



The impact of new trade restrictions on Ukraine's trade with Russia

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Summary

- **Jan 2016:** Russia introduced new trade restrictions against Ukraine and Ukraine reacted by introducing mirror measures against Russia
- **Measures:** Introduction of MFN tariffs (i.e. abolition of free trade), import ban for selected agri-food products
- **UA exports** to RU will decline by USD 624 m or 0.7% of GDP
- **UA imports** from RU will go down by USD 505 m or 0.6% of GDP
- **UA trade deficit** will increase by USD 119 m or 0.1% of GDP; while this is not a huge amount, it comes at a difficult time for the balance of payments and the foreign exchange market
- **All in all:** New trade restrictions have a negative impact on both sides and contribute to the on-going process of economic disintegration between the countries

Structure

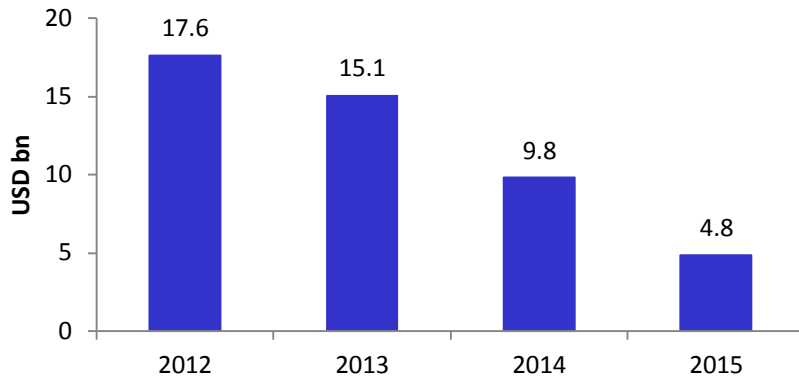
1. Introduction
2. Ukraine's trade with Russia
3. Review of new trade restrictions
4. Impact on exports to Russia
5. Impact on imports from Russia
6. Impact on Ukraine's trade balance

1. Introduction

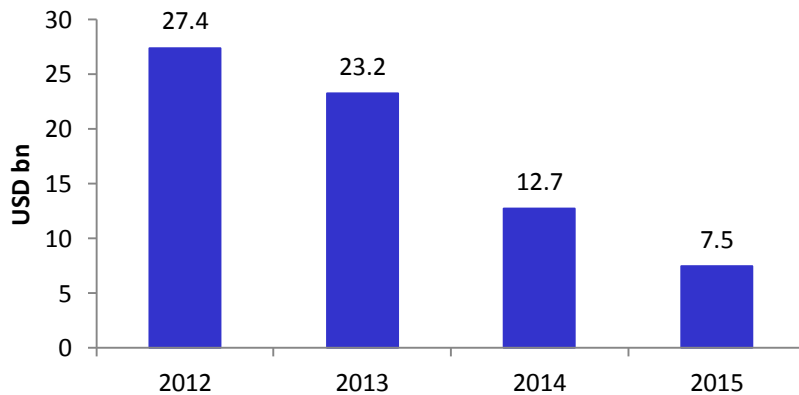
- Jan 2016: Russia imposed new trade restrictions vis-à-vis Ukraine
- In particular:
 - Cancellation of free trade agreement (FTA) with Ukraine
 - Temporary ban on imports of selected Ukrainian agro-food products
- *Remark:* These measures were a political response to the launching of the provisional application of the Ukraine-EU free trade agreement (DCFTA); from a trade point of view, these measures are not justified
- Ukrainian response: Mirror actions vis-à-vis Russia
- Our objective:
 - Impact estimation of new trade restrictions on Ukraine's trade with Russia
 - In particular: Impact on exports, imports and Ukraine's trade balance

