

Ukraine and the European Union – what sort of future for us both?

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Ambassador, ladies and gentlemen,

It is good to be back in this beautiful city of Kyiv. I would like to thank you for the invitation and to thank especially the Ambassador for hosting this dinner tonight.

It is also a great pleasure for me to attend the Sussex University Conference on relations between Ukraine and the European Union. I speak to you tonight not just as European Commissioner but also as a representative of the University, where I formerly studied and which last year awarded me an honorary doctorate of which I am extremely proud.

I would like to explore with you tonight the future relationship between Ukraine and the European Union. Two weeks ago the European Commission agreed on the text of its recommendation to the Council of Ministers to open negotiations with Ukraine for a 'new enhanced agreement'. The Council will now discuss this negotiating framework and decide on the exact nature of the Union's negotiating position. It is too early therefore to say what the Union's position will be, but the Commission has proposed an agreement which goes well beyond the terms of the existing Partnership and Cooperation Agreement.

One does not have to be a genius to predict that one of the key discussions will be on whether the agreement gives a perspective of accession to Ukraine. So tonight I would like to take a little time to explain why the Union has recently become rather wary of future accessions.

It is certainly true that the European Union is going through a period of increased uncertainty at present. This has clearly been made worse by the rejection of the Draft European Constitution in referenda in France and the Netherlands but it was apparent before then. Indeed it was one of the reasons that the Union set out to adopt a Constitution in the first place.

One of trends which affects the Union is a general and, I dare to say, global distrust of centralised power. It is affecting all our Member States and this is reflected in lower voter participation. At the same time Eurostat opinion polls show that European institutions enjoy higher legitimacy than national ones and that people want more Europe.

However, at the same time we, the citizens of the Union appear to be doubting whether the Union can deliver those policies which they expect from it. The Common Foreign and Security Policy could not produce a unified view on the invasion of Iraq. Immigration worries many citizens, but it is taking a long time for the Union to be able to agree an immigration policy with common rules and procedures. And on energy, it appears that Member

States are following policies, which are sometimes not at all in the interest of other Members.

All this should encourage us to undertake the reforms necessary to solve some of these problems. The draft Constitution tackled many of these questions – the role of national parliaments and subsidiarity, strengthening the Common Foreign Policy and institutional reform. Yet in two Member States the Constitution has been rejected by citizens who were demanding the reforms it was trying to undertake. This is one more paradox leading to general confusion.

It will be necessary for the Union to implement many of the measures proposed in the Constitution if it is to continue to grow, to be an effective world actor and to have efficient institutions – and if it is to continue to integrate with its neighbours.

The '**Angst**' which has apparently taken root in the Union is to a large extent related also to the growing speed of change in every area of life, but particularly in the economy. High unemployment in some countries and stagnating living standards make people worried about their futures and those of their children. It is claimed the recent enlargement of the Union to the central and eastern European countries is partly to blame for the economic situation. While the truth is exactly the opposite, some politicians have also found it convenient to blame enlargement for economic ills.

While this situation will not change the overall integration dynamic on the European continent, it will no doubt slow down progress. In my view it is the future dynamism of the European economy which will determine the future of enlargement and integration.

The acceleration of globalisation in the last twenty years has forced continuous economic adjustment on Europe. The opening of world trade through successive WTO tariff-cutting rounds and the development of technology allowing networking at the global level has meant that competitive advantage has been exploited at the world level. The low cost of labour and the enormous labour reserves of rural China have led to that country out-competing the rest of the world in a whole range of relatively low-technology products.

I do not have to repeat in this room that globalisation has brought the European Union enormous benefits. As the largest world trader we have gained greatly from the opening up of trade. Society as a whole is far better off than it ever could have been if we lived in a protected market. Competition has increased, raising productivity and leading to downward pressure on inflation. The problem however is that meeting global competition requires a capacity for economic reform and flexibility in the economy which is often not met in Europe.

