

Main Department of Civil Service of Ukraine
Center for Adaptation of the Civil Service to the Standards of the European Union
Center of Social Expertise of the Institute of Sociology, NAS of Ukraine

*Development of a Network of Policy Analysis Groups
in the System of Central Executive Bodies in Ukraine*

**Harmonization of Ukrainian Legislation
on the Application of Excise Duty on Alcohol
and Tobacco Products in the Context of a
Future Agreement on Association
with the European Union**

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Foreword

Development of the Ukrainian State and its movement towards the European community requires establishment of modern, professional civil service that would function in accordance with the requirements of democratic governance. Civil servants of Ukraine must be politically neutral and professional, armed with modern knowledge and skills in public administration.

Among the key functions of public officials in democratic countries is the development of policy recommendations and policy alternatives to solve the existing problems in specific sectors. Civil servants also hold consultations with stakeholders and carry out monitoring and evaluation of the policy efficiency and effectiveness.

Comparing with EU practice, the system of policy coordination and development in Ukraine is not sufficiently transparent and is too centralized. Requirements to analyze policy alternatives and hold consultations with stakeholders are not always fulfilled. The Ukrainian officials often lack practical skills to analyze policy problems and their causes, possible consequences and obstacles to implementation of various options for problem solution.

In order to strengthen the capacity of civil servants to analytical support of the strategic government decisions, the Main Department of Civil Service of Ukraine during 2005–2008 supported a number of initiatives dealing with activities of a network of the policy analysis groups in the central executive bodies in Ukraine. Around 130 civil servants of top and middle managerial levels from the Secretariat of the President of Ukraine, Secretariat of the Cabinet of Ministers of Ukraine, National Bank of Ukraine, ministries and other central executive bodies received training and acquired relevant public policy skills and knowledge needed for application of democratic procedures to the decision-making process.

Results of the policy analysis groups' activities include publication of green and white policy papers. This is an effective tool used in the EU member states and other developed countries to ensure efficiency, transparency, consistency and predictability of work of public authorities.

Requirements to the quality of public policy development and implementation become even more exacerbated in the context of preparation of the EU – Ukraine Association Agreement. Success of the relevant negotiation process largely depends on the capacity of the Ukrainian officials to formulate a coherent, effective and far-sighted strategy of mutual relationships.

Given the magnitude of the obligations of Ukraine in the framework of the future Association Agreement with the European Union, in 2008 the Main Department of Civil Service of Ukraine put forward an initiative, which was supported by the Government, to expand the network of policy analysis groups and to focus their work on the issues of implementation of Ukraine's commitments under the future Free Trade Agreement with the EU.

In December 2008 the initiative on “Development of a Network of Policy Analysis Groups in the Central Executive Bodies in Ukraine” was launched by the Center for Adaptation of the Civil Service to the Standards of the European Union. It was implemented by the Center of Social Expertise of the Institute of Sociology of the National Academy of Sciences of Ukraine. 10 cross-sectoral groups were created to deal with the sectoral issue of the EU–Ukraine Free Trade Agreement and 3 policy analysis groups—to deal with issues of the civil service reform. Each of the groups consisted of 7–10 top-level civil servants (II–IV categories).

Policy analysis groups dealing with priority issues of the EU-Ukraine Free Trade Agreement:

- Development of a strategy to overcome technical barriers to trade: standardization and compliance assessment.
- Development of a strategy in the field of financial services.
- Development of a strategy in the field of trade in services: the movement of capital.
- Development of a strategy in the field of public procurement.
- Development of a strategy in the field of sanitary and phytosanitary regulations.
- Development of a strategy in the field of protection of intellectual property.
- Development of a strategy in the transport sector.
- Development of a strategy in the environment sector.
- Development of a strategy in the energy sector.
- Development of a strategy in the field of taxation.

Policy analysis groups dealing with priority issues of the civil service reform:

- Reform of the classification system in connection with the civil service compensation system.
- Introduction of new approaches for the annual performance evaluation of civil servants’ activities.
- Reform of the system of professional development for civil servants.

In 2008–2009 the main task of policy analysis groups was the development of the sectoral strategies to meet the obligations imposed by the future Association Agreement with the EU. These strategies defined objectives and steps of implementation of the Agreement, as well as resources needed to implement a strategy (financial, human, and institutional). The draft strategies, discussed with all stakeholders, will enable to prepare for implementation of future Agreement and strengthen the position of the Ukrainian party at the currently running negotiations with the EU.

Public discussions of policy options for solving sectoral problems will promote better understanding and support by the stakeholders of the government policy and provide a feedback for the government.

This year, the policy analysis groups have had a number of innovations. First of all, it is their inter-ministerial structure: representatives of the Ministry of Justice, the Ministry of Economy and the Secretariat of the Cabinet of Ministers participated in almost all policy analysis groups. Secondly, the number of involved public officials and authorities significantly increased comparing to previous years—130 civil servants from 20 central executive bodies as well as from the Secretariat of the Cabinet of Ministers and the National Bank of Ukraine took part in policy analysis groups. In addition, analytical support to members of policy analysis groups was provided by both international and local sectoral experts from the International Center for Policy Studies (ICPS) and the Ukrainian-European Policy and Legal Advice Centre (UEPLAC).

During the year members of policy analysis groups participated in trainings and seminars guided by the EU and Ukrainian experts. They mastered the methodology of development of policy documents and decision-making procedures according to the European standards. The groups organized public consultations aimed at discussion of proposed drafts strategic documents with representatives of NGOs, business community and experts. Considerable number of received comments and suggestions greatly improved the quality of the policy documents.

The key to successful implementation of this initiative was a permanent monitoring and evaluation of the results of policy analysis group's work. According to the survey, most participants consider such trainings in policy analysis as very useful and effective because they provided opportunity to get equipped with skills in policy analysis, cost-benefit analysis and effective communication in the context of the requirements posed by the process of adaptation of the Ukrainian legislation and norms to the EU norms and standards, taking into account national interests of Ukraine.

Moreover, activities of policy analysis groups generate a multiplication effect; they become a basis for the new quality civil service and new administrative capacity of the central executive bodies. Despite the fact that only about ten civil servants are official participants of the policy analysis group, the practice shows that the number of public officials involved into the process of development of strategic policy documents is actually bigger.

In 2008, the School of Senior Civil Service was established, the task of which is to create institutional conditions for developing leadership in the civil service and public administration reform. Given the fact that policy analysis groups have proved their effectiveness as a progressive form of the civil servants' on-the-job training, the follow-up initiatives relating to policy analysis groups are planned to be carried out on the basis of the School of Senior Civil Service. This will contribute to further development of both policy analysis groups' network and strengthening of the in-service training system of the civil servants.

Introduction

The purpose of development of this document is an analysis of possible consequences of the harmonization of the Ukrainian legislation on application of the excise duty on alcohol and tobacco goods in the context of a future EU – Ukraine Association Agreement. Also, planning of the process of compliance with the commitments which Ukraine takes under the framework of negotiations on an Agreement on Association with the EU is in the focus of this document.

In order to develop this document, an inter-departmental group of policy analysis headed by the Vice-Chairman of the State Tax Administration of Ukraine was formed in accordance with the Order of the Cabinet of Ministers of Ukraine dated 30.12.2008 ¹ 43542/99/1-08.

