paper proposes that this policy should be divided into two parts:

a. **European Affairs**, which would include policy towards all European countries that are not members of the EU. There are three such groups: 1 – countries currently acknowledged as candidates for EU membership (Bulgaria, Romania, Turkey), 2 – European countries that at present do not seek EU membership (such as the remaining EFTA countries), and 3 – countries for whom the prospect of membership is very distant (i.e. some Balkan countries, post-Soviet countries as Ukraine, Belarus and Moldova). The countries covered by the prospective 'European Affairs Policy' are, needless to say, very different. The principle of differentiation would thus need to be a central element of such a new European policy.

b. **Global Affairs**, where the EU would like to be in the future one of the main actors. These two policies need different tools, as recognized in the 'skeleton' Constitution of the EU, where a special article is proposed for the EU's European neighbours. A new portfolio on 'European Affairs' could be one of the main tools in the implementation of the 'European affairs policy' in the next Commission. The Commissioner on 'European Affairs' should be responsible for the negotiation process with candidates on the one hand, and for the development of relations



with countries which will be in pre-negotiation position on the other, as well as for relations with European states, which are not seeking membership.

This proposed division creates particular challenges for relations with Russia. While important aspects of the relationship clearly pertain to 'European Affairs' (for example, the Kaliningrad issue), Russia wants to be a player in 'Global Affairs', and the EU-Russia relationship is likely to have a global component far beyond the EU's relations with its other European neighbours. In its strategy on the EU, Russia clearly underlines that it wants to be an equal partner with the EU as a whole, and that it does not seek either membership or association with the EU. Thus, a special arrangement needs to be worked out for relations with Russia, covering both their European and global aspects.

## **2. 'Special neighbourhood policy' as a first step but not as the final objective**

The idea of 'special neighbourhood policy' for Ukraine, Belarus and Moldova, which developed from the Wider Europe debate initiated by the UK in April 2002, divides the post-Soviet space (excluding the Baltic States) into Russia on the one hand, and three other Western states in the Commonwealth of Independent States (CIS) on the other. That distinction is reasonable: in terms of location, population, and size, those three countries are unmistakably European countries, while Russia is a country-continent.

The post-Soviet space (excluding the Baltic States) has until now been regarded as rather homogenous by the EU, with assistance programmes such as Tacis tailored for the entire CIS plus Mongolia. The idea of a 'special neighbourhood policy' for Ukraine, Belarus and Moldova implies that the EU should promote a more differentiated policy towards the CIS. Relations with Ukraine, for example, should not automatically be placed in the context of relations with Russia, as these countries have different strategic aims for their relationship with the EU. Likewise, the EU ought not to treat Ukraine, Belarus and Moldova as a homogenous group, because the stance of each country towards the EU is different. In light of this heterogeneity, the EU could be more successful if it customised policies towards each of those countries.

There is another problem within the idea of 'special neighbourhood policy'. The policy, conceived in Luxembourg in April 2002, tends to reduce relations with the new neighbours to problems of migration, borders and international crime. EU policy should not only concentrate on threats and fears associated with new neighbours, but also needs to promote a more positive, constructive approach towards them. Such an approach could help in the development of good relations not only between the EU and those countries but also among themselves, as has been the case in the Balkans, where Stabilization and Association Agreements and implementation of specific provisions were conditional on regional co-operation. However, any such effort must avoid creating the impression that post-Soviet states are being pushed towards more closely integrated intra-CIS arrangements or treated as a bloc of undifferentiated countries.

### III. The EU and Ukraine – road map for building a new relationship

Ukraine seeks an association agreement (with the prospect of membership), as its medium-term goal. In fact, the record of the EU's relations with non-member states suggests that an association agreement linked to the prospect of membership is the most effective foreign policy instrument for exercising a constructive influence over non-members. Thus, the aspirations of Ukraine offer the Union an opportunity which it risks failing to grasp. By elaborating a set of conditions and benchmarks that would need to be met by Ukraine in order to obtain a prospect of membership, the EU could provide strong and clear incentives for the reform process in Ukraine. The extension of this foreign policy instrument to Ukraine is not designed to lead inevitably to membership for Ukraine (which in any case would be a distant prospect) but is justified in terms of mobilizing effects of the conditionality of pre-associate and associate status. But given the prevailing constraints within the Union, the nature of relations ought to be tailored to the 'needs' of Ukraine in order to maximize the EU's constructive influence over the country but without the constraints of premature, binding commitments.

