

The forthcoming ACAA between the EU and Ukraine: What to expect

- Summary of results -

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Making Ukraine a better
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Executive Summary

- The DCFTA envisages the conclusion of the EU-UKR Agreement on Conformity Assessment and Acceptance of industrial products (ACAA)
- In May 2021, the first report of the EU pre-assessment expert mission was delivered stating Ukraine's legal alignment is quite advanced but requires some further changes
- The pre-assessment of Ukraine's quality infrastructure is forthcoming
- Business survey and interviews confirmed that the ACAA is important:
 - Most firms use a third-party conformity assessment for trade with the EU
 - Average expenses per certificate are EUR 5,000-10,000 in exports and EUR 2,000-5,000 in imports
- The ACAA will generate important economic implications:
 - Trade expansion due to lower trade costs and reduced regulatory risks
 - Easier start in new trade – with new products or by new (smaller) firms
 - Cheaper imports of EU capital goods fostering investments and growth
 - Higher potential for exports to third countries
 - Incentives for FDIs inflow and inclusion in global value chains
 - Positive political signal and simplification of new MRAs conclusion

Structure

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1. Introduction

Background:

- The DCFTA between Ukraine and the EU envisaged the conclusion of the Agreement on Conformity Assessment and Acceptance of industrial products (ACAA)
- The ACAA conclusion is conditioned upon Ukraine's alignment of its legislative system and quality infrastructure with those of the EU
- In October 2020, upon Ukraine's request, the European Commission launched the pre-assessment expert mission to evaluate the country's readiness to open the ACAA talks. The first report was released in May 2021
- Although the ACAA has gained intense political attention, its economic implications for Ukraine are not debated so widely
- The briefing is based on PS/02/2021

Purpose of this Policy Briefing:

- Explaining the concept and procedures underlying ACAA
- Summarising Ukraine's progress in legal and institutional alignment
- Analysing the expected economic implications of ACAA

2. The concept of ACAA

- **Agreement on Conformity Assessment and Acceptance of industrial products (ACAA)** is a special case of mutual recognition agreements (MRAs) offered by the EU to its partners
- MRAs provide a mutual recognition of conformity assessment results performed by the designated conformity assessment bodies in the partner's country of goods' compliance with the requirements of the other partner
- Reliant on strong institutions and trust, the MRAs are most typical among high-income countries. The EU has concluded MRAs with the USA, Japan, Canada, Australia, New Zealand, Switzerland and Israel
- The ACAA is a special type of the EU MRAs based on the alignment of the legislative system and infrastructure of the country concerned with those of the EU. The EU has the only ACAA with Israel, although the opportunity was offered to several other countries in Eastern Europe and the Mediterranean
- **Future EU-Ukraine ACAA could become the first ACAA concluded by the EU with a middle-income country, generating important image implications for Ukraine**

The future EU-Ukraine ACAA

- The ACAA is supposed to become a Protocol to the Association Agreement (Art. 57)
- The ACAA includes:
 - A framework agreement, providing the recognition of equivalence of the conformity assessment, verification and accreditation procedures, and
 - Annexes setting out the products covered.
- The first three product categories (sectors) covered by the ACAA will be:
 - Machinery
 - Electromagnetic compatibility (EMC)
 - Low voltage equipment
- More product categories (sectors) could be added at the later stages. Annex III of the Association Agreement contains 27 sectors
- **The conclusion of the first ACAA, containing the framework agreement, is crucial as the institutional processes are essentially cleared at this stage**

3. Where the process stands for Ukraine

- Ukraine's preparations for the ACAA could be tentatively divided into the following steps:
 - Step 1:** Ukraine aligns its legislation and reforms its quality control infrastructure according to the EU norms and practices.
 - Step 2:** EU expert mission(s) reviews Ukraine's progress and provides recommendations on achieving full alignment.
 - Step 3:** Ukraine implements the recommendations with the EU experts to ensure full alignment.
 - Steps 2 and 3 can be repeated until full alignment is achieved.*
 - Step 4:** The EU conducts an official assessment and decides about Ukraine's readiness for the ACAA, covering certain product categories.
 - Step 5:** The EU and Ukraine formally negotiate and conclude the ACAA.
- **Ukraine is now at Step 2: The EU pre-assessment mission started in October 2020, and its report was delivered in May 2021. Several on-site missions to assess institutions and infrastructure are forthcoming**