2. Ukraine's trade with Russia

Evolution of exports to Russia



Evolution of imports from Russia



Note: All figures for trade in goods
Source: State Statistics Service of Ukraine

■ Exports

- 2012: USD 17.6 bn
- 2015: USD 4.8 bn
- 73% drop as compared to 2012

■ Imports

- 2012: USD 27.4 bn
- 2015: USD 7.5 bn
- 73% drop as compared to 2012

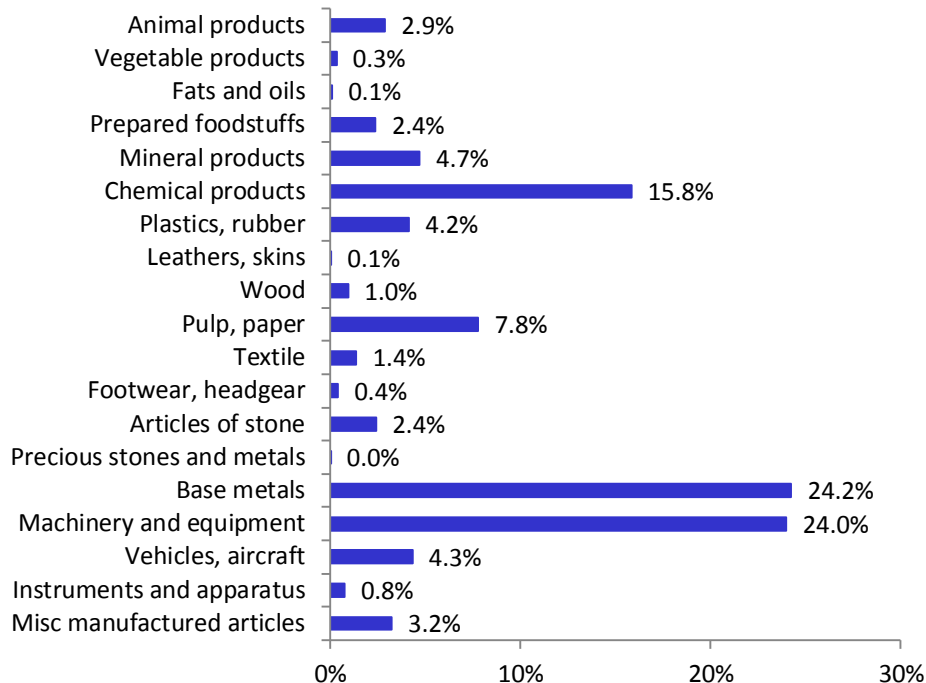
■ Bilateral trade deficit

- 2012: USD 9.8 bn
- 2015: USD 2.7 bn
- 73% drop as compared to 2012

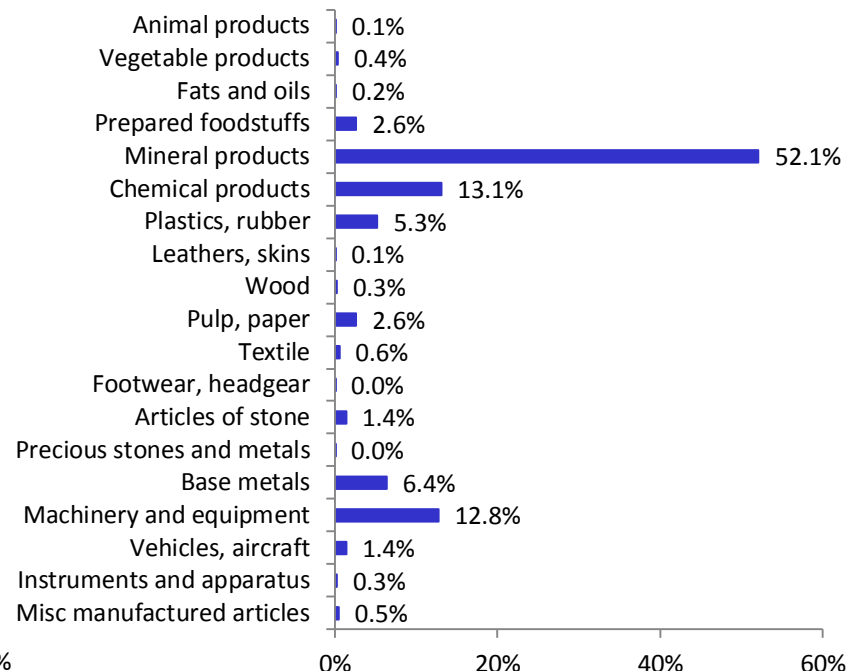
Ukraine's trade with Russia in steep decline since 2012