A mere 'neighbourhood agreement' (effectively a hybrid of the PCA and a 'weak' association agreement) devoid of the prospect of membership, is unlikely to put an end to the demands of Ukraine, or, most importantly, serve as an important driving-force for achieving the overarching aim of the EU in Wider Europe – stability and prosperity. The merits of association agreements (designed as an alternative to,

rather than a stepping stone for, membership), have been limited, except in the instances where the associate country had clear reasons for not joining the EU (such as Iceland). The appeal for Ukraine of an agreement which would not pave the way to membership would be limited, and therefore unlikely to offset the calls for membership, given the firm conviction in Ukraine that only potential members attract genuine attention and commitment from the EU. The strategy proposed in this paper aims to take advantage of the fact that the European Union is a powerful integrating force in Europe, despite being a weak foreign policy actor.

The 'road map' proposed here encompasses short-, medium- and long-term plans for relations between Ukraine and the EU, and can be summarized as follows:

<b>A. Short-term:</b>	Political declaration
<b>B. Medium-term:</b>	Association-phase
<b>C. Long-term:</b>	Accession-phase

Most attention in this section and the rest of the paper is given to stages A and B, which are the novelties in terms of European integration, as C, the long-term scenario (if or when that could take place), is well pounded for in terms of literature.

## Stage A

### 1. Political Declaration

The formulation of the EU's future policy towards new neighbours should precede or, at the latest, coincide, with the accession of the current candidate states to the Union in May 2004. This would also send a clear signal as to the European prospect for Ukraine prior to the presidential elections, which are scheduled for autumn 2004.

This declaration should take the form of a purely political statement by the EU designed to deliver a strong, unambiguous message of the importance of Ukraine as a direct neighbour that is seeking closer integration with the EU. The

declaration should explicitly acknowledge (or, as a minimum, not rule out) the prospect of membership for Ukraine and spell out the road-map of future relations. More specifically, however, the declaration should list the criteria (that is, explicit conditions) for opening negotiations on a new agreement, which would considerably upgrade Ukraine's relations with the EU.

### **2. Implementation of conditions for negotiating a new agreement**

The above mentioned criteria (conditionality) would include current short-term priorities (WTO accession, implementation of specific provisions of the PCA), some of which it may be assumed would already have been implemented by the time of the political declaration. However, the conditionality for starting negotiations on a new agreement should be broader and more «political» in scope than just technocratic requirements, thereby building on the experience of applying the Copenhagen criteria and the requirements of the Council of Europe. However, in order not to attenuate the mobilizing effect of political conditionality, these should be a softer variant of the Copenhagen criteria, requiring an improvement in areas such as fairness and freedom of elections, human rights, justice system, and freedom of the media.

It should be underlined that all the possibilities inscribed in the Declaration, which would pave the way to a new agreement, should be made conditional and come into force only after the necessary steps have been taken by Ukraine in the implementation of political and economic reforms. The detailed and explicit set of priorities as well as built-in conditionality would lead to step by step integration only if and when Ukraine fulfils its objectives and obligations, subject to an evaluation and continuous monitoring mechanism.

## **Stage B**

### **3. Negotiation and ratification of a new agreement**

Many European countries have wide-ranging agreements with the EU, which could serve as models for the institutional framework of a new EU-Ukraine agreement. In particular, the agreement with Ukraine could be modelled on the

association agreements signed by the east-central European states in the 1990s, especially given the desirability of a strong ‘political dialogue’ with Ukraine. Apart from emphasising a strong ‘political dialogue’ with Ukraine, the new agreement should embrace JHA and CFSP issues, missing in the PCA. The institutional framework would consist of the standard set of institutions (such as association council, committees and so forth), which, as a rule, do not grant participation in decision-making within the EU.

