

The road to ACAA: What is in it for Ukraine?

Concluding an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA) with the EU – also called the “industrial visa-free” regime – is high on the agenda of the Ukrainian government. This addition to the DCFTA with the EU would ensure recognition of Ukrainian conformity assessments for industrial products in the EU and vice versa, hence further lowering non-tariff barriers to trade. It is also an ambitious undertaking, requiring legal and institutional alignment to EU standards. The EU has so far only concluded one ACAA, much more limited in scope, with Israel.

Initially, ACAA will cover only three out of 27 product categories. Once implemented, ACAA in its current guise would directly cover around 20% of Ukraine’s imports from the EU and 5% of exports to the EU. ACAA would have a positive, but small direct effect on trade with the EU. Indirect effects are less easily quantifiable, but appear to be more important. Due to reduced trade costs, regulatory risks and bureaucratic burdens, trade could expand to encompass companies and products presently not involved in Ukraine-EU trade. Recognition by the EU can be used as a signal to expand trade with third countries. Cheaper imports of EU capital goods will contribute to the modernisation of the economy. Politically, ACAA would be a powerful symbol for Ukraine’s image as a EU partner and of its commitment to further implementing EU standards.

A further step in integration with the EU

Concluding an ACAA with the EU is one of the main policy priorities of the Ukrainian government. With such an agreement, the EU and a third country mutually recognise official conformity assessments of industrial products’ compliance with each others legal safety requirements. The German Economic Team (GET), in cooperation with the German-Ukrainian Chamber of Industry and Commerce, the European Business Association and the German Eastern Business Association, has recently published and presented a study on the effects of ACAA on Ukraine.

Also called an “industrial visa-free” regime, such an agreement would further follow the path towards deeply integrating the Ukrainian with the EU market taken in the EU-Ukraine Deep and Comprehensive Free Trade Agreement (DCFTA). This would grant an “internal market treatment” to selected Ukrainian industrial goods in the EU, reducing trade costs by removing the need to carry out duplicative conformity assessments.

Ambitious undertaking

An ACAA is a special case of a Mutual Recognition Agreement (MRA). Ordinary MRAs are grounded in a high level of trust in the institutional strength of the

partners, which are usually advanced economies. An ACAA allows for MRAs to be concluded with transition countries. It also requires the transposition of legal requirements for product safety and the alignment of the institutional framework, the “quality infrastructure”, according to EU norms. So far, the EU has only concluded one ACAA with Israel, limited to pharmaceutical products. ACAAs have been offered to other EU partners, including Georgia and Moldova as well as several Mediterranean countries, but no substantial progress has been made. The EU-Ukraine ACAA would initially cover three out of 27 product categories: machinery, electromagnetic compatibility and low voltage equipment. The ACAA would also contain a crucial framework agreement on recognition of procedures, allowing for relatively rapid extensions to further sectors.

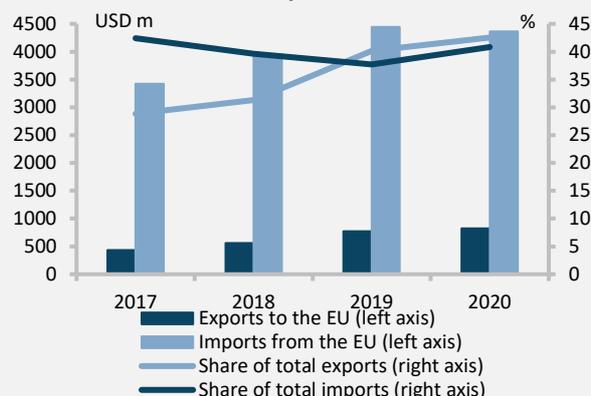
The road to ACAA

Before an ACAA can be concluded, the EU must ensure and verify the alignment of legislation and quality infrastructure in Ukraine with EU standards. Recently, an EU pre-assessment mission has presented its report. It finds the alignment of legislation to be quite advanced but requiring some further changes. The next step is the assessment of the alignment of the quality infrastructure. The quality infrastructure consists of five core elements: standardisation, metrology, accreditation, conformity assessment and market surveillance. In the latter three, substantial challenges remain, related to technical capacity and staff qualifications as well as the suspension of signatory status of the National Accreditation Agency of Ukraine on bilateral agreement for inspection and product certification with the European Cooperation for Accreditation, indicating institutional deficiencies. We expect that full alignment of the quality infrastructure will require substantial further efforts and time.