Structure of trade

Exports



Imports



Note: Trade in goods, 2015

Source: State Statistics Service of Ukraine

- **Key export products:** Base metals, machinery & equipment, chemical products
- **Key import products:** Mineral products, chemicals, machinery and equipment

3. New trade restrictions imposed by Russia

Change in trade regime

- Till end 2015: Free trade between Russia and Ukraine, in the context of the multilateral CIS free trade agreement
- From 2016 on: Russia imposes MFN tariffs on Ukrainian products
- Duration: No time limitation, decision depends on RU president
- Legislation: Decree of the President of the Russian Federation #628 dated 16.12.2015, Federal Law #410-Φ3 dated 30.12.2015

Import ban

- Import ban on selected Ukrainian agricultural and food products from 01.01.2016 till 07.08.2016
- Legislation: Decree of the Government of the Russian Federation #1397 dated 21.12.2015

Counter-actions taken by Ukraine

Trade regime

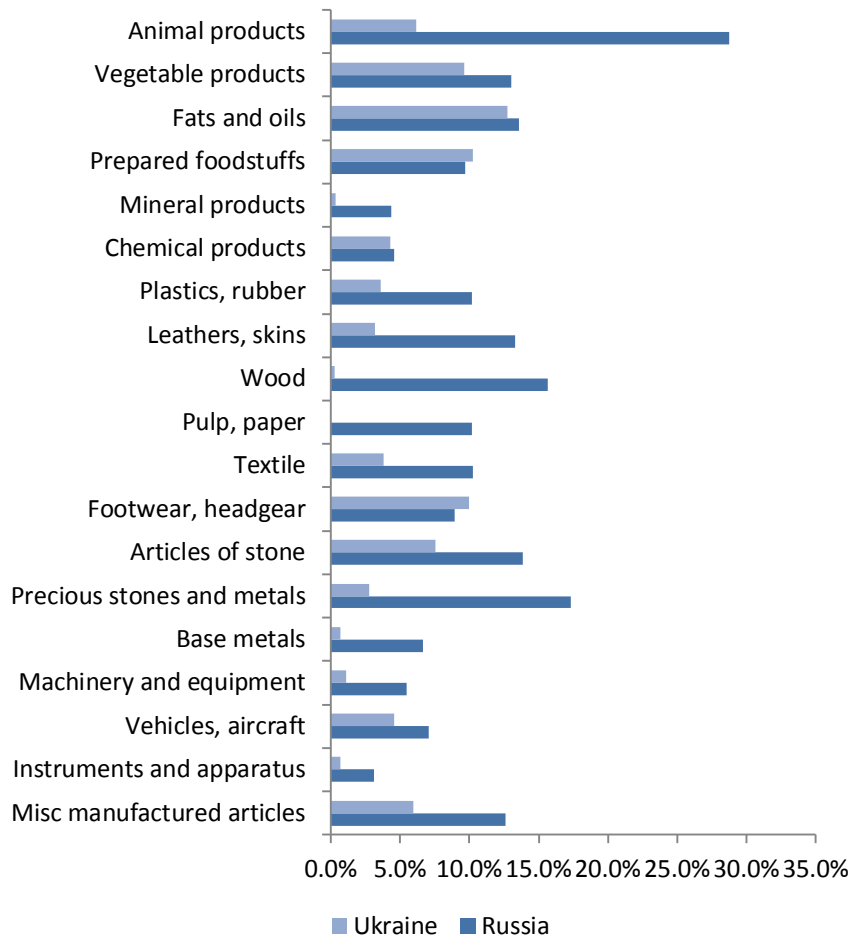
- Ukraine also introduced MFN tariff rates in trade with Russia
- Duration: 02.01.2016 to 31.12.2016 or until Russia stops applying the same measures
- Legislation: Decree of the Government of Ukraine #1146 dated 30.12.2015