Moreover, over a longer time and depending on the progress of integration, some broadening could also be provided for in the agreement, for example, by allowing for participation in the numerous committees assisting the Commission in preparing new legislation (modelled on the EEA agreement), *de facto* participation in Council deliberations but without the right to vote (Schengen association agreements), and the setting up of independent agencies mirroring EU institutions (modelled on the EFTA Surveillance Authority and Court of the EEA Agreement). One could also envisage deeper and more extensive association with other EU policies, such as is currently in place for the CFSP (association of candidate states) and the ESDP (non-EU NATO members). Flexibility would be an inherent feature of the agreement.

#### **4. Implementation of the new agreement**

Only the full implementation of the agreement coupled with the fulfilment of Copenhagen-like criteria could pave the way to giving Ukraine candidate status, followed by an opening of accession negotiations.

Note that there is a potential gap between phases 3 and 4, that is between the end of phase 3 (with the signing of a new agreement), and the beginning of 4 (entry into force of the new agreement). This can be solved through interim agreements, but also an «enabling» clause to prevent a standstill in the process could be considered.

### **Stage C**

#### **5. Accession negotiations**

#### **6. Membership**

## IV. Elements of a new relationship

The following parts of the paper are a detailed explication of the A and B phases of the ‘road map’ in various areas of EU policy towards Ukraine.

### 1. Economic integration

The EU and Ukraine are currently engaged in several processes aimed at liberalizing bilateral trade and integrating Ukraine into the global economy. Completion of these negotiations and implementation of the resulting provisions could constitute the trade policy conditions for initiating negotiations on a new association agreement between the EU and Ukraine. More specifically:

#### WTO membership for Ukraine

The main short-term priority concerning trade is Ukraine’s accession to the WTO. Trade liberalization under a new EU-Ukraine agreement should aim beyond the requirements of WTO membership, and Ukraine’s membership should be a condition for initiating negotiations of a new agreement between the EU and Ukraine.

#### Granting of full market economy status

Market economy status is currently granted only to Ukrainian companies on a case by case basis. Conferring such a status on the Ukrainian economy as a whole would have a modest economic impact on the EU, but would be politically important in Ukraine. The EU’s unwillingness to grant full market economy status

to Ukraine is weakening the position of pro-European reformers in the country and fuels perceptions of exclusion, the latter heightened by the EU's decision to confer such a status on the Russian economy in 2002.

#### Removal of quotas and finalization of market access negotiations

When current market access negotiations are completed, an important step towards the free trade area envisaged in the PCA would have been taken. Quotas on EU imports of textiles from Ukraine were recently removed, and an initial agreement has been reached on the removal of steel quotas, but this still remains a difficult issue.

Tariff- and quota-free trade alone is likely to have a limited economic impact, and the economic provisions of a new contractual agreement between Ukraine and the EU should go beyond these processes. The average tariffs are either zero or low, and Ukrainian import tariffs are considerably higher than EU import tariffs. There is thus limited scope for the EU to make significant concessions, and the modest benefits of a gradual reciprocal reduction would in the short term benefit EU exports to Ukraine more than Ukrainian exports to the EU.

A gradual phasing out of the current asymmetric trade regime between Ukraine and the EU should also be envisaged. But the Ukrainian economy is unlikely to be able to withstand the competitive pressures of the EU market for a long time to come, and the new agreement should therefore maintain the principle of asymmetric trade liberalization, as in the Stabilization and Association process with countries of the Western Balkans. As EU tariffs for Ukrainian imports are in general quite low, a continuation of this would have a negligible economic impact on the EU, but a comparatively stronger positive economic impact on Ukraine, and would signal a tangible commitment by the EU towards Ukraine's European choice.

One could envisage a new agreement in which the EU complies with the conditions of free trade from the date of entry into force of a new agreement, with a time-table for the implementation by Ukraine of the same provisions, leading to the free trade area allowed for in the PCA. These provisions should be broader in scope than under the PCA. In light of Ukraine's natural advantages in



agriculture, providing market access in this area is particularly important.

In the medium to long term, one could envisage Ukraine's gradual inclusion in the EU's single market by the adoption and implementation of the relevant parts of the *acquis communautaire* in Ukraine. Ukraine is currently developing a scoreboard for priority areas in legislative approximation. Building on this, a mechanism should be established to ensure both the adoption and, crucially, the implementation of EU rules and regulations in Ukraine.