The result of these changes has been the loss of some industrial capacity in the European Union in those sectors where Europe can no longer compete. At the individual level this has been felt as increasing job insecurity and, for the unskilled, downward wage

pressure. The worst social tensions have been felt in those European economies which have inflexible labour markets and where the skill level amongst workers is rather low. Economies with large manufacturing sectors have also been affected worse than those which have already lost much of their manufacturing base and have become service economies.

There are people who want to turn off globalisation. This would be a disaster and is anyway not possible short of global catastrophe. The only solution is to adapt our economies to benefit from globalisation. This is the objective of the Union's Lisbon Agenda, which I probably do not need to dwell on in this audience.

But progress is slow for several reasons.

Unemployment creates anxiety amongst both those directly affected and those who think they might be in the future. The result is pressure to slow change down rather than to speed it up. This is especially the case when low skilled workers are put out of work, for they really find it difficult to find equivalently paid unskilled work. There is no quick fix here. The longer term solution, indeed the only salvation for Europe, is in better education and training and greater innovation in business.

However Europe is also an ageing society and innovation and risk-taking decline as people get older. It is difficult to push ahead with reform in older societies.

As a result of the resistance to change, politicians are frequently tempted to go for popular slogans and policies rather than fighting the argument that we must face up to change or decline. Enlargement and integration have fallen into this trap because they are easily blamed for some of the evils of modern life.

This view has no foundations!

European integration, in whichever of its forms – European Economic Area, accession, association or partnership - normally leads to an increase in economic welfare for the Continent. This comes about through the normal economic processes of market opening and increases in the productivity of capital and labour through free movement. But what are also often overlooked are the benefits which come from increasing security on the Continent and increasing cooperation in many areas of policy.

Let me then come to apply this analysis to the relations between Ukraine and the European Union.

This process and the generalised Angst, that I have already mentioned should in no way affect the deeper integration of Ukraine with the Union. The advantages for Ukraine of negotiating an enhanced agreement with the Union in the coming months would be considerable. Let me just mention a few.

In trade, Ukrainian companies would be able to access the EU market without tariffs, except in a limited number of sectors. More importantly, as Ukraine adopts and implements some of the

regulation of the Union's internal market, these companies would be able to sell in the Union in the same way as domestic companies and without having to always show that they are meeting EU standards.

The adoption of EU regulation itself would be an important guarantee for the necessary reforms which any Government here will have to undertake. Some of these necessary reforms would aim at making the business environment less burdensome for companies but at the same time rendering business in Ukraine more open and transparent. A reduction in the 'insider economy' has been one of the policy planks of the President since coming into office and it has been one of the main recommendations of international observers of the Ukrainian economy.

Integration with the Union will also attract more foreign direct investment to Ukraine because it will make this country a less risky place to do business. FDI is vitally important for the modernisation of Ukraine's economy. One only has to look at Poland to see the significance of FDI for economic development.

The Union will also of course be providing more financial aid to Ukraine under the new European Neighbourhood and Partnership Instrument and this finance can be used to undertake some of the necessary steps for implementing the Enhanced Agreement.

One question that will be asked is how this will affect Ukraine's relations with Russia. My answer would be that it should not at all. Everyone is aware of the importance of relations with Russia

as well as with the EU. But it is absurd to think that because relations with one side are improved this is a blow against relations with the other.

To conclude, let me say the following. Romania and Bulgaria are about to join the Union. The European Commission has said that to continue the accession process the institutional issues addressed by the Draft Constitution have to be tackled. This is not only sensible but necessary. The legal basis for the operation of the Union, the Nice Treaty, specifies that the current institutional framework has to change after the number of member states reaches 27.

Already work on how to effect the necessary changes is beginning in various centres around the Union. I myself participate in a group of "wise men and women" called Action for European Democracy, set up under the chairmanship of Giuliano Amato in order to think how we can push forward institutional reform in the Union. This is a difficult subject given the negative referenda in France and Netherlands, but it is essential for the future development of the Union. Together with the review of the budget programmed for 2008-9, success here would leave the Union in a much better position to face the future and to promote further integration on the Continent.

Thank you for your attention,