

CHALLENGING THE EU'S CAPACITY TO GOVERN, FINANCE AND DEFINE ITS BORDERS: IF UKRAINE ACCEDES TO THE EU¹

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Kiev Celebrates. Brussels Holds the Breath

On the 24th of August, 2006, Ukraine celebrated the fifteenth anniversary of its independence but not only so: for the first time since parliamentary elections are held, the leaders of political parties signed a far-reaching compromise, the National Unity Pact, which declares "the constant desire to lead Ukraine towards European values and standards that can be achieved through the EU membership, as well as to continue internal reforms"².

Moreover, this strong political message to the EU is based on multiple positive facts such as the absence of ethnic conflicts, a GDP growth rate by 5% in the first half of the year, increasing savings and wages by 15% and 20% respectively, and a far-reaching social and economic reforms³. Briefly, Kiev is gaining confidence.

On the contrary, major political issues make evident that the EU is not preparing any celebrations at all: both France and The Netherlands have rejected the EU's constitutional treaty in 2005, the EU Commission agreed on a long term conditional "yes" for the Turkish accession in the bloc, tensions raised with Russia due to the last winter energetic crisis, the budget 2007-2013 does not contain great reforms and thus the on-going process of integration seems to be pending on one national political outcome: the next presidential French elections. In addition to this, the never-endless period of reflection to re-launch the ambitions of the bloc is accompanied by a weak recovery of the Eurozone which its main macroeconomic figures, the media annual GDP growth projections and the unemployment rates, hardly reflect the way to achieve the revised Lisbon Strategy goals within five years⁴. Not to mention the emerging problems of governance

that have been growing between Brussels and the Members States, resulting from the lack of a new decision making platform since the new 10 members are part of the European Union and the Treaty of Nice (2000) is completely "out of order". Basically, the EU needs oxygen.

Introducing Key Factors: Economics, Security and Decision Making

As far as we can see, both actors are facing different cycles of development and evolution. The implications of a potential accession of Ukraine as a new member of the EU-25 would not be a regular case but a paradigmatic event in the whole region due to its specific geographic position, its large population and the dynamism of an emerging market-economy. Even so, the essay will tend to focus the issue on three key-points in order to seize the short term-impacts of the potential absorption of Ukraine: Firstly, the paper will take into account the economic issue. Budget implications and energy dependence are followed by the analysis of the labour market costs and potential migration flows.

Secondly, we will turn to security and regional impacts of the accession by remarking the sensitive issue associated to the shared neighbourhood. Finally, before a brief conclusion, the paper will address the topic of the governance and decision making and how Kiev could contribute or disrupt the entire institutions of the EU domestically and externally.

Calculating Costs: Labour Market, Energy and Budget

The first economic challenge is the labour market and migration flows. In 2005, employment costs in the EU-15 are more than four times those in the ten new member states.⁵ According to Mercer Human

2. <http://www.ukraine-eu.mfa.gov.ua/eu/en/news/detail/2405.htm>, 04 September 2006

3. <http://www.ukraine-eu.mfa.gov.ua/eu/en/377.htm>, 06 September 2006

4. <http://www.ecb.int/pub/pdf/other/ecbstaffprojections200608en.pdf>, 06 September 2006

5. <http://www.mercerhr.com/pressrelease/details.jhtml/dynamic/idContent/1175865>, 03 September 2006

Consulting, while employment costs in the EU 25 are around 15% lower than the US, the EU 15 are 23% higher. In fact, the growing gap between Western and Eastern members are enormous in some cases: while Belgium's average employment costs raised up to 53.577 Euro in 2005, Latvia's are just 4.753 Euro.⁶

This negative trend might be linked to the fact that the EU 15 could partially restrict the free movement of labour (as many did with the 10 new members until 2011) but it cannot prevent companies going to where labour is cheaper. Delocalisation of big manufacturers and massive migration flows are still a risk for the EU-15 economic performance. In fact, these patterns may get worse by introducing Ukraine's labour market figures since more than 140 thousand Ukrainians left the country each year between 1995 and 2001, representing more than 1.2 million individuals between 1994 and 2003.⁷ Not to mention, the potential magnetic force that could emerge from a high-valued currency

throughout the Eurozone.

The second test deals with the increasing EU's energy import dependency (50%). Oil and Gas prices have doubled in the bloc over the past two years. The Green Paper launched by the EU Commission on March 2006⁸ seeks to build the foundations for secure, competitive and sustainable energy. Three priorities could be identified in order to analyse the Ukraine's impact: a common external energy policy, a sustainable, efficient and diverse energy mix and the completion of the internal market energy.

