

Title: Impact Assessment of an Association Agreement between the European Union and Ukraine IA No: Lead department or agency: BIS Other departments or agencies: FCO, HMT, CO	Impact Assessment (IA)		
	Date: 24/11/2014		
	Stage: Final		
	Source of intervention: EU		
	Type of measure: Other		
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Summary: Intervention and Options **RPC Opinion: GREEN**

Cost of Preferred (or more likely) Option			
Total Net Present Value	Business Net Present Value	Net cost to business per year (EANCB on 2009 prices)	In scope of One-In, Two-Out? Measure qualifies as
£74m	£99.8m	-£11.6m	No NA

What is the problem under consideration? Why is government intervention necessary?
 The European Commission, on behalf of its member states, has been negotiating an Association Agreement (AA) with Ukraine. There are trade barriers between the EU and Ukraine, which distort the market price, resulting in less competition and choice for UK consumers, and prevent UK businesses from fully exploiting export opportunities. The AA will help reduce these barriers. The reforms to which Ukraine has committed under the AA, including adopting a large part of the EU's legal frameworks (acquis), are designed to help Ukraine become a stronger partner for the EU and UK and focus on helping Ukraine to develop as a free-market economy underpinned by democracy and rule of law .

What are the policy objectives and the intended effects?
 The AA increases Ukraine's association with the EU by establishing conditions for enhanced economic and trade relations, leading towards Ukraine's gradual integration in the EU Internal Market. It supports Ukrainian efforts to complete the transition into a functioning market economy by progressively adapting Union legislation. For the UK, this means benefitting from the reduction in Ukrainian tariffs and trading with a larger Ukrainian market. A stable, secure, prosperous and well-governed Ukraine also has huge strategic significance for the UK and the EU in terms of energy security, migration issues and the future of the eastern neighbourhood region and Russia.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base)
 Significant parts of the Agreement are to be provisionally applied and, therefore, the UK will have an obligation under EU law to give effect to them. A failure to give effect to these parts may result in infraction proceedings. In addition, if the UK ultimately fails to ratify, there is also a risk that it may be infringed by the Commission. Moreover, the Agreement is expected to generate benefits for both UK industry and consumers. The UK was involved in detailed negotiations on the scope of the Agreement and the text at every stage of the process, and UK Parliamentary scrutiny has been carried out at every stage. Therefore, the UK Government faces only one policy option, which is to support a full implementation of the EU-Ukraine Association Agreement.

Will the policy be reviewed? It will not be reviewed. **If applicable, set review date:** Month/Year

Does implementation go beyond minimum EU requirements?		No			
Are any of these organisations in scope? If Micros not exempted set out reason in Evidence Base.	Micro Yes	< 20 Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)			Traded: N/Q	Non-traded: N/Q	

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.

Signed by the responsible SELECT SIGNATORY:  Date: 4 February 2015

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2009	PV Base Year 2010	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low:	High:	Best Estimate: £74m

COSTS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low			
High			
Best Estimate	N/Q	£3m	£25.8m

Description and scale of key monetised costs by 'main affected groups'

Estimated loss of UK Government tariff revenue from imports from Ukraine.

Other key non-monetised costs by 'main affected groups'

There will be adjustment costs to UK businesses from increased competition from Ukrainian businesses. These are expected to be minimal, as UK imports from Ukraine are not a large proportion of the UK's imports in any sector (0.1% on average). It is unlikely that many Ukrainian exporters will be in direct competition with UK firms. There will also be minimal one-off costs to firms, enforcers, customs and government officials from reading and understanding the text of this Agreement.

BENEFITS (£m)	Total Transition (Constant Price) Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low			
High			
Best Estimate	N/Q	£12m	£99.8m

Description and scale of key monetised benefits by 'main affected groups'

Benefit to UK exporters from reduction of Ukrainian tariff barriers, allowing 99.7% of the current value of UK exports to Ukraine to be tariff-free within ten years.

Other key non-monetised benefits by 'main affected groups'

Increase in UK welfare and GDP from trading with larger, more open Ukrainian market. Productivity and efficiency gains as a result of increased competition, lower prices and higher nominal wages overall. Benefits to consumers through positive externalities from an increase in competition.

Key assumptions/sensitivities/risks

Discount rate (%) 3.5

Benefits based on analysis of current trade and tariff reduction schedule specified in the Agreement, to be implemented from 1 January 2016 onwards. Assumption that exports to Ukraine remain at current levels - likely to be an underestimate. Assumption that UK exporters capture all tariff savings from Ukrainian liberalisation, and Ukrainian exporters capture all tariff savings from EU liberalisation. Russia/Ukraine geopolitical risks to implementation timelines.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:			In scope of OITO?	Measure qualifies as
Costs: N/Q	Benefits: £11.6m	Net: £11.6m	No	NA