Alignment of legislation

- The alignment of Ukraine's legislation covers two dimensions:

Horizontal (cross-sectoral) legislation:

- A common framework for the marketing of products
- Requirements for accreditation and market surveillance
- General product safety
- Standardisation
- Liability for defective products
- Units of measurement

Vertical (sectoral) legislation:

- Electromagnetic compatibility
- Machinery
- Low-voltage equipment

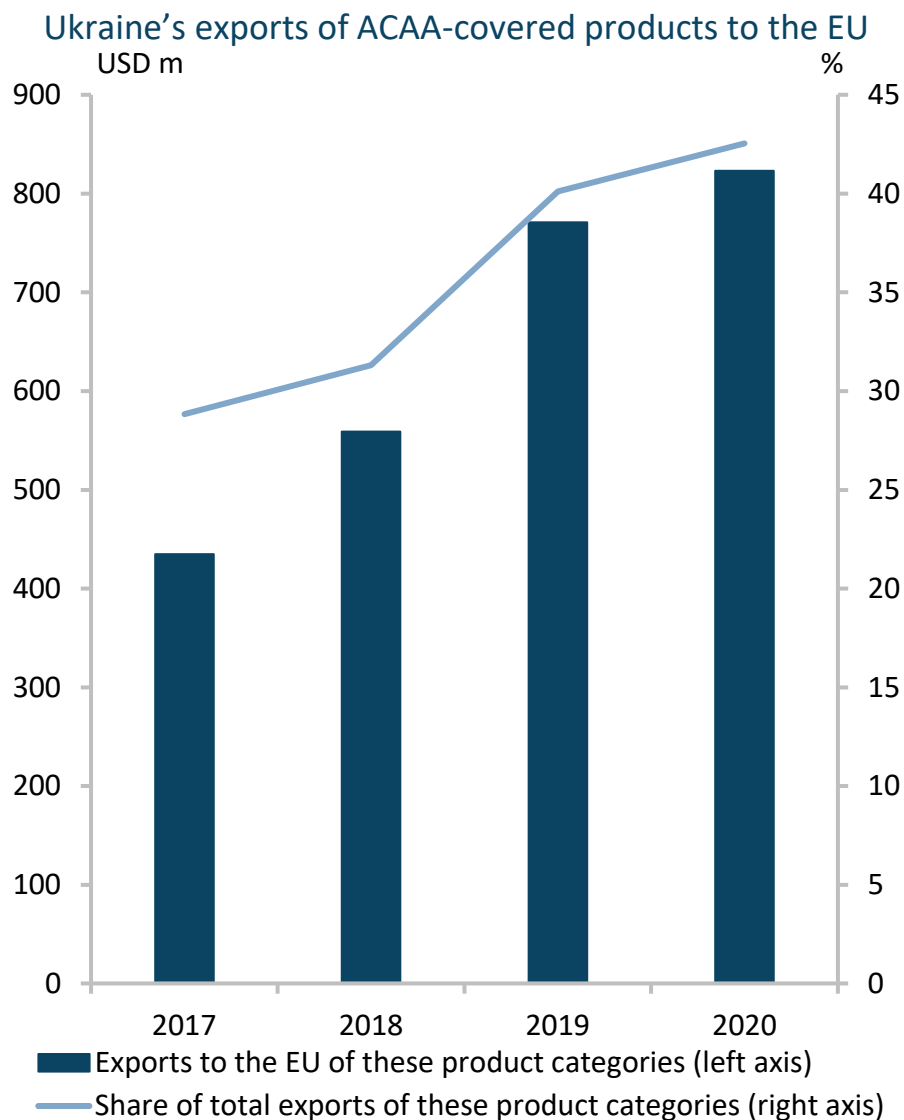
- In May 2021, the expert mission delivered the report with the assessment
- **Ukraine's legal alignment is quite advanced but requiring some further changes. The experts also recommended improving tables of concordances and translation.**