According to the World Bank report, Ukraine is more gas and oil dependent than Poland and Germany (see figure 1).⁹ The macro figures' report confirm that Ukraine, apart from gas and oil, uses a mix strategy of coal and nuclear energy to reduce its overall dependence, as well as highly energy intensive technologies, which leads to high level of energy

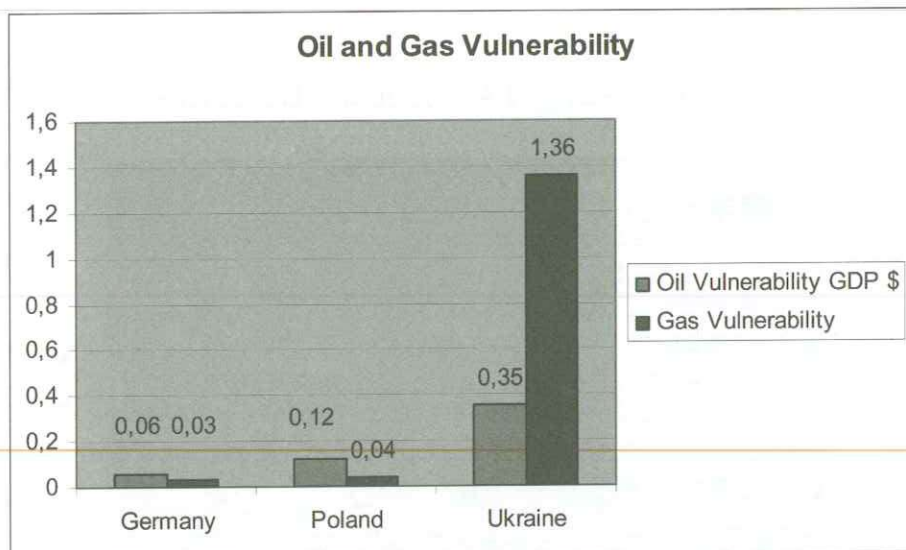


Figure 1

Source: World Bank and IEA Energy Statistics 2005

6. *Ibid*

7. <http://siteresources.worldbank.org/INTUKRAINE/Resources/328335-1138375819937/Chapter2.pdf> 31 August 2006.

8. http://ec.europa.eu/energy/green-paper-energy/doc/2006_03_08_gp_working_document_en.pdf, 05 September 2006

9. http://siteresources.worldbank.org/INTUKRAINE/Resources/328335-1136408888892/Section_4.pdf, 01 September 2006

intensity of the country. Nonetheless, the decision of Kiev to revert the flow of the *Odessa-Brody* pipeline in the south-north direction would allow to increase the flow of hydrocarbons from the Caspian region up to Poland, in the framework of the EU's policy of diversifying its oil supplies. Such contribution to the EU's internal market could be only fulfilled once Kiev respects the key points provided by the Memorandum of Understanding on energy (2005) that covers three critical areas: Ukraine's integration of electricity and gas market, security of energy supplies and effectiveness and safety standards in the coal sector.

26 The last economic factor is to digest the Ukraine's accession into the current EU budget structure. Basically, the current financial framework, Agenda 2000, covers the period 2000-2006 and it has been exclusively prepared for the historic enlargement that took place in May 2004, bringing in the reform of the Common Agricultural Policy (CAP) and increasing the effectiveness of the Structural Funds and the

Cohesion Fund in the poorer regions. By contrary, the EU Commission has proposed that the next framework for the EU's budget (2007-2013) will promote sustainable growth and competitiveness in order to foster the creation of more and better jobs. Not to mention, the consolidation of an European citizenship by completing the area of freedom, justice and security and to strengthen the Union's role in the world.¹⁰ In other words, the Barroso Commission seeks to reinforce the Lisbon Strategy by implementing a far-reaching budgetary strategy rather than providing enough financial assets to absorb the second largest country in Europe: Ukraine, (603,000 sq km) whose population almost reaches 47 million inhabitants, its GDP per capita projections are less favourable than Belarus (See Figure 2) and its unemployment rates are ranging from 9,5% to 11%¹¹. The idea of welcoming Kiev to the club would imply a strategic shift in the direction of the EU commission regarding the mid-terms economic agenda and the entire revision of the Lisbon Strategy.