Concerning the 'four freedoms' of the single market – the free movement of goods, services, labour and capital – the most sensitive issue is likely to be the movement of labour. Quotas for labour migration have been arranged bilaterally between Ukraine and the Czech Republic, and between EU member states and other third countries. A new agreement should encourage such bilateral schemes, with a view to their gradual extension to include all EU member states. Remittances submitted by temporary migrant workers in the EU would benefit the Ukrainian economy, while returnees would bring with them skills and experiences likely to further Ukraine's transition.

Finally, Ukraine needs to be taken into account when similar economic partnerships are developed with other neighbouring countries. Considering for instance the strong economic links between Russia and Ukraine, the gradual deep integration envisaged bilaterally between the EU and Russia (the 'common European economic space') and the EU and Ukraine (new agreement) will affect economic relations between Ukraine and Russia. Although it is neither necessary nor desirable to merge the two processes, some co-ordination is required to avoid unintended yet potentially negative consequences.

## **2. Involvement of Ukraine in the EU's energy policy**

Ukraine will remain one of the most important transit countries for energy from Russia (above all, gas but also crude oil) to the EU. The EU should keep Ukraine informed about the main directions in the EU-Russian Energy Dialogue, and in the case of issues directly connected with Ukraine, the EU should consult Ukraine. This type of action would help in the building of mutual trust between the EU and Ukraine.

Opportunities should be provided for Ukraine to become more involved participant in the EU's energy projects, in particular those pertaining to the transportation of energy from the Caspian region to Europe. An optimum way for the EU and Ukraine's interests to realize an oil pipeline project along the route Odesa-Brody-Gdansk should be found and its exploitation started.

### **3. Justice and Home Affairs**

Integration in the domain of justice and home affairs (JHA) has made great strides in recent years. As Ukraine becomes a direct neighbour of the EU after the next enlargement, it is likely to play an increasingly important role in confronting many of the main challenges in JHA in the years to come.

The introduction of the Schengen visa regime is the most visible negative external consequence of EU enlargement for the new neighbouring states, and considering the many millions of people crossing Ukraine's western border each year, is especially pronounced *vis-a-vis* Ukraine. The candidate countries are gradually adopting EU visa policies, which include a requirement for visas from Ukrainian citizens to enter the EU. This has already had a negative impact on trade and the development of civil society, in particular in the border regions.

The short-term priority should be to find ways to limit the negative impact on Ukraine of the introduction of the Schengen visa regime by the EU candidate states. Many of the potential remedies are well known, such as providing for low cost or no cost visas, the possibility of issuing long-term multiple-entry visas, upgrading of border facilities to prevent congestion at border crossings, advanced electronic techniques to speed up border procedures and such like.

The inadequate consular capacity of EU member states currently acts as a constraint on the movement of persons, and the possibility of establishing common EU consulates is frequently mentioned as a potential remedy. Considering the large-scale traffic across the border between Ukraine and the enlarged EU, in particular across the Polish-Ukrainian border, western Ukraine is a good location for a possible pilot EU consulate.

In the medium term, the aim should be the removal of the visa requirements between Ukraine and the EU. This would obviously require a considerable effort

from the Ukrainian authorities on a vast range of JHA issues such as border management, illegal migration, and crime. A necessary first step is the conclusion of readmission agreements with the EU. Such agreements should also be encouraged between Ukraine and its other neighbours. There is also a need for agreement between Ukraine and Russia on their common border, although it should be underlined that as a matter of principle, progress in JHA co-operation with Ukraine should not be subject to its relations with other countries.

This process would be facilitated by the development of more stringent surveillance mechanisms to monitor implementation. A scoreboard is already in place in the Action Plan on Justice and Home Affairs. This could be developed along the lines of the Commission's biannual internal market scoreboard, which could be monitored either by the EU, jointly, or by Ukrainian authorities themselves. In the latter case, one could consider the establishment of an independent body set up for and by Ukraine, which would be given a similar role to that of the EFTA Surveillance Authority towards the EFTA members of the EEA.