The soundness of quality infrastructure

Areas	Brief assessment
Standardisation	+ Progressed in transposition of European standards; established cooperation with CEN, CENELEC and ETSI – Delayed publication of standards, problems with translation Σ no major issues to pose the risk for ACAA
Metrology	+ New system based on new legislation; joined the Metre Convention and OIML – Financial and personnel qualification challenges Σ no major issues to pose the risk for ACAA
Accreditation	+ NAAU is a signatory of EA bilateral agreements (EA BLA) in calibration, testing, medical examination, management system certification, certification of persons – Suspension of EA BLA signatory status for inspection and product certification Σ the risk for ACAA
Conformity assessment	+ System reform based on new legislation; abolishment of mandatory certification – Technical and personnel qualification challenges; no access to international recognised accreditation for inspection and product certification Σ the risk for ACAA
Market surveillance	+ New system based on new legislation – Considerable technical and personnel qualification challenges Σ the risk for ACAA

➤ **Institutional alignment is expected to require further efforts**

4. The role of ACAA in Ukraine-EU trade: exports



Ukraine's exports of ACAA-covered products to the EU, 2020:

- Value: USD 823 m
- Share in exports to EU: 5%
- Share in total exports of ACAA-covered products: 43%
- **Moderate role in UKR exports to EU**
- **Still, the EU is main destination**

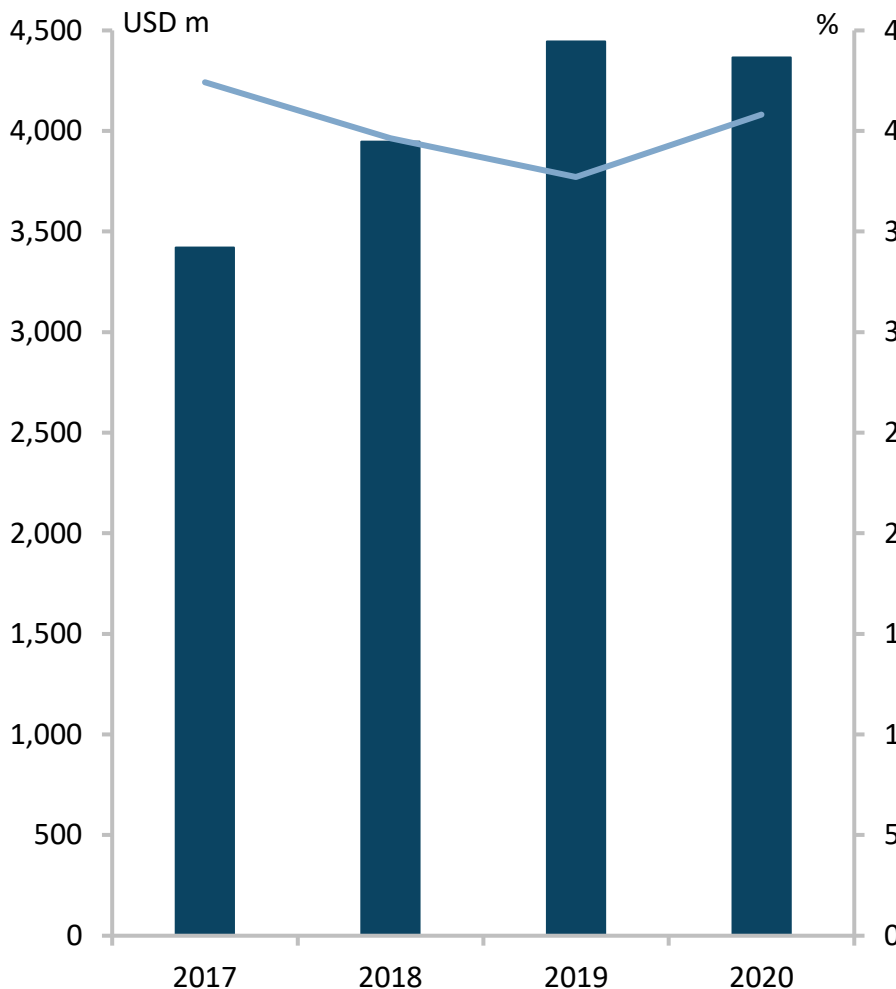
Main products:

- Ignition wiring sets (18%)
- Boards, panels for electric control for a voltage < 1000 volts (5%)
- Washing machines (4%)
- **Top-3 product account for 27% - limited diversification**