Moderate share of trade covered by ACAA

Immediately, substantially more EU exports to Ukraine than Ukrainian exports to the EU would be covered by ACAA. The three initial ACAA product categories cover USD 4.4 bn of EU exports to Ukraine in 2020 (20% of total EU exports to Ukraine), mainly investment goods such as wind turbines or combine harvesters. Among goods covered by ACAA, 41% of Ukrainian imports originate in the EU. Among Ukrainian exports to the EU, goods covered by ACAA accounted for USD 823 m of exports (5% of Ukrainian total exports to the EU), mainly electrical components such as ignition wiring sets for cars.

EU-Ukraine trade covered by ACAA



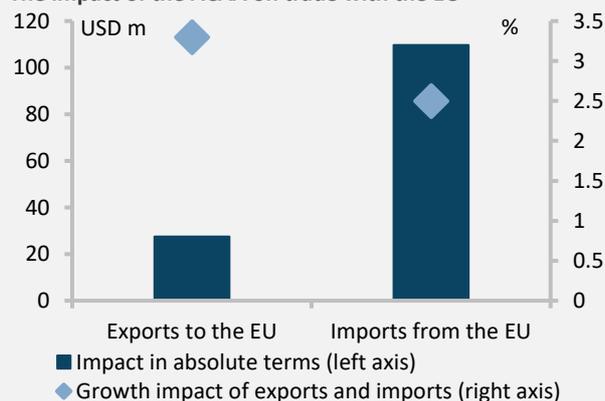
Source: State Customs Service of Ukraine; note: does not include re-exports

The EU is the destination of 43% of Ukraine's exports in the product categories covered by ACAA. Overall, the prioritisation of the three product categories in ACAA appears sensible as trade in the covered categories is growing and substantial. The lower share of affected Ukrainian exports to the EU is largely due to Ukraine's trade structure with the EU, which contains a high share of agricultural and food products (35% of exports in 2020) that ACAA does not relate to.

Limited direct effects on trade

We estimate that the direct effect of ACAA on trade would be small but positive. According to the survey conducted by GET and its partner associations, duplicative conformity assessments cost between EUR 2,000 to EUR 5,000 for imports from the EU and more than EUR 5,000 for exports to the EU.

The impact of the ACAA on trade with the EU



Source: Own estimates

Doing away with these additional costs would lead to an increase in exports to the EU by USD 28 m (3.3% of exports in covered products) and in imports from the EU by USD 110 m (2.5%).

Important indirect trade and economic effects

As is often the case for wide-ranging policy measures, further indirect effects are less easily quantifiable but

appear to be more important. Doing away with duplicative conformity assessments would reduce costs and regulatory risks, especially for new companies to engage in EU-Ukraine trade or for trading products that were previously not traded between these markets. Also, using the EU-equivalence as a selling point, Ukrainian goods exports to other markets could increase. As trade costs of imports of investment goods from the EU will be reduced, this will help to strengthen investment and productivity in the Ukrainian economy. A common standards and conformity assessment space between Ukraine and the EU may also increase FDI in Ukraine, as the cost of exporting technical goods to the EU is reduced, helping to further integrate Ukraine in EU value chains.

Conclusion

The conclusion of an ACAA with the EU is an ambitious undertaking. Ensuring full equivalence of the Ukrainian quality infrastructure with EU standards will still take some time and effort. Once concluded, however, ACAA will have positive effects on trade and the economy and be a powerful symbol of Ukraine's commitment to ever closer ties with the EU.

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