A more ambitious long-term aim would be Ukraine's gradual inclusion in what is now known as the Area of Freedom, Security and Justice (AFSJ). The nascent AFSJ already extends beyond the borders of the EU through the close association of some EFTA states with EU co-operation on JHA, including participation in the Schengen Agreement and the Dublin Convention, as well as association with Europol. Similar association could be envisaged, progressively and in the longer run, as elements of a new EU-Ukraine agreement.

#### **4. CFSP and ESDP**

Ukrainian-EU relations in the sphere of the Common Foreign and Security Policy (CFSP) and the European Security and Defence Policy (ESDP) seem to be progressing well. At the Seville European Council in June 2002, agreement was reached on establishing a Ukrainian military liaison to the EU Military Staff (EUMS), and consultation and co-operation. One could here envisage including Ukraine in the so-called 15+15 format (with the EU candidates and non-EU NATO members). At the July 2002 EU-Ukraine summit, the possible use of Ukrainian transport planes for ESDP missions, and more specifically using the Police Training

Centre in Kyiv for the EU police mission in Bosnia, were discussed.

Ukraine clearly has something to contribute to the EU's common defence policy. Particularly, the idea of using Ukrainian military transport aircraft in the EU's military units should be supported, and modalities found for implementation. The EU could consider the creation of common military units of Member States and Ukraine, based perhaps on the Ukrainian-Polish battalion that already exists.

Ukraine also has a potentially useful role to play in the formation and realization of the CFSP, in particular concerning its eastern dimension. A more active EU policy towards the disputes in Moldova (Transnistria) and Georgia (Abkhazia) could benefit from closer co-operation with Ukraine. Russia's exclusive right to peacemaking activities in Georgia does not correspond to the principles and long-term interests of the EU. Ukraine can serve as a bridge to the strategically important Caucasian region as well. Ukraine's participation could also contribute to the formulation and realization of the EU's strategy concerning the Black Sea region.

##### **5. Regional and cross-border co-operation**

The concept of a 'Europe of regions' has to be extended into Ukraine. If neither Kyiv nor Brussels are now prepared for practical integration, cities such as Lviv and Lublin, Uzhgorod and Koshice, Lutsk and Chelm are willing to solve the problem of the division of Europe at the micro-level. The regions and the frontier towns should be given such an opportunity through the maintenance and development of the instruments of co-operation, most of all in the form of Euroregions.

The regional policy of the EU has to become an instrument to ensure softness on the frontiers between the new members of the EU and their neighbours, primarily Ukraine. At the regional level, the liberalization of the visa and migration regime can be introduced along the western border of Ukraine.

Within the bounds of the frontier regions experimental mechanisms of temporary legal job arrangements for Ukrainian citizens for a limited period may be established, with the provision of social guarantees and maintaining

norms of labour protection. Care would have to be taken to develop such arrangements in co-operation with local actors in the eastern regions of the new member states, so as to avoid possible tensions relating to the high levels of unemployment that prevails in many such regions.

The western regions of Ukraine are a priority zone for establishing a pan-European communication infrastructure. Investments into the European transport corridors A3 (Berlin – Dresden – Wrocław – Lviv – Kyiv) and A5 (Triest – Lubiana – Budapest – Chop – Lviv) should be energized.

Development of a tourist infrastructure in the western region of Ukraine, in the Carpathian mountains, in particular, should form an investment-inducing idea for European capital through a programme of investment climate recovery in the region and creation of a favourable environment for business activities and tourism.

## 6. Assistance

The EU provides considerable amounts of economic assistance to Ukraine, through the EU budget, national budgets and through international financial institutions. In considering an upgrading of EU-Ukraine relations, there are two principal questions concerning economic assistance. First, should EU assistance to Ukraine be targeted differently? And secondly, should EU assistance to Ukraine be increased?

EU economic assistance to Ukraine is channeled primarily through the Tacis programme. The distinctions between the assistance in this programme and that provided to EU accession candidates on Ukraine's western border (the Phare, SAPARD and ISPA programmes) are very marked, reflecting the priority accorded to the enlargement process.