Import ban

- Ban on selected agro-food products, chemicals, locomotives and railway equipment from 10.01.2016 to 05.08.2016, or until Russia stops applying the same measures
- Legislation: Decrees of the Government of Ukraine #1147 dated 30.12.2015 and #28 dated 20.01.2016 (expansion of the list)

New level of tariff protection

Tariff protection: Ukraine vs. Russia



- New Russian import tariffs
 - Simple average: 8.5%
 - Trade-weighted average: 7.6%
- New Ukrainian import tariffs
 - Simple average: 4.7%
 - Trade-weighted average: 1.7%

Thus: Protection increase is higher in Russia than in Ukraine

Reasons:

- Higher MFN rates in Russia
- Structure of trade

4. Impact on exports to Russia

Impact on exports

Scenario	Exports reduction, USD m	% of exports to Russia	GDP equivalent
MFN tariffs	522	10.8%	0.6%
Import ban	141	2.9%	0.2%
Combined effect	624	12.9%	0.7%

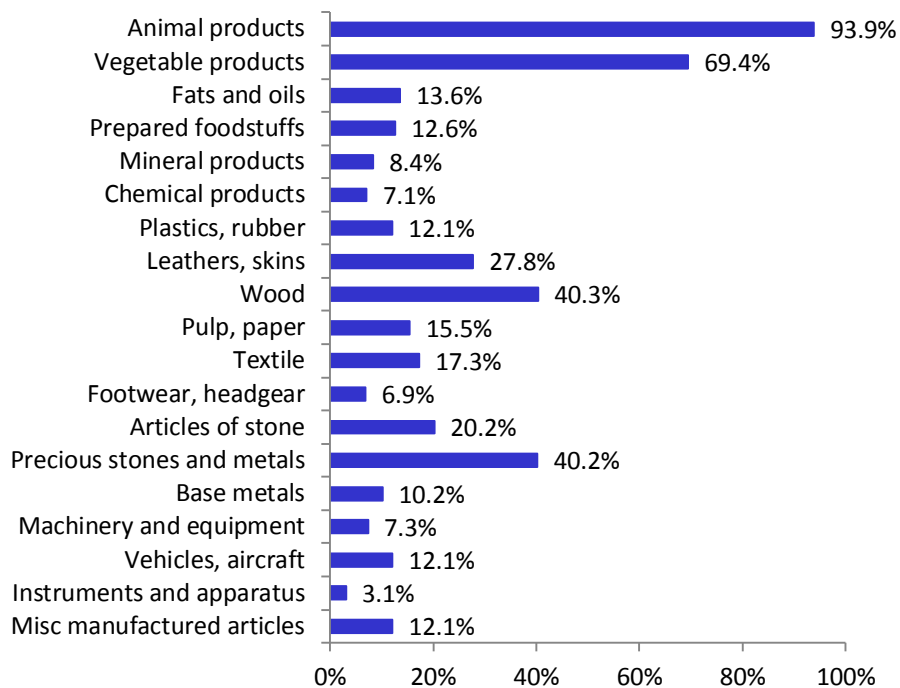
Russian trade restrictions have a strong impact on UA exports

- Reduction in absolute terms: USD 624 m
- Reduction in relative terms: 12.9% of exports to Russia
- In GDP terms: Export reduction corresponds to 0.7% of GDP

