Autonomous EU trade preferences for Ukraine: first results for agricultural sector

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Although implementation of the Deep and Comprehensive Free Trade Agreement (DCFTA) was postponed largely for political reasons, the EU introduced preferential trade measures for Ukraine, which opened new opportunities for development of Ukrainian agriexports to the EU. Implementation of the DCFTA, planned starting from January 2016, will stimulate agri-food trade and help to improve the food quality and safety standards in Ukraine between the EU and Ukraine even further. However, both the government and business should use the time in the most effective way to prepare for a tough competition with the EU producers.

Agri-food trade between the EU and Ukraine

The European Union is the largest trade partner of Ukraine for agricultural and food products and its importance is growing year by year. In particular, the share of the EU-27 in total agri-food exports increased from 22% in 2009 to 26% in 2013. Figure 1 shows that agri-food exports to the EU-27 increased by more than 2 times in the last five years amounting to USD 4.5 bn in 2013 with (i) oilseeds and oleaginous fruits, (ii) animal or vegetable fats and oils as well as (iii) residues and waste from the food industry being the largest exporting categories (28%, 11% and 11%, respectively).

The share of some Ukrainian products in the EU agricultural and food imports is considerable, for example, corn (26%), oil-cake and other residues from sunflower seeds (38%), sunflower seed/safflower oil (20%), millet (20%), low erucic acid rape/colza seeds (17%).

In turn, imports grew by about 70%. Contrary to total merchandise trade balance of Ukraine, which is usually negative, agri-food trade with the EU-27 was positive (except for 2010) for the last five years and the surplus is growing because import is increasing more slowly than the export.

In the first 10 month of the 2014, trade turnover by agricultural products between the EU and Ukraine increased by about 2.5% (compared to the same period last year) to USD 6.5 bn. Positive trade balance amounted to about USD 1.9 bn. Total Ukraine’s agricultural and food exports increased by 4.2% (compared to 10 month of 2013) to USD 13.7 bn. At the same time, exports to the EU boosted by 16% to USD 4.2 bn.

Figure 1. Agri-food trade between the EU-27 and Ukraine (from Ukrainian side)

![Chart showing agri-food trade between the EU-27 and Ukraine](http://wits.worldbank.org/register.html#)

In particular, export to the EU of fats and oils of animal or plant origin increased by 57.3%, cereals – by 39%, wastes and residues of food industry – by 28%.

Increase in exports to the EU in 2014 could be explained by a range of factors including favourable situation at the international market, application of the autonomous trade preferences by the EU, depreciation of hryvnia boosting price competitiveness of Ukrainian products and gradual harmonisation of Ukrainian standards with European ones. At the same time, agricultural and food imports from the EU fell by about 15.7% to USD 2.3 bn due to depreciation of hryvnia, imports substitution, and weakened consumption demand.

1 Shares calculated based on the absolute values, source: http://wits.worldbank.org

2 The largest shares in the trade turnover have Spain (14.3%), Germany (10.6%) and France (8.1%). According to the Ministry of Agricultural Policy and Food, http://minagro.gov.ua/node/15378 .
Autonomous EU trade preferences for Ukraine

Association Agreement between the EU and Ukraine was simultaneously ratified by the European Parliament and Parliament of Ukraine on the 16th of September, 2014. However, bilateral implementation of the trade component was postponed for political reasons till January 2016. Instead, EU introduced preferential trade regime within a wider package of economic and financial assistance to Ukraine. Relevant regulation (EC N 374/2014) came into an effect as of 23rd of April, 2014. Trade preferences are based on the agreement on liberalised access to the EU market under the Association Agreement, which should have been implemented in the first year of free trade regime between the EU and Ukraine.

Autonomous trade preferences envision abolishment of import duties on majority of industrial products (25-97 commodity groups) as well as agricultural products and foodstuffs (1-24 commodity groups) and introduction of zero tariff rate quotas (TRQs) for 16% of agri-food products. Administration of TRQs is carried out in accordance with two approaches:

a) Annex II of the Regulation provides a list of 27 groups of commodities and amount of TRQs allocated based on the principle “first come – first served”.

b) Annex III lists import quotas for 6 groups of commodities (including beef, pork, poultry, eggs and albumins, dairy products and grains) which are administered based on licensing of importers (economic operators of the EU-member countries).

It should be noted that TRQs discussed above limit only the amount of duty-free import from Ukraine. Import of products in access of defined TRQs is subject to general terms of trade.

Initially, zero TRQs were allocated for the period from 23rd of April to 31st of October, 2014. Considering that implementation of the DCFTA was postponed by 2016, the EU decided to continue autonomous trade preferences by the end of 2015 and granted quotas for import at the same level as in 2014.

First steps of Ukrainian agri-food producers towards the EU market

As illustrated by the Figure 2, several zero TRQs were fully exhausted in 2014 while allocation of others is not even started or filled up very slowly. First of all, this is the case because approximation of Ukrainian legislation on food quality and safety with the EU one is not yet completed. Thus, not all types of products could be exported to the EU. Secondly, Ukrainian producers need time to found interested counterparts and build trust in their products.

It should be noted that certain TRQs are considerably below the export potential of some product groups, while TRQs for other products are much higher than could be used by Ukraine in the near future. For an example, TRQs for mutton and goat meat is 20 thsd t/year, while total production in Ukraine was at about 17 thsd t/year in 2014.