The group included representatives of the Secretariat of the Cabinet of Ministers of Ukraine, Ministry of Finance, State Tax Administration (STA) and Ministry of Economy of Ukraine.

In May – June, 2009 public consultations with stakeholders were carried out to get feedback on this document. The document was posted at the web-site of the State Tax Administration of Ukraine. The document was also discussed at the meeting of the Public Board under the STA of Ukraine.

30 comments and suggestions were received during public consultations, 10 of which, as the most useful, were taken into account. The most relevant recommendations came from representatives of the Ukrainian Industrial and Trade Confederation (UITK) and CEC–Ukraine.

1. Description of the Situation

Excise duties, applied as a revenue tax, are a kind of tax imposed on consumption with their main purpose consisting in influencing the behavior of people, business entities, and, at the same time, accumulating funds for the State Budget.

1.1. Information about excise tax revenues to the budget.

During 2006–2008, excise tax revenues inflow showed a tendency of growth of the budget revenues. The revenues from excise duty on tobacco products in 2006–2007 increased by 21%, in 2008 – by another 41%; revenues from excise duty on alcohol–increased by 16 % and 21%, respectively.

Dynamics of excise tax revenue in the budget of Ukraine (in million UAH)

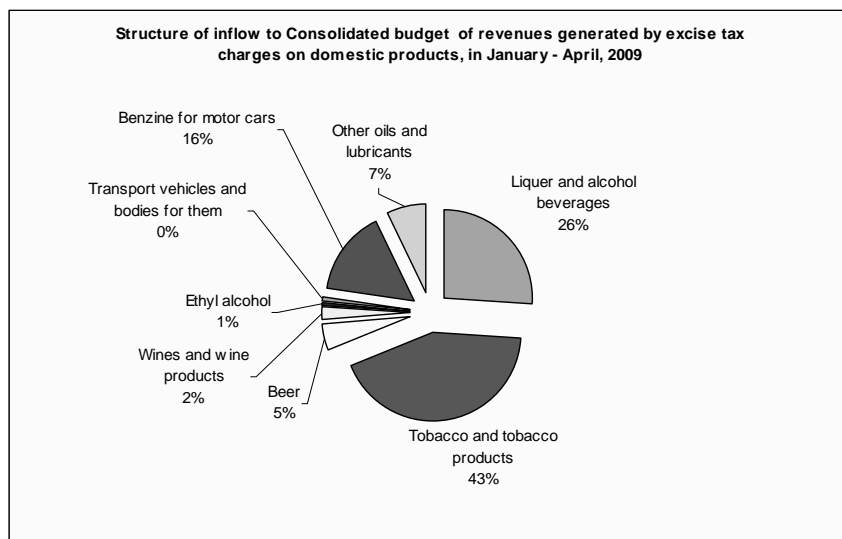
Years	Total excise tax volume	Including, million (UAH)							
		From products made in Ukraine	Including			Excise taxes on products imported into Ukraine	Including		
			Duties on tobacco products	Duties on liquor and alcohol beverages	Duties on wine products		Duties on tobacco products	Duties on liquor and alcohol beverages	Duties on wine products
2006	8 544	7 493	1 936	2 504	250	1 051	85	38	12
2007	10 568	9 072	2 350	2 915	307	1 496	91	57	21
2008	12 783	10 230	3 358	3 532	347	2 553	221	90	29

Increment as compared to the previous year, %

2007/2006	124	121	121	116	123	142	107	150	173
2008/2007	124	113	143	121	113	171	242	157	136

Share in total revenue in-flow , %

2006	100,0	87,7	22,7	29,3	2,9	12,3	1,0	0,4	0,1
2007	100,0	85,8	22,2	27,6	2,9	14,2	0,9	0,5	0,2
2008	100,0	80,0	26,3	27,6	2,7	20,0	1,7	0,7	0,2



1.2. Bodies in charge of the problem solution.

The central executive body responsible for adaptation of the Ukrainian legislation to the EU legislation is the Ministry of Justice of Ukraine.

Organization responsible for implementing measures to adapt the Ukrainian tax legislation to the EU legislation is the Ministry of Finance of Ukraine together with the other interested authorities, and, in particular, the State Tax Administration of Ukraine.

Ministry of Finance of Ukraine, in accordance with the Decree of the President of Ukraine “On the Charter of the Ministry of Finance of Ukraine” dated August 26, 1999, ¹ 1081 should secure implementation of the unified state tax policy, in particular, a policy in respect of excise duty. It is also in charge of coordination of activities in this area carried out by other central executive authorities.

State Tax Administration (STA) of Ukraine in accordance with the provisions of “Regulation on the State Tax Administration of Ukraine”, which was approved by the Cabinet of Ministers of Ukraine on May 26, 2007, ¹ 778, is a central executive body, which activities are directed and coordinated by the Cabinet of Ministers of Ukraine through the Minister of Finance. STA ensures implementation of the unified national taxation policy, in particular, on the issues of administration of excise duty, and public policy in the field of control of production and turnover of the ethyl alcohol and spirit drinks and tobacco products.

The main tasks of the STA of Ukraine are:

- control over compliance with the legislation on excise duties, correct calculation of the size of excise duties, their full and timely payment;
- provision to taxpayers needed clarification concerning excise duties taxation;
- running the Unified State Registry of ethyl alcohol, spirit drinks and tobacco products storage sites;
- securing proper operation of excise warehouses storing ethyl alcohol;
- carrying out activities aimed at prevention and control of illicit production and turn-over of ethyl alcohol, spirit drinks and tobacco products, and maintaining the registry of importers, exporters, wholesalers and retailers of such goods.

Ministry of Economy of Ukraine, in accordance with the provisions of the Charter of Ministry of Economy of Ukraine, approved by the Cabinet of Ministers of Ukraine on 26.05.2007, ¹ 777, examines the use of tools of tax policy in the real sector of economy, in particular in respect to excise duty issues, develops proposals on how to improve the efficiency of their use for economic growth.

1.3. The existing legislation regulating payment of excise duty:

- **Decree of the Cabinet of Ministers of Ukraine “On excise duty” dated 26.12.1992, ¹ 18-92** defines definitions and basic elements of excise duty

collection: excise duty payers, types of excise duty rates (ad valorem, specific, mixed), the date of occurrence of tax liabilities, etc.

- **The Law of Ukraine “On excise duty on spirit beverages and tobacco” dated 15.09.1995, ¹ 329** which determines specifics of calculation and payment of excise duty, which is imposed upon the Ukrainian producers of spirit beverages and tobacco products and, as well, those spirit beverages and tobacco products which are imported into the territory of Ukraine, including, in particular, procedure and terms of payment, submission of calculations, responsibility and control over the in-flow of this excise tax;
- **The Law of Ukraine “On the State Regulation of Production and Circulation of Ethyl Alcohol, Cognac and Fruit Alcohols, Alcoholic Beverages and Tobacco Products”, dated 19.12.1995, ¹ 481** regulates production, export, import, wholesale and retail trade in ethyl , brandy and fruit alcohol , spirit beverages and tobacco products, including: labeling, organization of production, procedure for issuance, suspension, revocation of licenses for production, import, export, wholesale and retail trade in the above mentioned excisable goods.
- **The Law of Ukraine “On Rates of Excise Duty on Tobacco Products” dated 06.02.1996, ¹ 30**, which regulates the issue of defining excise duty rates;
- **The Law of Ukraine “On the rates of excise duty on ethyl alcohol and alcoholic beverages” dated 07.05.1996, ¹ 178** also deals with regulation of the issues of defining excise duty rates.