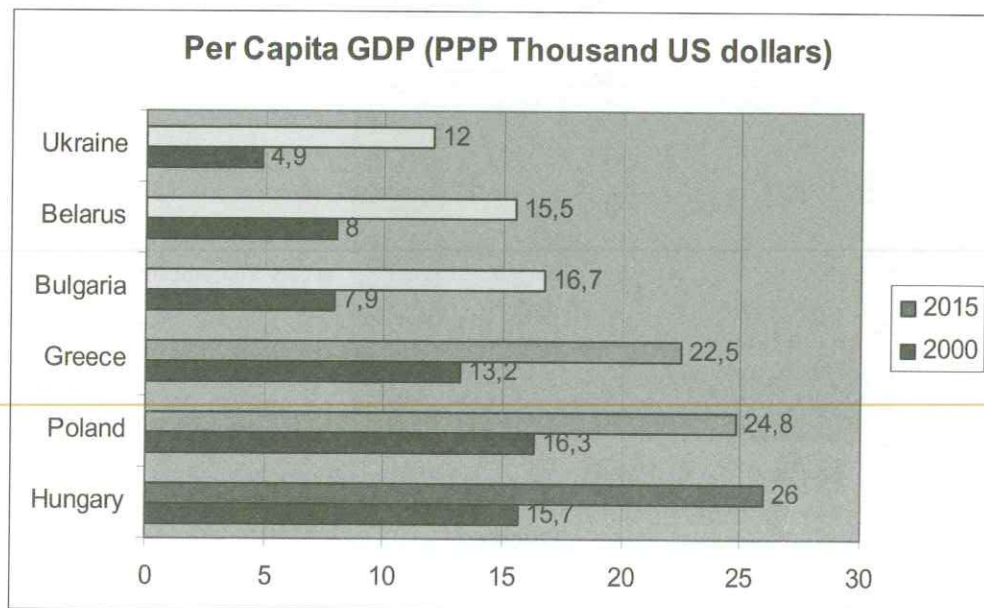


Figure 2

Source: Institute for World Economy and IR, Russia Academy of Sciences 02.

10. http://ec.europa.eu/financial_perspective/pdf/charts.pdf, 08 September 2006.

11. http://www.kmu.gov.ua/control/en/publish/article?art_id=88549&cat_id=73007, 08 September 2006.

Second Challenge: Europe's Backyard and its "shared neighbourhood"

Belarus, Moldova and Ukraine, three newly independent states of the former Soviet Union, have been included in the European Neighbourhood Policy (ENP) within the context of the EU-Russian relations. The new shared neighbourhood may stimulate both cooperation and tension between EU and Russia, above all, impacting on the four common spaces agreement. As Zargorski argues: "As long as the EU maintains a relatively low profile and Moscow maintains a moderately assertive policy towards the shared neighbourhood is likely to represent more a source of ambiguity than direct conflict in Russian-EU relations".¹² However, Ukraine's accession to the EU could notably destabilise the Russian status quo in the region due to the following points: 1) The Ukraine's accession to NATO; 2) By Warming the "Frozen Conflicts"; 3) A Single Economic Space opposed to the European Neighbourhood Policy (ENP).

President Vladimir Putin has officially defined that half of the Western CIS (Commonwealth of Independent States) countries are the main foreign policy priority by which they will support, by all means, the integration process evolving different trans-regional associations.¹³ In fact, Moscow launched a project called Single Economic Space (SES), including Belarus, Kazakhstan and Ukraine to create the first steps of a common market. The Ukraine's participation is vital for Moscow because it engages the three major trade partners in the former Soviet Union and the largest beneficiaries of the preferential trade terms offered by Moscow to the CIS. In this sense, the EU could bring to Ukraine's economy, as full member of the EU, a more secure, stable and prosperous environment for the huge Russian flow-investments.

However, even if the EU and Russia have common grounds and concrete interest such as stability and democracy in the region, the security field is much more delicate and could impact deeply on its four common spaces strategy. Firstly, joining the EU would potentially ease the way for Kiev to become member of NATO. If so, Russia could withdraw sensitive military equipment from its Black Sea Fleet in Crimea and terminate its cooperation with Ukraine's defence sector. Moreover, the EU's accession will be a pressure by calling for an early withdrawal of the Russian Fleet, before it expires in 2017. Such move could be counter-productive and thus freeze the "Four Common Spaces" negotiations, above all, the control of soft security issues such as drugs trafficking, money laundering and illegal immigration. Secondly, the so-called "frozen conflicts" which involves the Transnistrian's revolt in Moldova, the South Ossetia's issue in Georgia and the Nagorno's crisis in Azerbaijan might become a "hot area of competence" that must be stabilised in order to prevent ambiguous feelings between Moscow and Brussels. Thirdly, the EU's ENP policy could be perceived by the Kremlin as a previous step to absorb the entire shared neighbourhood and thus undermining the SES's policy evolution. This fact could lead to disrupt the potential common market rules between the richest CIS countries and its natural leader: Moscow.

