

## EU tariff rate quotas on imports from Ukraine

The EU-Ukraine free trade agreement (DCFTA) envisages EU tariff rate quotas (TRQs) for 36 groups of Ukrainian products. These TRQs have been applied since April 2014 as part of the current regime of autonomous trade preferences.

The introduction of TRQs implies a partial trade liberalisation for selected goods, for which full liberalisation is considered to be too sensitive. Unlike standard quotas, TRQs do not foresee any quantitative restrictions on imports. However, TRQs can be limiting if the import duty outside the quota is prohibitively high.

The majority of EU TRQs for Ukrainian products are either partly utilised or not utilised at all, for a variety of reasons. These include safety barriers, a lack of production capacity and the existence of other export destinations.

However, as shown by our research, six quotas have been fully utilised in 2014, and three can so far be considered as potentially limiting Ukrainian exports to the EU: Processed tomatoes; common wheat, flours and pellets; and poultry meat.

Ukraine's exports to the EU, which are subject to TRQs, grew by 9% in 2014, while exports of these products to other countries remained unchanged. Thus, the introduction of TRQs seems to support Ukrainian exports and their regional reorientation.

### TRQs are a part of EU-Ukraine DCFTA

Within the EU-Ukraine DCFTA, TRQs have been introduced as an instrument of partial liberalisation for selected agricultural and food products, in which trade is considered to be too sensitive and thus full liberalisation is currently unfeasible. Exports from Ukraine within the quota are duty free. Exports outside the quota are not restricted, but subject to a standard import duty rate. If this duty is prohibitively high, the TRQ becomes limiting, as it is economically non-viable to export outside the quota.

The autonomous trade preferences (ATPs) granted by the EU to Ukraine in April 2014 forestall the implementation of the DCFTA in terms of TRQs. Ukraine has exported products to the EU, which the DCFTA earmarked for TRQs, before the ATPs entered into force. In 2013 these exports constituted about USD 1.9 bn or 11% of total Ukrainian exports to the EU.

The DCFTA envisages TRQs for 36 groups of Ukrainian products:

Animal products. Meat (beef, pork, sheep and poultry), milk and dairy products, eggs, honey and other.

Plant products. Grains (wheat, barley, oat and maize), mushrooms, garlic and other.

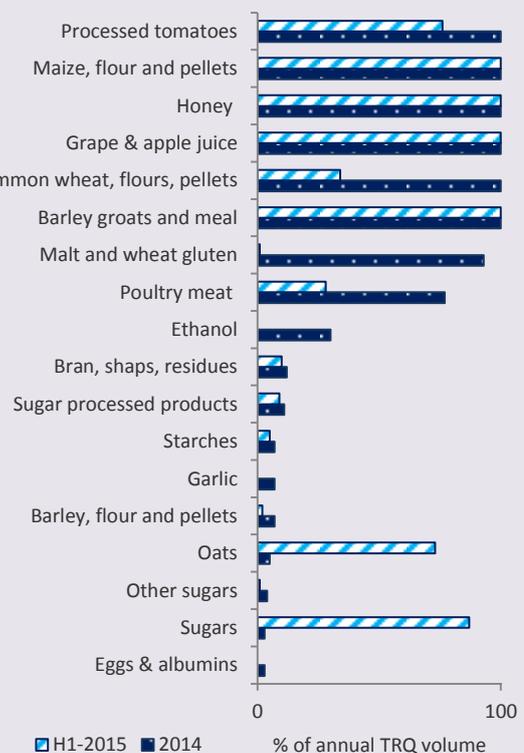
Processed food and other products. Sugar and sugar products, grape and apple juice, sweet corn, processed tomatoes, ethanol, cigarettes and other.

The implementation of the TRQs – as well as the ATPs in general – have been expected to immediately benefit exporters, allowing them to offer more competitive prices and thus sell more.

### TRQ utilisation has been rather moderate

The majority of TRQs were not utilised by Ukrainian exporters in 2014 and in 2015 the speed of utilisation has remained slow. In 2014, only 6 out of 36 TRQs were completely utilised, and 14 TRQs were partly utilised. In the first half of 2015 the situation remains similar.

### Utilisation of TRQs in 2014 and H1-2015



Sources: EC, Ukrainian Government, own estimates

Our research shows that currently only three TRQs are potentially limiting, i.e. export is not economically attractive outside the quotas. These are TRQs on processed tomatoes; common wheat, flour and pellets; and poultry meat. In 2014, the volume of exports of these products to the EU was comparable to the TRQ volume and exports before the introduction of TRQs were very low, signalling that import duties outside TRQs are likely prohibitively high.

At the same time, there are products for which TRQs have become a stimulus for export expansion without major constraining effect. For example, in 2014 exports of honey to the EU were five times higher than the quota for honey. In comparison to 2013, exports expanded in 2014 by 58% in value and by 52% in volume terms.

#### Reasons for moderate utilisation of TRQs

There are several factors explaining moderate utilisation of the quotas. First, some Ukrainian products are not yet allowed to enter the EU market for food safety reasons, like threat of disease (e.g. African swine fever) or non-compliance with EU food safety standards (e.g. majority of dairy products, beef). Elimination of these non-tariff barriers is time consuming and thus usage of the TRQs related to animal products is expected only in the medium term.

Second, Ukraine exports products that are subject to the EU TRQs also to other destinations, which have remained attractive after the TRQs were introduced. In 2014, the EU was the main export destination for only six product categories subject to TRQs, namely for barley groat and meal; ethanol; grape and apple juices; honey; maize, flour and pellets; and processed tomatoes.

Third, for selected goods domestic production remained insufficient to expand exports. This is the case for mushrooms, garlic and sugar syrups, for example.

#### TRQs contributed to a reorientation of exports

Despite current economic hardships, the value of Ukraine's exports of products subject to the TRQs to the EU grew by 9% in 2014, while exports of these products to the rest of the world remained unchanged. In volume terms, exports of TRQ products to the EU expanded by 26% as compared to 17% growth to the rest of the world.

There are several products, for which a significant export reorientation towards the EU is observed – very likely attributed to the introduction of TRQs. These products are ethanol, grape and apple juice, and processed tomatoes. For ethanol, the physical volume of exports to the EU increased by 200% in 2014, while exports to the rest of the world dropped by 52%. For

juices, the respective figures were +14% and -54%, for processed tomatoes +728% and -55%.

For some products, exports expanded both to the EU and the rest of the world, but growth of exports to the EU has been faster, also signalling a gradual reorientation towards the EU market. This was the case for barley, flour and pellets; common wheat, flour and pellets; eggs and albumins.

#### Conclusions

Concerns that most of the TRQs are limiting Ukrainian exports to the EU cannot be supported by facts. Only 6 TRQs were fully utilised in 2014 and only three TRQs can be considered as potentially limiting exports to the EU. These are TRQs on processed tomatoes; common wheat, flour and pellets; and poultry meat.

Despite moderate utilisation, TRQs have played a role in stimulating Ukraine's exports and reorienting them to the EU. In order to better utilise the TRQs, Ukraine needs to continue its harmonisation with EU standards, increase control over animal diseases and further develop business networks in the EU.

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Note: For a detailed analysis of the subject, please refer to Policy Briefing PB/06/2015 "EU Tariff Rate Quotas on Imports from Ukraine".

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#### German Advisory Group

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