1.4. Information on importers and producers of alcohol and tobacco products.

From beginning of 2009, the import of tobacco products to Ukraine was conducted by 13 economic entities and the largest tobacco products importers are domestic producers of tobacco products.

Production of tobacco products in Ukraine is carried out by 9 factories, of which 5 enterprises are with foreign investments, producing 99.7% of tobacco products and paying 99.9% of total excise tax revenues generated by all producers of tobacco products in Ukraine (For further reference: starting from the second half of the year 2009, production of tobacco goods by CJSC “Gallagher – Ukraine” will be suspended in connection with transfer of its tobacco production facilities to JSC (JT International Ukraine). Experts estimate that the size of the current market in counterfeit (smuggled) tobacco products is about 1%, of the total, which is significantly lower than the share of shadow tobacco market in the EU countries and does not significantly affect the situation in the tobacco industry.

Imports of alcoholic beverages are carried out by 53 business entities, and their production is carried out by over 200 companies of the liqueur & spirits production industry.

Size of shadow sector of the liqueur & spirits production industry (according to different estimates by experts) ranges from 20 to 30% of the total circulation volume.

1.5. Status of negotiations between Ukraine and the EU on the Association Agreement.

Currently, Ukraine is involved into negotiation process regarding the Draft Agreement on Association between Ukraine and the EU, which will be signed to replace the currently existing Agreement on Partnership and Cooperation.

In order to sign the EU – Ukraine Association Agreement, among other imposed requirements, Ukraine faces some new requirements in respect to approximation of the Ukrainian taxation law in the field of excise taxation to principles of the EU legislation.

In particular, it means the need for:

- gradual approximation of the Ukrainian legislation in the field of excise taxation to the excise taxation legislation of the EU, including the excise tax rates on tobacco products;
- development of cooperation of the Parties and harmonization of the policies in respect to combat and control of fraud and smuggling of excisable goods – according to provisions of the WHO Framework Convention on Tobacco Control, in particular its Articles 5 and 6;
- implementation of measures that include use of taxation policy and price regulation in respect to tobacco products in such a way as to facilitate achievement of the human health protection objectives which means reduction in use of tobacco.

1.6. Ukraine's steps in the field of adaptation of the tax laws.

The laws of Ukraine introduced a number of provisions to ensure gradual approximation of the Ukrainian tax law to the EU legislation. These provisions include:

- introduction of a mixed system of taxation of tobacco products (*For further reference: Mixed taxation system – a system of taxation, which simultaneously applies excise duty rates of the fixed size per unit of a excisable product and also imposes additional tax, the size of which is equal to a certain percentage of the revenue received from the sale of such excisable goods (products);*
- establishment of excisable goods warehouses in order to improve the mechanism for administration of collection of the excise duty, control of production, circulation and targeted use of ethyl alcohol.

The main stages.

The year 2004.

A National Program of Adaptation of Ukrainian Legislation to the EU Legislation was approved by the Law of Ukraine “**On the National Program of Adaptation of Ukrainian Legislation to Legislation of the European Union**”, dated 24.03.2004, ¹ 1629 (together with the additional List of the EU Directives, to which should the Ukrainian legislation be adapted, including taxation legislation). This Law defines the purpose, stages and mechanism of implementation of the Program.

Improved was also a mechanism for control of the timeliness and completeness of inflow to the public budget of the revenue generated as a result of collection of excise duty on ethyl alcohol used for production of excisable products. This was achieved through issue to relevant businesses of the alcohol tax bills (tax receipts), the size of which is proportional to the quantity of ethyl alcohol received. Such tax bill has to be endorsed by a bank guarantee.

It is envisaged, in particular, that in case when a producer obtains ethyl alcohol for production of liquor and alcohol beverages he must present to a body of the STA of Ukraine, located at the place of his residence, a tax bill endorsed by the bank for the amount of the excise duty due to be paid. The size of such bill is calculated according to the tax rates charged for such a product and producer is granted a delay of 90 calendar days on payment of this tax bill. In other cases, excise duty is paid depending on the type of alcoholic beverages at the time of buying excise duty stamps.

In the case of production of grape, fruit and other raw wine materials and wort, it is envisaged to apply a similar norm, but the time period for which a tax bill is issued makes up 180 days and is considered to be repaid in case of documentary confirmation of the fact that obtained ethyl alcohol was used specifically for production of such alcohol beverages.

Use of preferential rates has been cancelled and introduced was a single excise duty rate for ethyl alcohol in the amount of 16 UAH /1 liter for production of vinegar, medicines, perfumes, etc.

Concerning medicinal drugs production, it is envisaged by the Law “On the State Budget” that a compensation should be paid on annual basis in order to cover additional costs of drugs production due to introduction of the increased rates of excise duties. The relevant compensation procedure is established by the Cabinet of Ministers of Ukraine.

In late 2004, the development of the system of excise warehouses attached to ethyl alcohol distilleries was initiated, where there are always some representatives of the State Tax Service whose task is to exercise control over production and release of ethyl alcohol. It is planned that later on similar excise warehouses will be arranged at other enterprises producing liquor and alcoholic beverages.

The year 2005.

The Law of Ukraine “On amendments to the Law of Ukraine “On the State Budget of Ukraine for 2005” dated 25.03.2005, ¹ 2505 and some other legislative

acts” increased ad valorem rate of excise duty from 5 to 7%. The minimum limit on the size of excise duty was also established that is calculated using such rate (7%), which should not be less than 40 % the amount of excise tax that is estimated on the basis of the fixed excise tax rate.

During the period starting from May 1, 2005 till the year 2006 , ad valorem rates were increased up to 8% that is to the same rate as is applied in the EU countries. At the same time, introduced, instead of fixed minimum threshold value of the ad valorem component of the excise tax rate, was minimum share of the maximum sum of excise tax of the tax obligation (consisting of fixed and ad valorem rates) equal to 22% of the maximum retail price, excluding excise tax and VAT.

Increase in the rates of excise duty on ethyl alcohol (from 16 to 17 UAH per 1 liter of 100% alcohol), alcohol beverages (from 16 to 17 UAH per 1 liter of 100% alcohol), vermouth-type drinks (from 1.2 to 2.6 UAH per 1 l) and cognac (brandy) (from 3 to 6 UAH per 1 liter of 100% alcohol) was also made.

This law also made changes to licensing of production and circulation of alcoholic beverages and tobacco products.

The Law of Ukraine “On measures to prevent and reduce tobacco use and their harmful impact on public health” on September 22, 2005, ¹ 2899-IV defines basic principles and directions of the state policy aimed to prevent smoking of tobacco products, to reduce their consumption by the population , to restrict access to tobacco products by children, to protect public health from damage inflicted to their health due to progressing of their illnesses, disability and mortality caused by tobacco smoking or by other uses of tobacco. In addition, introduced was a restriction on consumption of alcoholic beverages and tobacco in certain public places (health facilities, public transportation, children playgrounds, etc.) and restriction on sale of these goods (to those persons whose age is below 18, as well as at premises and territories of educational institutions and at the sites of sport events, etc.).