### Amounts of assistance

First, there are large differences in terms of the amounts of economic assistance provided. In the 2000-2006 financial perspective, the enlargement candidates will receive almost 1200 euro/capita from the EU budget, while Ukraine and the other CIS countries will receive 13 euro/capita. In 2002, the EU has planned for

77 million Euros in assistance to Ukraine, which accounts for less than 2% of the EU's external actions budget, excluding aid to the accession candidates. Compared with the previous budget, Ukraine and the other CIS countries saw their share of economic assistance drop slightly in the 2000-2006 EU financial perspective, primarily due to increases in aid to the Balkans. Although this allocation is slowly reducing the economic disparities between the candidates and the EU, it also contributes to widening the socio-economic gap between Ukraine and the candidate countries. However, considering the inflexibility of the EU budget and the massive demands on it due to the next enlargement, and unless Ukraine is acknowledged as a potential EU membership candidate and could thus be eligible for enlargement funds, EU assistance to Ukraine is unlikely to increase significantly within the current financial perspective (2000-2006).

One option that would increase assistance but leave the EU budget alone would be to allow the European Investment Bank (EIB), the EU's financing arm, to provide funding in Ukraine. Throughout the 1990s, the EIB was not allowed to operate in the CIS. However, the Stockholm European Council in March 2001 opened up EIB financing in Russia through the Northern Dimension Environmental Partnership. This could now be extended also to Ukraine.

There are strong arguments – the size and proximity of Ukraine to the EU; the relative poverty of Ukraine *vis-a-vis* the EU; and the precariousness of positive political, economic and societal developments in the country – in favour of increasing EU economic and financial assistance to Ukraine.

### Type of assistance

The different groups of programmes also provide different types of assistance. Whereas candidates receive substantial investment support, the Tacis programme provides mainly technical assistance to Ukraine, although the share for investment support was increased in the latest and current Tacis regulation. Financial and technical assistance to the EU candidate countries aims to prepare them for membership and is specifically targeted towards enhancing their ability to implement EU *acquis*. The Tacis programme, by contrast, consists mainly of generic programmes and projects for the transition to market-based democracies

similar to the assistance provided by international financial institutions (IFIs) such as the World Bank, the IMF and the European Bank for Reconstruction and Development (EBRD).

Although Tacis is frequently criticized, it should be emphasized that the programme has brought tangible benefits to Ukraine, with the nuclear safety programme a notable success story. However, Ukraine's new status as a direct neighbour of the EU combined with the prospect of an upgraded relationship with the EU entails different challenges for which the current Tacis approach is less suitable. The upgraded EU-Ukrainian relationship could benefit from assistance programmes targeted towards challenges more specifically linked to the process of European integration and the EU, leaving other sources such as the IFIs to provide more generic transition assistance. A new assistance programme specifically targeted to Ukraine based on the Phare programmes of assistance to candidate countries should thus be a central element of a new agreement between Ukraine and the EU. In particular, assistance should support the new agreement, the way that CARDS does for the Stabilization and Association Agreements in the Western Balkans.

Furthermore, the fragmented system of EU assistance, whereby more than half is provided bilaterally by the EU member states and through various IFIs, entails problems of duplication and co-ordination, and limits the potential political impact of such assistance. It would be desirable to channel more of the EU's combined assistance to Ukraine through the new Phare-like programme proposed above.

As far as the EU's priorities are concerned, and although a shift towards more investment support may be desirable, institution- and capacity-building remains a key challenge for Ukraine, and this requires mainly technical assistance. The development of civil society in Ukraine is crucial for the realization of Ukraine's European choice. Thus the EU should support that process. Assistance could originate both from the EU and particular member states' funds. It would also be advisable to assure as much involvement as possible from EU NGOs in the implementation of projects in Ukraine.

That Ukraine is to become a new direct neighbour of the EU should also be

reflected in the priorities of a new assistance programme. The negative effects of EU enlargement will be more strongly felt in Western Ukraine. Greater emphasis should thus be given to cross-border projects in Western Ukraine, creating a bridgehead for safe investment activity there. In light of the long common border between Ukraine and the enlarged EU, and considering the growing importance of JHA within the EU, JHA should become a more central part of EU economic assistance to Ukraine.