



A solidarity package for the eastern partners

by Iana Dreyer and Nicu Popescu

The year ahead will be a crucial one for the success of the Eastern Partnership (EaP). While Ukraine and the EU work towards the eventual signature of an Association Agreement at the Eastern Partnership summit in Vilnius in November, Moldova and Georgia will only initial the Agreement, and are not due to sign it until autumn 2014.

Since the Deep and Comprehensive Free Trade Agreement (DCFTA) will only become a legal reality for them towards the end of 2014, between now and then they will be vulnerable to external pressures – diplomatic, commercial or energy-related – aimed at disrupting the signing of the agreement. The recent U-turn by Armenia (which chose to join a Russia-led Customs Union rather than sign up to the DCFTA), as well as rising trade pressures on Ukraine and a new wine embargo on Moldova, probably mark just the beginning of a longer escalation of trade-related hostilities. The aim of these pressures is to either divert some of the eastern partners from their EU association agenda, or drastically increase the costs of pursuing this option and weaken the political forces behind pro-EU moves. As a consequence, they will start paying the economic and geopolitical price for association with the EU well before they start reaping the benefits of it.

The question is whether and for how long Moldova and Georgia – two fragile, small and poor states, riven by bitterly divisive politics and unresolved secessionist conflicts – will be able to withstand a

sustained external assault on their foreign and economic policy choices.

This matters for the Union for many reasons. Brussels' and EU member states' decade-long investment in the ENP is at stake. But equally important is the fact that it is in the EU's political and economic interest to be surrounded by countries governed by EU trade and economic regulations rather than isolated from the Union behind high tariff walls and the opaque standards of a Russian-led Eurasian Union, which would also disrupt existing patterns of interdependence between the EU and its eastern neighbours.

Given this context, the dilemma for the EU is how to keep the Association Agenda on track without engaging in a tug-of-war with Russia. To this end, the Union might consider launching an 'EaP interim solidarity package' to offset potential economic losses incurred due to external pressures. The roll-out of such a 'solidarity package' could include some of the options outlined below.

1. Fast-tracking visa liberalisation. Visa liberalisation is the single most powerful political reward the EU could offer its eastern partners. Moldova is currently nearing the fulfilment of EU conditions in this regard. When Moldova has met these requirements, the Union could launch the process of abolishing short-term travel visas for Moldovans holding biometric passports as early as this autumn. This would allow time for such a crucial

decision to be taken within the current mandate of the European Parliament and the Commission. Ukraine and Georgia are further behind in this process, and the EU should not relax its conditions; but rewarding progress on visa liberalisation with Moldova would send out a powerful message that the EU offer of visa liberalisation is a realistic and tangible prospect once conditions are fulfilled for Ukraine and Georgia as well.

2. Unilaterally rolling out DCFTA trade concessions. A possible course of action is for the EU to start rolling out unilaterally – albeit provisionally – the application of the most attractive DCFTA provisions: this course of action could be authorised through Council decisions before the actual signature of the Agreement. It could include a unilateral abolition of quotas on exports of wines, textiles or agricultural products. Such a step is unlikely to have significant effects on the EU market since each of the two countries accounts for only a 0.1% share of the Union’s global imports.

3. Financial assistance.

Existing commitments for EU financial assistance could be front-loaded and funds disbursed as soon as possible on projects that improve these countries’ capacity

to benefit from the DCFTA. As Armenia gave up on the agreement, EU funds previously earmarked to help Erevan implement DCFTA standards are now available – and could be redirected into supporting DCFTA-related projects in other EaP countries in areas such as improving export capacity in the wine industry or developing energy infrastructure.

4. Accelerating energy integration. If Ukraine were to be enabled to further increase its gas intake from the EU, it would reduce its dependence on Gazprom gas supplies and diversify its energy mix. Thus coordinated action by EU, Poland, Slovakia and Hungary to facilitate gas transit from the EU to Ukraine could help mitigate Ukraine’s energy dependency. In the case of Moldova, work on extending the Iasi-Ungheni (Romania-Moldova) gas interconnector into a Ungheni-Chisinau pipeline bringing gas from the EU to the capital would be a significant boost to the EU’s objective of building better integrated energy markets with its neighbours.

5. Dealing with Russia in the WTO. The WTO’s core principles are that its members may not arbitrarily change their trade schedules. Another core principle is that, whatever trade rule it upholds, it

applies to all WTO members (the non-discrimination principle); and that, whatever favour it grants to one partner, it must grant to all other members (most-favoured-nation clause). If those principles are flouted, an appeal can be made to the dispute settlement body of the WTO. The WTO then sets up a panel, the rulings of which are binding. When a country is found to breach WTO principles, the victim country may apply sanctions towards the country against which it complained.

Moldova is a WTO member and could refer Russia to the Geneva-based dispute settlement body over Moscow’s ban on its wine exports. The same applies to Ukraine, if it is subjected to further trade pressures. At this stage the EU could certainly help Moldova do so, by providing technical assistance from its DG Trade in the Commission to build its case, and possibly by agreeing to bear some of the financial cost of the litigation.

Through the dispute settlement process, Russia could be obliged to prove: (a) that its wine ban

is consistent with WTO rules; (b) that the standards it claims are being breached actually apply to its own wine growers and to other trading partners; and (c) that they comply with the basic

requirements of the WTO’s agreement on sanitary standards. If it does not manage to do so, then the WTO panel would issue a ruling saying that Russia is in breach of its WTO commitments.

A second approach is to start questioning the legality of several practices of the Russian-led Customs Union. GATT Article XXIV and GATS Article V clearly state that a regional trade agreement, such as a Customs Union, is only WTO-consistent if it deepens trade within the territory it covers, but not if it *raises* trade barriers against the outside world. If it does, members of the free trade area need to provide compensation to other WTO countries.

Thus the extension of the Customs Union might not be compatible with WTO requirements. And, without resorting to threats, the EU should signal that it is ready to proceed against Russia to the WTO on this issue – if necessary.

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