Source: State Customs Service of Ukraine; note: does not include re-exports

4. The role of ACAA in Ukraine-EU trade: imports

Ukraine's imports of ACAA-covered products from the EU



■ Imports from the EU of these product categories (left axis)
 — Share of total imports of these product categories (right axis)

Source: State Customs Service of Ukraine; note: for imports released into free circulation

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Ukraine's imports of ACAA-covered products from the EU, 2020:

- Value: USD 4.4 bn
- Share in exports to EU: 20%
- Share in total exports of ACAA-covered products: 41%
- **High role in UKR imports from EU**
- **Also, the EU is the main source**

Main products:

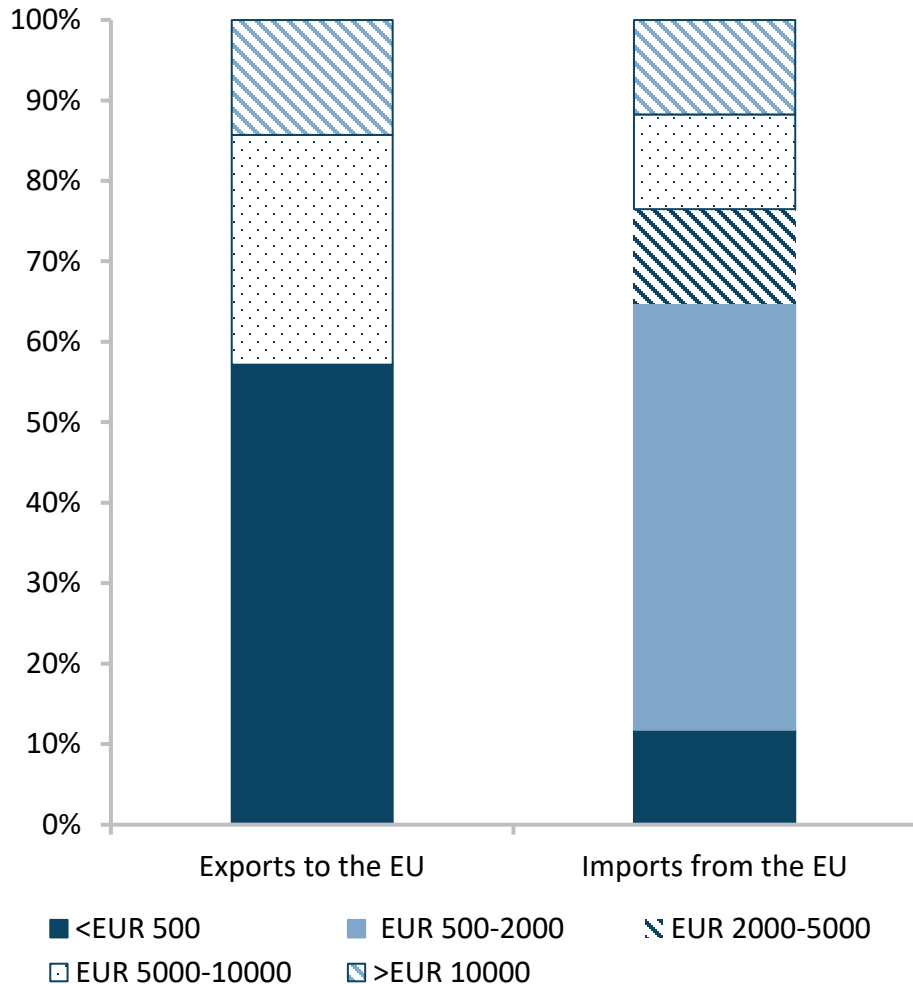
- Wind-powered electric generating sets (5%)
- Reception apparatus for television (3%)
- Combined harvester-threshers (3%)
- **Top-3 product account for 11% - more diversified than exports**

5.1. The economic implications of ACAA: methodology

- The impact of ACAA on trade and investments is channeled through:
 - Lower trade costs
 - Faster product placement
 - Lower regulatory risk and bureaucratic burden
- Some economic effects of ACAA can be quantified, but for many, we cannot provide the estimate in advance
- Two elements of ACAA impact assessment:
 - Quantitative assessment of:
 - Trade costs of double conformity assessment
 - Impact of ACAA on current trade structure between EU-UKR using the partial equilibrium model
 - Qualitative analysis of wider economic implications of ACAA
- The analysis is based on companies' survey, interviews with stakeholders and desk research

