

## Legislative Update

The past summer was marked by important regulations of the National Bank of Ukraine that simplify the exchange of foreign currency cash, use electronic documents, copies of documents in electronic form when purchasing and making payments with foreign currency; and extremely important regulations of the Antimonopoly Committee of Ukraine which approved new Fining Guidelines. Ukraine continued its integration efforts and joined the Pan-Euro-Med diagonal cumulation area. The Government represented a new Draft of tax reform and submitted an initiative to provide compulsory state social health insurance. These issues became the subject for analysis by our experts.



**Anzhela Makhinova,**  
*counsel, Sayenko Kharenko*

**Ukraine has begun the process of accession to the Regional Convention on Pan-Euro-Mediterranean Preferential rules of Origin. How has accession to this agreement affected the export of national products? What kind of new opportunity for cooperation will Ukrainian business receive in commerce?**

All countries try to deepen trade liberalization by concluding free trade agreements (FTAs), usually eliminating all tariff and non-tariff trade barriers. In order to enjoy the said privileges, goods should originate in one of the countries that is a party to the FTA and be directly transported between such parties. Use of imported raw materials and components in the products may considerably influence their origin status under the FTA.

To the best of our knowledge, the vast majority of FTAs (i.e. all FTAs concluded by Ukraine (including the Association Agreement with the EC) stipulate bilateral cumulation. That is, only imported raw materials and components, originating in either country that are parties to the FTA, should be used to define the country of origin status (broadly speaking).

However, quite often in practice it is more reasonable and/or convenient to use materials and components from third countries which are not parties to the relevant FTAs. In order to continue enjoying privileges set forth by the FTAs in such cases, some countries are now going to apply diagonal cumulation provided that (a) application of diagonal cumulation is directly set out by the relevant FTAs; (b) the said FTAs provide for identical rules of origin.

In order to facilitate diagonal cumulation, the EU promotes conclusion of the *Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin* (Convention). If a certain country adheres to the said Convention, it can join the Pan-Euro-Med diagonal cumulation area. The major advantage of the Convention is that the rules of origin contained in the Convention will then automatically replace the rules contained in the relevant FTAs entered into by that country. This will avoid amending each FTA individually in order to incorporate rules on diagonal cumulation and will ensure that identical rules of preferential origin apply.

It goes without saying that Ukraine's participation in the Pan-Euro-Med diagonal cumulation area will stimulate the export of different products from Ukraine, especially value-added ones like steel products, machinery and some consumer goods. However, in order to make a system of diagonal cumulation operational, Ukraine should (a) join the Convention; and (b) negotiate FTAs with those countries of the Pan-Euro-Mediterranean area with which it would like to apply diagonal cumulation.