The years 2006–2007.

The Law of Ukraine, dated 15.03.2006, ¹ 3534 has ratified the WHO Framework Convention on Tobacco Control. The main objective of this Convention and its protocols is to protect present and future generations from the devastating consequences for human health as well as social, environmental and economic consequences of tobacco consumption and the impact on human exposure to tobacco smoke.

The Law of Ukraine “On amendments to some laws of Ukraine (regarding the license fees and excise tax on production of alcohols, alcoholic beverages and tobacco products)” dated 17.11.2006, ¹ 374 envisages, with the aim of ensuring compliance of the national law norms with the provisions of WTO agreements and for further approximation to EU legislation, introduction of fees for licenses authorizing production, exports and imports of ethyl alcohol, alcoholic beverages and tobacco products. Size of such license fee is equal to UAH 780 a year. The law also increased rates of excise duty on ethyl alcohol, cognac and tobacco products and abolished discriminatory rates of excise duty on imported wine products.

In the year 2007, increase in excise duty rates was implemented in two stages:

- From the beginning of the year – increase in the rates of excise duty on cigarettes with filter from 11.5 to 12 UAH for 1,000 cigarettes, ad valorem excise duty rates grew up to 9% and the minimum size of the total sum of the excise duty (calculated on the basis of specific and ad valorem excise rates) should not be less than 23 % of the maximum retail price of a tobacco product (excluding VAT and excise duty).
- During the second half of this year – specific rates of excise duty for cigarettes with filter were increased up to UAH 13 for 1,000 cigarettes, ad valorem rates were increased up to 10% and the minimum size of the total sum of the excise duty (calculated on the basis of specific and ad valorem excise rates) should not be less than 24 % of the maximum retail price of a tobacco product (excluding VAT and excise duty).

Also, in 2007 there was an increase of the rates of excise duty on ethyl alcohol and alcohol beverages (in the first half of 2007 from 17 to 18 UAH, and at the second half of 2007 – up to 19 UAH for 1 liter of 100% alcohol). For cognac (brandy) increase was from 6 to 6,5 UAH per 1 liter of 100% alcohol in the first half of 2007 but it again increased up to 7 UAH per 1 liter of 100% alcohol in the second half of 2007.

The year 2008.

Since January 1, 2008 in accordance to the Law of Ukraine “On State Budget of Ukraine for 2008 and amendments to some legislative acts of Ukraine”, dated 28.12.2007, ¹ 107-VI and the Law of Ukraine “On amendments to some legislative acts of Ukraine” dated 03.06.2008, ¹ 309-VI new rates of excise duty on cigarettes with the filter were introduced –14 UAH per 1,000 cigarettes and 12.5% of the revenue from the sales. For cigarettes without filter excise duty was increased to 5 UAH for 1,000 cigarettes and 12.5% of the revenue from the sales (before 01.01.2008 these excise duty rates were, respectively, 13 UAH and 5 UAH for 1,000 cigarettes and 10% of the revenue from the sales). This law also replaced the minimum tax liability for 1,000 of cigarettes equal to 24% of the maximum retail price (without VAT and excise duty) by a fixed rate of 8 UAH for cigarettes without filter and 18 UAH for cigarettes with filter. The rates of excise duty on ethyl alcohol, alcohol beverages (from 19 to 21.5 UAH per 1 liter of 100% alcohol), cognac (brandy) (from 7 to 10 UAH per 1 liter of 100% alcohol) were also increased.

The Law of Ukraine “On amendments to some legislative acts of Ukraine concerning advertising” dated 18.03.2008, ¹ 145 stipulates that from 01.01.2009 prohibited should be advertising of alcoholic beverages and tobacco products by means of the outdoor advertising, and from January 1, 2010 it will not be allowed to advertise alcoholic beverages and tobacco products in all print media (except of specialized publications).

Cabinet of Ministers of Ukraine by its decision of June 4, 2008, ¹ 797-p endorsed the Concept of a target-oriented, social program for reduction of the harmful effects of tobacco on health of the population for the period of 2008–2012, according to which one option for effective solution of this problem is implementation

of the set of measures, including annual increase of the rates of excise duty on tobacco products in order to ensure real growth in prices for such products with simultaneous implementation of measures to eliminate all forms of illicit trade in tobacco products.

The Law of Ukraine “On amendments to Article 1 of Law of Ukraine “On the rates of excise duty on tobacco products” dated 31.07.2008, ¹ 340 again increased rates of excise duty on tobacco, which brought these excise duties to the level stipulated in the EU Directives.

The year 2009.

The Law of Ukraine “On amendments to some laws on taxation”, dated 25.12.2008, ¹ 797-VI envisages step-by-step changes of the rates of excise duty on ethyl alcohol, alcoholic beverages and tobacco products in the direction of their approximation to the rates stipulated by the EU legislation.

In particular, cigars and cigarettes were subject to combined rate of the excise duty equal to 100 UAH for 1 kg, but not less than 47 UAH for 1,000 cigarettes. Such rate is temporary and will be valid until February 1, 2009 but will become permanent after January 1, 2011. Starting from February 1, 2009 these products will be taxed at the rate of 50 UAH and from 1st of July – 75 UAH for 1 kg of the product.

During specified periods of 2009, cigarettes without filter were subject to excise duty of 35 UAH, 15.6 UAH and 19.5 UAH and the minimum tax liability was fixed at 18 UAH, 25 UAH and 32 UAH, respectively.

For cigarettes with filter, fixed during the specified period, were excise tax rates equal to 60 UAH, 37.5 UAH and 45 UAH per 1 kg with minimum tax limitation of 40 UAH, 47 UAH and 60 UAH, respectively.

Also temporary rates of excise duty on tobacco for smoking were established, which in the specified period were fixed at 35 UAH, 15.6 UAH and 19.5 UAH for 1 kg. As for excise rates for chewing and sniffing tobacco, they were fixed at 10 UAH, 6.25 UAH and 7.8 UAH per 1 kg, respectively.

The excise duty rate on ethyl alcohol for a number of medical preparations was fixed at 0% rate but within the fixed quotas. A procedure for allocating such quotas to medical preparations producers prior to obtainment of the alcohol taxation bill, endorsed by a bank and establishment of taxation posts at medical stuff producing enterprises were initiated.

From the first half of the year, excise duty rates on ethyl alcohol, alcohol beverages, alcohol distillates and alcohol-containing drinks (codes 2207, 2208 of the Ukrainian Classification of Goods in Foreign Economic Activities (**UCG FEA**)) was set at the last year level of 21.5 UAH and from July 1 and till the end of the year these rates were increased up to 23 UAH for 1 liter of 100 percent alcohol.

Temporary rates of excise duty were established for alcohol distillates and alcohol beverages obtained by distillation of wine or grape marc (only cognac with codes 208 20 12 00 and 2208 20 62 00 of the UCG FEA system). These rates were equal to: from January 1 till July 1, 2009 – 10 UAH, and for the second half of the year and to the end of the year – 14 UAH for 1 liter of 100 % alcohol.