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The Last Challenge: Governance Decision Making Implications for the EU

The EU Commission has defined in 2001, the necessity to re-launch a more democratic and representative Union through three main goals: better involvement, better regulation and the reform of institutions and its policies.¹⁴ The rejection of the EU Constitution by France and The Netherlands deepened the crisis of governance and the whole process of decision making.

12. Andrei Zargorski, "Russia and the Shared Neighbourhood", in: Chaillot Paper, No. 74, January 2005, pp. 66.

13. Plenary meeting of the conference of Ambassadors and Permanent Representatives of Russia, 06/06/2004. Available at: www.mid.ru/, 01 September 2006

14. http://eur-lex.europa.eu/LexUriServ/site/en/com/2001/com2001_0428en01.pdf, 09 September 2006

The myth of the Polish plumber threat, the Bolkestein's Directive and the amendments of the French constitution to include a referendum for each enlargement, have reinforced the negative patterns of Euroscepticism throughout the continent. Naturally, these events tend to undermine the EU citizenry's appetite to promote new accession to the bloc.

Therefore, the Ukraine's accession would be more than a problematic issue for the governance of the EU. According to the Nice Treaty weighting criteria, Ukraine would enjoy the same power in the Commission, Council and EP as Spain does even if its economy is much poorer than the Spanish one. Moreover, there will be a great pressure for Kiev to ratify immediately the Rome Statute for the establishment of an International Criminal Court. Ukraine has begun the ratification process, but it stopped in June 2001 when the Constitutional Court declared that a constitutional amendment would be required before Ukraine could ratify. The EU has always considered the most important global actor to make the ICC a new reality of the international public law and it is not likely to have a member that could distort its credibility and supremacy in this area.

In addition to these facts, there are many sensitive areas such as media freedom, torture, ill treatment, money laundering, trafficking of human beings, drugs and corruption. For example, the media landscape is controlled by national and local authorities, in particular over the electronic media. The Parliamentary Assembly of the Council of Europe (PACE) addressed in its Recommendation 1589 (2003) on Freedom of expression that in Ukraine violence continues to be a way of intimidation investigative journalist¹⁵. Privatised new media are always concentrated in few hands and mostly interdependent with government authorities. Not to mention the women conditions in Ukraine, since the United Nations Committee on Elimination of Discrimination against Women in June 2002¹⁶

pushed Kiev to approve a new law on the prevention of domestic violence, but expressed concern about the prevalence of violence against women and the need for improved measures for prosecution and victims' services.

Basically, the EU's desire to implement better regulations and reforms of its institutions and policy might be quite complicate to be achieved if Ukraine becomes part of the bloc. The modernization of the Ukraine's society implies a consolidation of its institutional structures, the liberalization of its markets, the accession to the WTO and the Europeanization of its rule of law regarding the Justice and Home Affairs pillar of the EU.

Conclusion: Could Ukraine's accession asphyxiate the EU?

Although the EU-Ukraine's relationship is complex and represents a turning point for the entire region, there are three remarkable reflections that seem to support the idea that Ukraine's accession could asphyxiate the EU stability and cohesion:

- Even if the evolution of Ukraine's institutions and economy have been important over the past five years, the country still needs a long way of reforms to accede to the EU. The most remarkable progresses must be done in the Justice and Home Affairs issues such as Human Rights, money laundering, drugs and corruption;
- The EU does not present in short terms the conditions to welcome new big members after the enlargement of the Eastern countries. Neither the budget's structure 2007-2013 nor the Lisbon Strategy are focused on this sort of ambition. Not to mention the future adaptation of the EU energy policy to manage the Kiev's energy "black hole";
- The shared neighbourhood could indirectly imply tensions with Russia and new responsibilities regarding Moldova's and Georgia's "frozen

15. <http://assembly.coe.int/Main.asp?link=/Documents/WorkingDocs/Doc06/EDOC11011.htm>, September 02 2006

16. <http://www.unis.unvienna.org/unis/pressrels/2002/wom1349.html>, September 09 2006

conflicts” that the EU could not afford at all. Anyway, the security field is the most challenging one and might impact on the Russia’s regional status quo;

To sum up, a premature accession of Ukraine is risky for the EU, which is the same: the bloc could suffer from an institutional and economic stagnation. Brussels and Kiev shall keep on working hard under the current institutional framework in order to let the EU gaining some oxygen and maybe, in long terms, join the Kiev’s independence celebrations, in some different way.

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