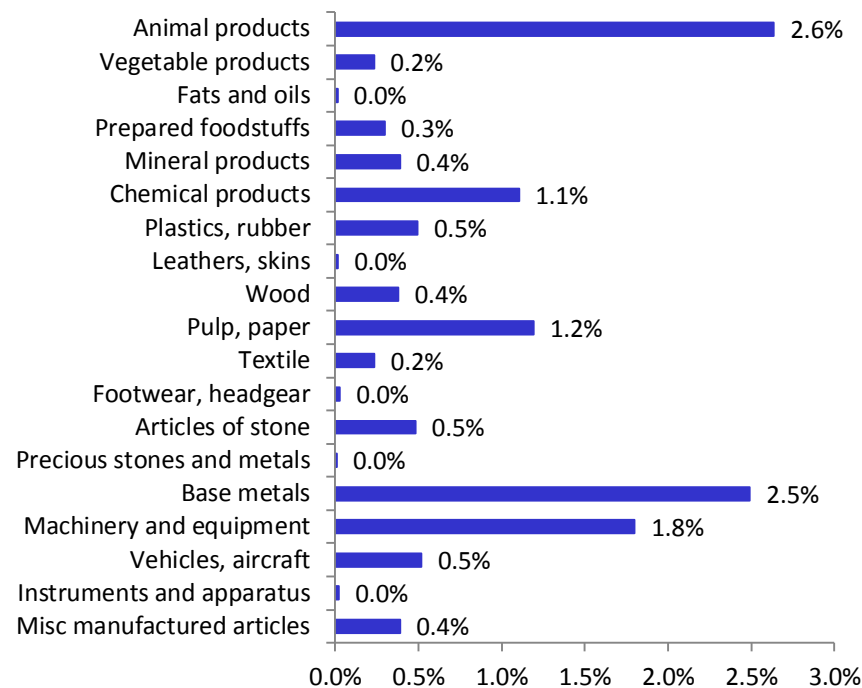
Main reason: Change in trade regime (MFN tariffs)

Sectoral effects on exports to Russia

Reduction of exports by sectors, %



Contribution to exports contraction, p.p.



- By far the biggest impact is expected for agri-food products
- The reduction in exports of agri-food, metals, machinery, paper and chemicals are the major contributors to the overall decline

5. Impact on imports from Russia

Impact on imports

Scenario	Imports reduction, USD m	% of imports from Russia	GDP equivalent
MFN tariffs	289	3.9%	0.3%
Import ban	244	3.3%	0.3%
Combined effect	505	6.8%	0.6%

UA trade restrictions have a strong impact on imports from RU

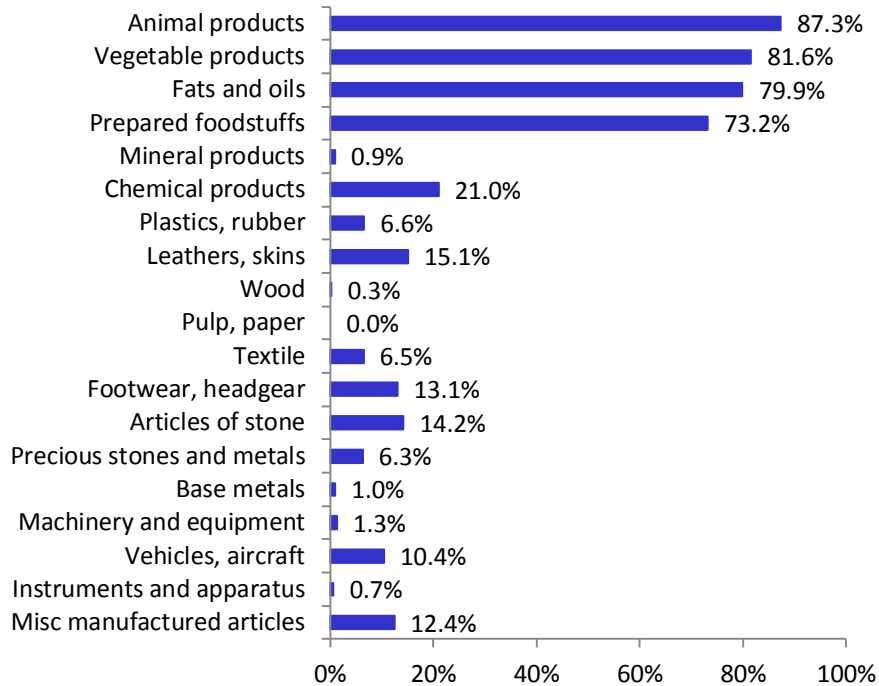
- Reduction in absolute terms: USD 505 m
- Reduction in relative terms: 6.8% of imports from Russia
- In GDP terms: Import reduction corresponds to 0.6% of GDP