From January 1, 2009 excise duty rates fixed for fruit and berry drinks (code 2206 UCG FEA) with addition of alcohol were at the level of the last year – 0.10 UAH for 1 volumetric percentage of alcohol in 1 liter. For the second half of this year slightly different rate was fixed – 12 UAH for 1 liter of 100 % alcohol.

From January 1, 2009 reduced rate of excise duty was fixed for fruit and berry drinks (cider, perry and others) without addition of alcohol equal to 0.31 UAH per 1 liter of product, but from July 1, 2009 this rate has been increased to 0.34 UAH per 1 liter but only for cider and perry drinks.

Starting from July 1, 2009, the rate of excise duty on natural grape wines was reduced from 0.25 down to 0.01 UAH per 1 liter of product. The rate of excise duty on malt beer (the UCG FEA code – 2203 00) was increased from 0.31 to 0.34 UAH per 1 liter, which takes effect from 1 July 2009.

The Law of Ukraine “On amendments to some legislative acts of Ukraine on the excise duty” dated 31.03.2009, ¹ 1201 and the law “On amendments to some laws regarding excise duty”, ¹ 1202 stipulate that starting from May 1, 2009, that is earlier than was provided for in the current law, namely from January 1, 2011, rates of excise duty fees in fixed amounts per unit of sold goods, e.g. cigarettes without filter, should be equal to 35 UAH for 1,000 cigarettes; for cigarettes with filter – 60 UAH for 1,000 pieces; the size of the minimum tax liability in respect to payment of excise tax for each brand of cigarettes should be fixed at 50 UAH per 1,000 cigarettes without filter and 100 UAH per 1,000 cigarettes with filter. For smoking tobacco this rate is 35 UAH per 1 kg of tobacco and for chewing and sniffing tobacco this rate is fixed at 10 UAH for 1 kg.

In addition, also increased from 16 to 20 % was the rate of excise duty expressed as a percentage of the sale turnover volume.

Calculation of excise tax rates as a percentage of the turnover of sales of goods will be based upon their value calculated by using data on their maximum retail prices, without VAT, but including excise duty. These excise tax rates are as shown below:

- sparkling wines and carbonated wines – from 1.6 to 2.5 UAH per 1liter or in 1.5 times;
- ethyl alcohol and liquor-alcohol beverages – from 21.5 UAH to 34 UAH per 1 liter of 100% alcohol, or increase of 26%;
- fruit and berry drinks having UCG FEA 2206 code (with addition of alcohol)– increase up to 34 UAH per 1 liter of 100% alcohol.

Also, indexation of specific rates of the excise duty and the minimum tax obligations for taxation of tobacco products are introduced on annual basis. Excise duty rates for ethyl alcohol and alcohol beverages are also subject to indexation in accordance to changes in the size of the consumer prices index.

1.7. Impact of the level of excise tax on level of consumption of excisable products and, in particular, alcoholic beverages and tobacco smoking.

Tobacco smoking is one of the most negative factors affecting human health, leading, in particular, to occurrence of cardiovascular and chronic lung diseases, various cancer pathologies. According to the WHO, in Ukraine, due to diseases related to smoking, annual mortality rate makes up about 100 thousand people, representing 13% of overall mortality.

According to the polls carried out by the State Committee on Statistics, the level of tobacco smoking among persons aged 12 years and more rose from 22.9% in 2002 to 25.4% in 2006. The total number of smokers is almost 10 million people.

Among causes of death of the Ukrainian population in 2009, as well as in 2008, third place – due to external causes of death, including accidental poisoning and impacts of alcohol (in January–February, 2009 there were 1, 415 of such cases; in January–February, 2008 – 2,057 cases or , respectively, 1.1% and 1.4% of the total number of deaths).

Authorities of the Ministry of Internal Affairs conduct prevention measures in respect to 238.5 thousand chronic alcoholics and those who abuse alcohol. During 2009 further identified and included into the list of persons subject to preventive alcohol abuse treatment were 8.9 thousand of such people. In January–March, 2009, the total number of persons involved into crimes (52.8 thousand), discovered by police authorities, 14.7% were in a state of alcoholic intoxication.

Information on expenses for alcoholic drinks and tobacco as a share of the total expenditures

1999	2000	2001	2002	2003	2004	2005	2006	2007
2,9	3,0	2,8	2,6	2,8	2,8	2,9	2,6	2,6

In the structure of total expenditures per month and per household share of expenditures for alcohol and tobacco reaches 3%. These data are presented by the State Statistics Committee of Ukraine “On the social and economic situation of Ukraine in January-March 2009”, and by the Ministry of Internal Affairs of Ukraine.

2. Main Problems

Taking into account the need for preparation of the Draft Agreement on EU – Ukraine Association, the level of responsibility for ensuring compliance with requirements imposed by the need to adapt national legislation to specified list of the EU Directives is increasing. In particular, there is a need to adapt the Ukrainian legislation regulating excise duty on tobacco products and alcoholic beverages. At the same time, Ukraine faces certain risks arising from introduction of such adaptation measures.

2.1. Incompatibility of the taxation norms of the Ukrainian legislation to requirements of the relevant EU Directives.

Currently, the national legislation regulating excise duties collection contains some provisions that do not comply with the EU legislation. Use of some of its norms indicates that there is a need to improve these legal norms with due account for positive international experience and current economic realities.

The most important aspect of the national laws, which does not comply with the EU legislation, is much lower level of rates of excise duty on tobacco products.

Background: *According to the European legislation, each state - the EU member has to introduce general minimum rate of excise tax (specific rate plus ad valorem rate, without VAT), the level of which shall be not less than 57% of the retail price (inclusive of all taxes), or 70% (with VAT) for the most popular price category. Total minimum rate of the excise tax shall be not less than 64 Euros per 1,000 cigarettes.*

At the present time, the rate of excise duty including VAT for cigarettes with filter in Ukraine is almost close to the relative measure (50– 67%) of the retail price, but in money terms it is lower than in the EU and makes up 10 euros.

In Ukraine, calculation of the minimum tax liability is carried out individually for each brand of cigarettes (having its own brand name), while in the EU, the minimum rate of tax obligation is determined on the basis of the most popular price category.

In various EU countries, there is different correlation between levels of fixed rate of the excise duty and its ad valorem component, namely: in the poorer countries (in the Southern Europe) the greater share of revenue is provided through a fixed rate, but in the richer countries - through ad valorem rate).

No less important aspect is the lack of adapted to the EU legislation provisions concerning the rules of transportation of alcohol and tobacco products, requirements for their storage at the territory of Ukraine only at tax warehouses, for opening of which it is necessary to have permission of the State Tax Service.

2.2. Low human and technical capacity to effectively administer the excise tax issues.

Tax and customs services of Ukraine do not have advanced technology and experience necessary to adequately administer tax regime adopted by the EU.

Imperfection of the national system of administration of the excise duty issues (e.g. lack of sufficient information on circulation the excisable goods) is felt quite well.

2.3. Impact of economic policies in the neighboring countries.

Foreign trade relations of Ukraine with the neighboring countries, existence of open borders with several countries, threat of smuggling, etc are the factors which facilitate the need to harmonize domestic tax policy of Ukraine with those measures which are taken in this area by the neighboring states (e.g., when determining the rates of excise duties).

