

OP-ED

Evgeny Shulgin: Ukraine-Israel free trade agreement brings opportunities, prospects

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 A photo from May 7, 2019 shows a general view of Tel Aviv in Israel.

Photo by AFP

The Free Trade Agreement between Ukraine and Israel, which came into force in early 2021, aims to expand bilateral cooperation in the economic sphere by simplifying the movement of goods.

The treaty is intended to facilitate access of goods to the markets of the two countries.

Thus, about 90% of industrial production and 48% of agricultural products of Ukrainian origin have already received an exemption from duties.

As for the import of Israeli products to Ukraine, about 80% of Israeli industrial goods and 28% of agricultural products can be imported to Ukraine duty-free.

Additional categories of Ukrainian and Israeli goods will receive benefits, quotas or will be exempt from duties within three, five, or seven years. To date, however, the service sector is not included in the agreement and there exists an understanding that the agreement should be expanded to include trade in services.

Ukraine and Israel are members of the international PEM (Pan-Euro- Mediterranean) Convention, which comprises 23 states and supra-state entities. In order to implement the rules of the convention among the countries-participants, they need to have bilateral free trade agreements. Therefore, among other things, the agreement is intended to complete the creation of a contractual basis for the implementation of the PEM convention in the Israel-Ukraine-EU triangle.

The rules of origin

The bilateral Free Trade Agreement does not formulate rules of goods origin, but refers to the rules described in the Pan-Euro-Mediterranean Convention. This is done specifically to ensure that in the future the industry of both states will have greater flexibility due to the rules of diagonal accumulation.

This means that, after the completion of the preparatory legal and procedural actions, the Israeli manufacturer, exporting its products to the EU, will be able to import from Ukraine materials, components or raw materials, the country of origin of which is Ukraine, to use them for the manufacturing of the final product and to export this final product to the EU with the preservation of all benefits in accordance with the agreements between Israel and the EU.

Prospects for the use of the treaty in light of global trends

Due to COVID-19, as well as other global geopolitical processes, some new trends stand out that can create interesting opportunities for the development of the Ukrainian economy.

In particular, one of the economic consequences of the first waves of the virus was a blow to the supply chains of many companies around the world, and in light of that, there has been an increased awareness of the need to diversify the sources of supplies of raw materials and components among several regions. Besides, transport costs for shipments from Asia have increased by several times over the past year.

All of that reinforces the need to be closer to target markets. Ukraine, due to its geographical location, relatively cheap labor, highly skilled and educated human capital, industrial potential, and its natural resources, can be seen as an alternative for production as well as an alternative source of supply. This is especially true for companies that are focused on European markets.

In recent months, in connection with the lively discussion on the entry into force of the Free Trade Agreement, we have seen an increase in the interest from Israeli companies in considering the development of economic cooperation with Ukraine, and, in particular, in considering the possibility of transferring their production orders from other regions to Ukraine. Currently, we are helping Israeli companies find partners in Ukraine. About 30% of Israeli exports come from the EU market.

The entry into force of the PEM convention in the Israel-Ukraine-EU triangle will create conditions for the much more active participation of Ukrainian companies in the value chains of goods of Israeli origin.

Pandemic as a catalyst for innovation

Crisis, as a rule, stimulates the development and renewal, development and introduction of new technologies. We are witnessing interesting global processes, among which we can note the rapid digitalization of almost all spheres of life. For Israel, 2020 marked record investment in the innovative sector of the economy. And the first quarter of 2021 has already broken all previous records. In 2020, about \$10.5 billion was raised, and in the first quarter of 2021 – about \$4.9 billion. The main sectors that have attracted investment are cybersecurity (\$2.8 billion) and fintech (\$1.7 billion). In the first quarter of this year, the top three included the direction of digital health. Since many Israeli companies use the services of Ukrainian outsourcing companies, this directly supports the increase in bilateral cooperation in the IT sphere.

The Free Trade Agreement is an important stage in the development and expansion of relations between our countries, whose official history marks its 30th anniversary. Israel is home to about half a million Ukrainians, which is a natural bridge connecting our countries and creating the basis for strategic cooperation in a wide range of areas.

Throughout its history, Israel has developed under extremely difficult geopolitical conditions. This fact has forced us to develop unique models for managing the economy and the state in the conditions of constant crisis. An integral part of this approach is the systemic emphasis on development and innovation, which has created one of the world's best innovative ecosystems. Active bilateral cooperation in this area can be very beneficial for Ukraine.

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