Reasons: MFN tariffs and import ban have a similar impact

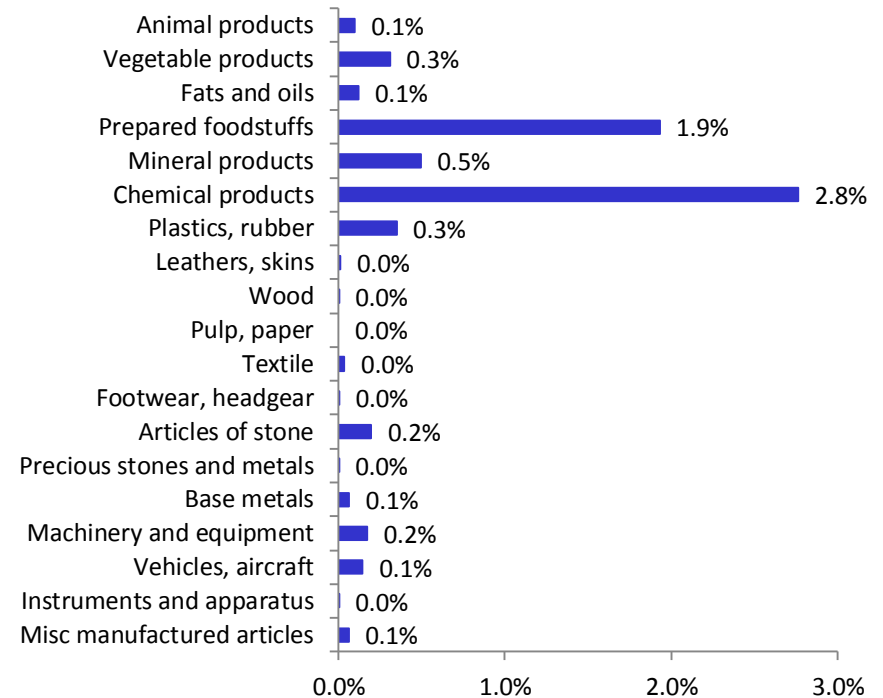
Ex vs. Im: Impact on imports lower, but comparable to exports

Sectoral effects on imports from Russia

Reduction of imports by sectors, %



Contribution to imports contraction, p.p.



- Ukrainian sanctions primarily affect agri-food products, but with limited effect on overall imports contraction. Only exemption is prepared foodstuff
- Chemicals will contribute the most to the overall imports drop

6. Impact on bilateral trade balance with Russia

Change in Ukraine's bilateral trade balance with Russia

Scenario	Trade balance change, USD m
MFN tariffs	- 233
Import ban	+ 102
Combined effect	- 119

- As a result of new trade restrictions (actions & counteractions), Ukraine's trade deficit will increase by USD 119 m
- The main driver for this increase is the introduction of MFN tariffs in Russia for Ukrainian products
- While this is not a huge amount, it comes at a time of significant stress on the balance of payments and the market for foreign exchange; furthermore, this is just one of many shocks currently facing the external sector of the country



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