The share of smuggled cigarettes in the general tobacco market of the Czech Republic – 18%, , Estonia – 25%, Lithuania – 35%, Slovakia – 30%, Germany – 23%, UK – 18%, while in Ukraine, according to experts opinion , the share of smuggled cigarettes is only about 1%.

Source: International Tax and Investment Center and Oxford Economics.

Rates of the excise duty on tobacco products in Ukraine are already higher than the corresponding rates in Russia and Moldova, which increases the risk of cigarettes smuggling to Ukraine because there is no well engineered state border between these countries and Ukraine.

Rates of tobacco excise duties in Ukraine, Russia and Moldova

Rate of excise duty	Russia	Moldova	Ukraine
	February, 2009	February, 2009	May, 2009
Specific component, in UAH for 1,000 cigarettes	33,16	4,71	60
ad valorem ,%	6	3	20
Minimum excise tax obligation , in UAH for 1,000 cigarettes	39,13	–	100

Minimum prices for cigarettes with filter in Ukraine, Russia and Moldova

	Ukraine	Russia	Moldova
Minimum price, in UAH	4,30	1,44	1,76

2.4. Not reliable enough prospects for economic growth, low level of income of the population in Ukraine, compared with the European one, does not allow to increase the minimum rate of excise duty on tobacco to the size set by the EU Directives.

Basic macro indices forecast of economic and social development of Ukraine till the year 2013

Indices of the year ago	2010		2011		2012		2013	
	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2	Scenario 1	Scenario 2
GDP, real growth rates , in %	103,0	100,8	105,4	103,5	107,2	104,6	106,5	105,0
Real increment of the size of average monthly wages of employees	2,7	0,2	5,4	3,6	8,3	5,0	8,0	5,0

According to reports in the media, in Poland the average wage in February 2009 was 3,033 PLN (Polish Zlotych) (**689.3 Euro**), the price of a pack of cigarettes – 0.2%. In February 2009 in Ukraine the nominal average monthly wage of one worker was UAH 1,692 (172.1 Euro), the price of one pack of the Bond brand of cigarettes was also – 0.2%. It implies that an increase in the size of the excise tax (in money terms) per a pack of cigarette is possible only under conditions of increase of the income of the population.

3. Strategy Objectives

The main objectives of the strategy is to define the obligations of Ukraine in the respect of future EU – Ukraine Association Agreement and creation of conditions for their implementation, taking into account the level of economic development of Ukraine and protection of the domestic market using mechanisms that are consistent with WTO rules.

3.1. General objectives:

- adaptation of the Ukrainian legislation on excise duties to the EU legislation, taking into the account economic feasibility;
- acquiring membership of Ukraine in the EU (in-depth integration);
- limitation of the harmful effects of tobacco smoking.

3.2. Specific goals:

- improvement of the management of excise duty related activities (incl. tax collection and control);
- ensuring stability and systematic basis of the relevant legislation (codification of the law);
- increase of tax revenues in-flow to the public budget.

3.3. Operational objectives:

- introduction of a system of excise goods warehouses of the European type;
- training of the personnel and creation of an information system in regard to excisable goods.

4. Main Activities to Achieve Defined Goals

4.1. Tasks related to implementation of the Agreement on Association with the EU.

4.1.1. Increase of the rates of excise duty on tobacco products in accordance with the obligations to the EU (with due account for the level of excise tax on tobacco products in the neighboring countries – Russia, Moldova, Belarus).

4.1.2. Implementation of a system of excise goods warehouses of the European type.

4.1.3. Codification of the legislative norms concerning excise duties in the form of a single legislative act, which would also secure harmonization of the existing national legislation with the EU legislation:

in the field of circulation of tobacco products:

- harmonization with the EU legislation of the legal terminology used in the legislation dealing with issues of tobacco products taxation;
- gradual achievement of the same level of rates of the proportional excise duty and the size of the fixed amount of excise duty for all cigarettes;
- introduction of legal norms imposing tax exemption in respect to:
 - denatured tobacco products, used for industrial purposes or for the horticulture;
 - tobacco products that are destroyed under administrative supervision;
 - tobacco intended purely for scientific testing or testing associated with assessment of tobacco product quality;
 - tobacco products that are processed by the producer;

in respect to turn-over of alcohol and alcoholic beverages:

- definition of the term “beer” and introduction of this term into the relevant legislation;
- definition of the term “intermediate goods” and introduction of this term into the relevant legislation.
- Introduction of tax exemption for ethyl alcohol in the following cases:
 - if it is used for the production of vinegar (Code KH 2209);
 - if it is used for the production of flavors for production of foods and non-

alcoholic drinks, strength of which does not exceed 1.2% of volume;

if it is used directly or as part of the semi-ready raw materials used for preparation foods with filling or for other similar purposes , provided that in any case, alcohol content does not exceed 8.5 liters of pure alcohol per 100 kg of products – for chocolate, and 5 liters of pure alcohol per 100 kilograms of products – other products;

if it is used as samples taken for further analysis, carrying out required production tests or for scientific purposes;

if it is used for scientific research;

if it is used for medical purposes in hospitals and pharmacies.

4.1.4. Purchase of technical equipment, development of software and training of the personnel of control authorities, taking into account the existing norms.

4.2. Identification of alternative solutions to be applied at different levels.

4.2.1. At the political level.

Evaluation, on the basis of economic feasibility, the issues related to acceptance of certain commitments concerning approximation of the provisions of the national legislation on excise duties to the relevant EU legislation in the framework of the EU–Ukraine Association Agreement.

4.2.2. At the legislative level.

Approximation of the current Ukrainian legislation to relevant EU Directives by introducing relevant amendments into the laws which govern the issues of excise duties and taxes and state regulation in the field of production and circulation of alcohol, alcoholic beverages and tobacco products but with due account for the need to protect interests of domestic producers.

Protection of domestic producers is carried out, on one side, under conditions of deepening processes of globalization of markets and liberalization of international trade rules (WTO), on the other side, under the need to overcome the global financial crisis. These factors necessitates use of specialized tools for protection of the domestic market, and that need must be acknowledged by the relevant legislation consistent with requirements of the WTO and the norms of the European Union.

Alternative 1.

The adoption of a legislative act, which would envisage gradual approximation of the national legislation, concerning use of excise taxes and state regulation in the field of production and circulation of alcohol, alcoholic beverages and tobacco products, to principles of the EU legislation.

In addition, it is necessary to ensure adoption, on the annual basis and in line with the current legislation, of a governmental decision concerning indexation of the size

of the specific excise rate on tobacco, alcohol and alcoholic beverages in accordance with the consumer price index of the time.

Alternative 2.

The adoption of a legislative act, which envisages approximation of the national legislation on taxation of excisable goods and state regulation in the field of production and circulation of alcohol, alcoholic beverages and tobacco products to the principles of the EU legislation and gradual increase of specific rates of excise duty on tobacco products during the next 10 years period to the minimum level established by the EU Directive (64 Euro for 1,000 cigarettes).

Memo: According to the provisions of the EU accession treaties, dated 16.04.2003 and 25.04.2005 which regulated conditions for accession and amendments to the previous treaties upon which the European Union is based, new EU Member States were granted the transitional periods ranging from 2 to 6 years.