5.2. Trade costs of double conformity assessments

Financial costs for conformity assessment: exports and imports to and from the EU



Source: Own survey, note: survey participants representing automotive, machines, electrical equipment and mechanisms and interviewees are included

How many traders need third-party conformity assessments:

EXP: 71% of respondents

IMP: 94% of respondents

Average cost per certificate:

EXP: EUR 5,000 – 10,000

IMP: EUR 2,000 – 5,000

Estimated trade costs:

EXP: USD 41 m or 4.9% of exports

IMP: USD 103 m or 2.4% of imports

➤ **Trade costs are noticeable**

5.3. The impact of current exports to the EU

HS	Description	Coverage	Impact, USD m	Impact, % growth	Exports to EU, 2020, USD m
850300	Electric motors and generators; parts for machines of HS 8501 or 8502	LVT, EMC	2.2	109.5%	2.0
847930	Presses for the manufacture of building board of wood	LVT, MCN, EMC	1.3	413.6%	0.3
850220	Electric generating sets; with spark-ignition internal combustion piston engines	LVT, EMC	0.7	216.1%	0.3
842139	Machinery for filtering or purifying gases	LVT, MCN, EMC	0.7	30.4%	2.2
841989	Machinery, plant and laboratory equipment for treating materials by change of temperature	LVT, MCN, EMC	0.6	20.7%	3.0
841459	Fans	LVT, MCN	0.6	9.9%	5.8
842199	Machinery parts for filtering or purifying liquids or gases	LVT, MCN, EMC	0.5	27.9%	2.0
854370	Electrical machines and apparatus having individual functions	LVT, MCN, EMC	0.5	80.0%	0.7
842123	filtering or purifying machinery for internal combustion engines	LVT, MCN, EMC	0.5	31.4%	1.5
841480	Pumps and compressors for air, vacuum or gas	LVT, MCN	0.4	3.6%	11.6
	Other products		19.4	2.4%	794.1
	Total		27.5	3.3%	823.4

➤ **Positive impact: + USD 28 m or 3.3% of ACAA-covered exports to the EU**

The impact of current imports from the EU

HS	Description	Coverage	Impact, USD m	Impact, % growth	Imp from EU, 2020, USD m
842139	Machinery for filtering or purifying gases	LVT, MCN, EMC	3.4	9.6%	35.6
842123	Filtering or purifying machinery, oil or petrol filters for internal combustion engines	LVT, MCN, EMC	2.7	7.8%	34.5
940510	Chandeliers and other electric ceiling or wall light fittings	LVT, EMC	2.6	31.0%	8.3
853650	Electrical apparatus switches, for a voltage < 1000 volts	LVT, EMC	2.3	14.9%	15.3
850140	Electric motors; AC motors, single-phase	LVT, EMC	2.2	78.3%	2.8
842199	Parts for filtering or purifying liquids or gases	LVT, MCN, EMC	2.0	17.5%	11.5
853710	Boards for electric control for a voltage < 1000 volts	LVT, EMC	2.0	2.7%	74.7
854370	Electrical machines and apparatus; having individual functions	LVT, MCN, EMC	1.6	19.4%	8.4
902519	Thermometers and pyrometers	LVT, EMC	1.5	17.4%	8.8
903180	Instruments, appliances and machines; for measuring or checking	LVT, EMC	1.5	9.9%	15.0
	Other		87.9	2.1%	4,150.1
	Total		109.7	2.5%	4,365.0

➤ **Positive impact: + USD 110 m or 2.5% of ACAA-covered imports from the EU**

5.4. Key economic implications of ACAA for Ukraine

- We quantified the impact of ACAA-induced reduction in trade costs on current EU-Ukraine trade
- However, the ACAA has much wider economic implications:
 - **For trade in goods:**
 - More exports to EU – current + new products + new companies
 - More exports to third countries
 - More imports from EU, including cheaper capital goods
 - **For investments/economic development:**
 - More domestic investment using cheaper EU capital goods
 - Incentives for FDI inflow and inclusion in global value chains
 - Faster placement of new innovative products on both markets
 - **For trade policy:**
 - Improved UKR image as a partner
 - Simplification of new MRAs conclusion

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

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