By the end of the first period (December 31, 2014) of autonomous trade preferences granted by the EU to Ukraine, TRQs (allocated on the basis of first come, first served) for exports of natural honey, grape and apple juices, cereal grain and groats and processed tomatoes were fully exhausted. TRQs for malt and wheat gluten, bran and other residues, sugar and chocolate, starches and inulin, onions and garlic were used by 28%, 12%, 11%, 7% and 7%, respectively, while exports of products in 15 categories have not even started. In total, 27 commodity categories of TRQs were used by about 25% in absolute values.

TRQs based on import licenses were fully used only for corn, wheat and poultry, and only by 9% for barley. Overall 211 Ukrainian enterprises received the permission to export their produce to the EU by the end December, 2014.

Honey is one of the Ukrainian products which is successfully expanding its share at the international market. During the period from January to October, 2014, about 27.2 thsd t of honey was exported compared to 16.7 thsd t for

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4 Decision № 2014/691/EC as of 29.09.2014.  
6 http://ucab.ua/ua/pres_sluzhba/tovari/vyrobushky_2014/eksport_barariani_ta_kozylatini_do_es_na_2014_perevischue_i_virobnistvo_v_ukrini/category=29780  
the same period last year\(^8\). Germany (50\%), Poland (21\%) and USA (12\%) are the key importers of Ukrainian honey. TRQ of 5 t thsd tons for duty-free import to the EU was filled up very quickly.

Autonomous trade preferences introduced by the EU in April envision also zero TRQs for dairy products. However, exports of these products (particularly, yogurts and dairy spreads) have not yet started because Ukrainian producers first have to prove compliance with the EU food quality and safety standards.

**Figure 2. Share of the EU TRQs used by Ukrainian producers**

![Graph showing share of EU TRQs used by Ukrainian producers](source: Taxation and Customs Union, Ministry of Economic Development and Trade of Ukraine)

In October 2014, the Commission of the Food and Veterinary Office (FVO) of the EU Directorate General for Health and Consumer Protection inspected compliance with the EU food quality and safety requirements of Ukrainian dairy producers. The Commission revealed certain deficiencies, which are to be corrected for producers to comply with the EU standards. Then, FVO’s representatives will start consultations with national bodies of the EU member states regarding the decision whether dairy processing units in Ukraine could be included in the EU registry. Civil servants and business in Ukraine are rather optimistic about perspectives of exports of dairy products to the EU market starting in the second half of 2015.

The EU dairy market is saturated and highly competitive. Thus, it will be quite hard for the Ukrainian producers to enter it and obtain considerable share for the market. However, acquisition of a number in the EU register (as a prove for compliance with the EU quality and safety standards) is also important to increase Ukrainian exports to other markets.

Regarding meat products, only poultry could be exported to the EU at the moment. In July, 2013, four\(^9\) large poultry producers obtained permission for export of their produce to the EU market and by the end of the year poultry shipments reached about 413 t. In 2014 EU TRQ for duty-free import quota of poultry was defined on 36 t thsd, which was contracted pretty quickly\(^{10}\).

**Future perspectives**

According to the estimates of the APD\(^{11}\), reduction of EU import tariffs envisioned in the DCFTA could result in 18-20% increase of agri-food related\(^{12}\) exports during the first ten years of trade liberalisation with the EU. The largest increase of exports is expected to be observed in cereals, tobacco, meat and miscellaneous edible products. Abolishment of Ukrainian export duties is likely to duplicate oilseeds exports over ten years period. Additionally, trade liberalisation with the EU could result in exports of products worth USD 2.3 bn, which are currently not exported to Ukraine. This is especially relevant for dairy products and birds' eggs, cereals and cereal preparations, meat and

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\(^8\) 7.5 t thsd of this is exported to the EU market compared to 5 thsd t last year. Source: ucab.ua/files/Survey/Doslidenna/Manual_UCAB_British.pdf

\(^9\) One more poultry producer was added to the EU register of exporters in September, 2014.


\(^{11}\) [www.apd-ukraine.de/images/PolPap-01-2013-DCFTA_eng.pdf](www.apd-ukraine.de/images/PolPap-01-2013-DCFTA_eng.pdf)

\(^{12}\) These estimates cover agriculture products, fishery products, food industry products, fertilizers, and selected machinery used in agriculture and food industry production.
meat preparations; specialized machinery; marine products, and fixed vegetable fats and oils.

However, implementation of the DCFTA, i.e., bilateral reduction or removal of import duties on the majority of commodities, starting from January, 2016, will increase competition at the domestic market of Ukraine.

The above-mentioned study of the APD demonstrates that reduction of Ukraine’s import duties could increase imports up to 7% largely due to increased supplies of beverages, vegetable oils and fats, meat, mineral or chemical fertilizers, animal oils and fats, and sugar. Hence, it seems that gains obtained by Ukraine are likely to be higher than for the EU at least in the medium- and long-term.

In conclusion, introduction of the autonomous trade preferences brought first promising results in terms of increased exports to the EU and also contributed to the improvement of food quality and safety standards and, thus, opened international export possibilities for Ukraine.

Delayed implementation of the DCFTA provides more time for the government to implement all required legislative changes. The Ukrainian agribusiness should adapt their production processes and standards to the EU requirements to strengthen their competitiveness at the EU market, as well as to maintain and expand their positions on the domestic market.

Implementation of the DCFTA will result in both winners and losers among companies in Ukraine as well as the EU and everything will depend on the competitiveness of each company. However, the DCFTA will help to increase overall welfare in both parties.