Codification of the Ukrainian legislation on taxation of excisable goods presupposes a development of a single legislative act (perhaps as a separate section of the Tax Code draft) implications of which would be:

4.2.3. On financial level.

Calculations of total financial resources required for implementation of each task.

5. Possible Implications of the Implementation of the Strategy

5.1. Evaluation of the consequences for the sector and the economy in general:

- improvement of the administration of the excise duty related activities;
- prevention of diversion of the operational capital of the producers due to introduction of the regime of tax warehouse (tax suspension);
- facilitation of the process of obtainment of the EU membership status.

5.2. Assessing the impact on the state budget.

Alternative 1.

Excise duty imposed upon domestic tobacco products (* 2009–2013 forecast), in billion UAH

Period	2005	2006	2007	2008	2009	2010	2011	2012	2013
Excise duty on tobacco products	1,7	1,94	2,35	3,36	7,3*	10,4*	11,4*	12,9*	14*
Excise duties on Alcoholic beverages	2,3	2,8	3,2	3,9	4,5*	5,5*	6,2*	7*	7,6*

Alternative 2.

It is hard to forecast in-flow of the State budget revenues under conditions of the further increase of the excise duty rates to their European level because it will cause a substantial reduction in the volume of legitimate circulation and legal sale volumes of excisable products.

5.3. Assessment of impact on society (for different interest groups).

Risks posed to Ukraine due to substantial increase in the rates of excise duty:

- infiltration of smuggled goods to Ukraine from the neighboring countries (Russia, Belarus, Moldova);
- no guarantee that illegal export to the EU will be stopped (because price difference will remain);
- increase in production of counterfeit and accounted-for excisable products;
- increase of the damage to the population due to use of poor-quality alcoholic beverages and tobacco products. Ukraine will become a transit zone of excisable goods without payment of the due excise duty for goods from the CIS to the EU countries.

The gradual increase of the share of the excise tax in the price of goods will generate a positive impact on the level of health of the population, namely will lead to reduction of number of smokers and diseases caused by smoking and alcoholism. It will also lead to reduction in the number of crimes committed in a state of alcoholic intoxication, as well as will encourage family budget savings (by reducing households expenses for alcohol and tobacco).

6. Key Steps and the Responsible Institutions

¹	Measures	Implementation period	Funding resources	Responsible national institutions
1.	Analysis of compliance of the existing tax legislation of Ukraine with the relevant EU legislation in order to identify those regulations and norms which were not taken into account at all or were accounted for but only partially	2009	Funding from the available budget funding	Ministry of Finance, State Tax Administration, Ministry of Economy, Ministry of the Agrarian Policy, Ministry of Justice
2.	Assessment of the feasibility and practical ability of introduction into the national legislation of the omitted norms	2009	Funding from the available budget funding	Ministry of Finance, State Tax Administration, Ministry of Economy, Ministry of the Agrarian Policy, Ministry of Justice
3.	Preparation of recommendation on introduction of changes to the existing legislation of Ukraine	2010	10,000 UAH	Ministry of Finance, State Tax Administration, Ministry of Economy, Ministry of the Agrarian Policy, Ministry of Justice
4.	Measures to facilitate adoption by the Verkhovna Rada of Ukraine of the changes to the existing legislation	2011	15,000 UAH	Cabinet of Ministers of Ukraine, Ministry of Finance, State Tax Administration
5.	Introduction of legal norms (development of secondary law acts, guidelines, production of required letter forms, booklets)	2012	1 million UAH	State Tax Administration, State Customs Administration
6.	Purchase of technical equipment, establishment of communication network, provision of software and training of the personnel of the tax control authorities	2012	15 million UAH	State Tax Administration, State Customs Administration

7. Criteria for Evaluation of the Strategy Effectiveness

- Increase in revenues in-flow to the budget secured by the relevant legislation.
- Reduction in the number of diseases caused by consumption of tobacco and alcoholic products.
- Reduction in the number of crimes committed in a state of alcoholic intoxication.
- Reducing of the share of household expenses for purchasing alcohol and tobacco.

8. Monitoring and Evaluation of the Effectiveness of the Strategy Implementation

The set of commitments in respect to approximation of the national legislation to the EU legislation will be included as an Annex to the EU–Ukraine Association Agreement.

By analogy with currently common reporting system concerning progress in implementation of the National Program of Adaptation of Ukrainian legislation to EU legislation and the EU – Ukraine Action Plan, after conclusion of the Agreement on Association between EU and Ukraine it may be possible to develop relevant annual implementation plans and reporting on a progress of such implementation works can be made on every six months basis.

Central bodies of executive power responsible for activities concerning laws adaptation and fulfillment of obligations to the EU currently include the Ministry of Justice of Ukraine and Ministry of Economy.

Monitoring of the implementation of strategy for approximation of the Ukrainian legislation on excise duties on alcohol and tobacco to the EU legislation is performed by the Ministry of Finance together with the State Tax Administration, which report to the Ministry of Justice and Ministry of Economy. The latter two ministries convey, after approval by the Government, information about implementation of the agreed commitments to the European side.

Assessment of the effectiveness of approximation of the Ukrainian legislation on excisable goods taxation to the EU legislation can be carried out on the basis of the comprehensive assessments of individual measures. Theoretical measures (harmonization of definitions and norms classification) can be expressed by the ratio between the numbers of harmonized norms and the total number of the relevant norms. Measures that deal with commitments to adjust rates of excise duties are measured by percentile increase in their size.

Information about the Activities of Policy Analysis Groups

The project “Development of a Network of Policy Analysis Groups in the System of Central Executive Bodies in Ukraine” is aimed at:

- promoting the development of democratic governance in Ukraine;
- promoting the strengthening of institutional capacity of central bodies of executive power for policy making;
- improving the coordination of public policy development;
- strengthening the strategic character and analytical support of decisions and enhancing the quality of overall government planning; and
- enhancing civil servants’ professionalism in developing policy proposals.

The legal basis for policy analysis groups functioning includes:

1. Order of the Cabinet of Ministers of Ukraine on “Activities of Policy Analysis Groups”, dated December 30, 2008 ¹ 43542/99/1-08.
2. Regulation of the Cabinet of Ministers of Ukraine “On approval of the year 2008 “EU – Ukraine Action Plan“, dated August 6, 2008 ¹ 1072-p.
3. Memorandum of Understanding between the Government of Ukraine and the Government of Canada concerning Ukrainian Civil Service Human Resources Management Reform Project, signed on May 26, 2008.
4. Regulation of the Cabinet of Ministers of Ukraine “On Ensuring Functioning of the Policy Analysis Groups in Central Executive Bodies and the Secretariat of the Cabinet of Ministers of Ukraine”, dated February 7, 2007 ¹ 32-p.
5. “Civil Service Development Program for 2005–2010”, approved by the Cabinet of Ministers of Ukraine on June 8, 2004 ¹ 746, with changes approved by the Cabinet of Ministers of Ukraine on September 3, 2008 ¹ 776.

The objectives of the project are the following:

- holding a series of practical target-oriented trainings and ensuring exchange of experience between the groups in respect to policy analysis, including methodology and practice of the comprehensive study of a situation and identification of a problem, assessment of its causes and implications, selection of alternative approaches to problem solution based on cost-benefit analysis and consideration of different stakeholders’ opinions;

- drafting policy documents relating to fulfillment of obligations imposed by the future EU – Ukraine Association Agreement with clear definition of tasks and steps for implementation of this Agreement;
- organizing public consultations aimed at discussion of proposed policy documents.

Policy documents developed by policy analysis groups in 2009:

- A policy on overcoming technical trade barriers: standardization and conformity assessment;
- Improvement of risk management in financial services sphere in Ukraine;
- Consultations on improving the investment climate of the agricultural sector of the Ukrainian economy;
- Dissemination of information on public procurement: adaptation of the Ukrainian legislation to the *acquis communautaire*;
- Strategy for the improvement of state sanitary and phytosanitary control and surveillance at state border crossing;
- Determination of optimal ways to reduce the level of piracy in Ukraine with respect to copyright and related rights in the course of circulation of copyright objects on tangible mediums;
- Harmonization of the national aviation safety system with European standards within the framework of the common aviation area Agreement. Participation of Ukraine in the European Aviation Safety Agency;
- Development of water resources management policy under the “Environment” Section of the EU Association Agreement;
- Priority efforts for the integration of unified power system of Ukraine into unified power systems of the European Union;
- Harmonization of Ukrainian legislation on the application of excise duty on alcohol and tobacco products in the context of the future Agreement on Association with the European Union.

Previous Initiatives on Policy Analysis

This project is a logical follow-up of the previous policy analysis initiatives carried out by the Main Department of Civil Service of Ukraine and international donors:

- “Public Policy Capacity Building” (1999–2003);
- “Establishing Policy Analysis Groups and an Information Resource Centre in the Government of Ukraine” (2000–2001);
- “The Activity of Policy Analysis Groups (PAGs) in Government Bodies in Ukraine” (2005–2006);
- “Strengthening the Institutional Capacity of Central Executive Power Bodies for Policy Making in the Context of the Concept Development of a Training and Consultative Center for the Highest Corps of Civil Servants” (2007–2008).

Firstly, such initiatives were funded by foreign donors, in particular, by the Canadian International Development Agency (CIDA) and the Swedish International Development Agency (SIDA).

Within the framework of the first project “Public Policy Capacity Building” (1999–2003) students of the National Academy of Public Administration under the President of Ukraine (NAPA) were engaged in the policy analysis training. The training included the internship in Canada and drafting of policy papers. Based upon project results, a course on policy analysis was included into the Academy’s curriculum, with practical assignments in drafting policy papers on selected topics.

The next project “Establishing Policy Analysis Groups and an Information Resource Centre in the Government of Ukraine” (2000–2001) was implemented as a joint initiative of the Cabinet of Ministers of Ukraine, International Center for Policy Studies (ICPS), Open Society Institute (OSI) and International Renaissance Foundation (IRF) with financial support from IRF under the tripartite agreement on cooperation between the Secretariat of the Cabinet of Ministers of Ukraine, ICPS and the IRF. The participants of this project were 49 governmental officials of higher and middle rank from the Ministry of Economy, Ministry of Finance and the Secretariat of the Cabinet of Ministers.

The outcome of these projects was inclusion into Regulations of the Cabinet of Ministers of Ukraine of a section that set requirements to policy documents (“policy decisions”), in particular, with regard to analysis of alternative solutions.

Upon the initiative of the Main Department of Civil Service of Ukraine, the efforts towards creation of policy analysis groups in central bodies of executive power continued in 2005. The projects were implemented by the Center for Adaptation of the Civil Service to the Standards of the European Union (the former name – Center

for Civil Service Institutional Development under the Main Department of the Civil Service of Ukraine), and were financed from the State Budget. List of policy documents developed by policy analysis groups during 2005–2008, is presented in Table 1.

In 2005–2006 the International Centre for Policy Studies implemented a project “The Activity of Policy Analysis Groups in Government Bodies in Ukraine”. The Department for International Development of the United Kingdom (DFID) and the Delegation of the European Commission to Ukraine provided assistance in engaging foreign consultants and trainers. The project results demonstrated the need to modify the training programs, to create policy analysis groups in other governmental bodies and to develop the network of policy analysis groups as a permanent forum for the articulation of new policy priorities and discussion of trends and prospects of social development.

The project “Strengthening the Institutional Capacity of Central Executive Power Bodies for Policy Making in the Context of the Concept Development of a Training and Consultative Center for the High Corps of Civil Servants”, which was implemented during 2007–2008, showed the importance of enhancing professional capacity of top civil servants in policy analysis and democratic decisions-making process. The need to acquire more knowledge and skills is emphasized in the context of participation of the government bodies in the Twinning projects.

Table 1. Analytical documents prepared by the policy analysis groups in 2005–2008

¹	Central executive body	Period of activity of PA groups	Subject of study
1.	Secretariat of the President of Ukraine	2005–2006	Strategy of democratic development of Ukraine and institutionalization of public policy tools in work of central bodies of executive government
2.	Secretariat of the Cabinet of Ministers of Ukraine	2005–2006	Democratization of decision-making process and compliance with the European requirements on applying democratic procedures in the decision-making process
3.	National Bank of Ukraine	2007–2008	Building the National Bank of Ukraine on the basis of independent, open and transparent activity
4.	Ministry of Economy of Ukraine	2005–2006	Policy and procedures for the preparation of state budget as the strategy for economic development of the country
5.	Ministry of Finance of Ukraine	2005–2006	State fiscal and taxation policy

6.	Ministry of Transport and Communication of Ukraine	2005–2006	State policy of Ukraine on integration of Ukraine to trans-European transport networks
7.	Ministry of Fuel and Energy of Ukraine	2007–2008	Creation of minimum supplies of oil and oil products
8.	Anti-Monopoly Committee of Ukraine	2005–2006	Policy in respect to liberalization of the domestic market and raise of competition at this market
9.	State Tax Administration	2007–2008	Improvements in tax information exchange
10.	State Committee of Ukraine on Technical Regulation and Consumer Policy	2005–2006	Policy of adaptation of the national legislation to norms and standards to requirements of the European Union
11.	State Nuclear Regulatory Committee of Ukraine	2007–2008	Increasing safety for resources of ionizing radiation in Ukraine
12.	State Agency of Ukraine for Investments and Innovations	2005–2006	Attracting foreign investments to Ukraine: problems and solutions
13.	State Commission on Securities and Stock Market	2007–2008	Increasing the level of corporate governance in joint-stock companies and ensuring of investors' rights
14.	National Electricity Regulatory Commission of Ukraine	2005–2006	Policy on regulation of the domestic electricity market
15.	National Space Agency of Ukraine	2005–2006	Policy on institutional development of the national space industry under market conditions
16.	Administration of State Border Service of Ukraine	2007–2008	Improvement of the system of border crossing in Ukraine for persons and transport vehicles
17.	State Department for the Execution of Punishment of Ukraine	2007–2008	Identification of the most optimal ways for minimizing the number of detainees in custody, and observance of norms for detention procedures in Ukraine

Information edition

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**Harmonization of Ukrainian Legislation on the Application of Excise
Duty on Alcohol and Tobacco Products in the Context of a Future
Agreement on Association with the European Union**

developed within the framework of the "Development of a Network of Policy Analysis
Groups in the System of Central Executive Bodies in Ukraine" project

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