

# **New autonomous trade measures by the EU: Impact on Ukrainian exports**

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German Advisory Group in cooperation with the IER Kyiv

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# Summary

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**October 2017:** EU launched new autonomous trade measures towards Ukraine

- 2 sets of measures: higher tariff rate quotas & faster elimination of import duties
- Duration: 3 years

**Measure: Temporary increase of tariff rate quotas (“TRQs”)**

- Impact on exports to EU: USD 66.8 m per year. Main contributor: barley
- Impact on total exports: USD 11.4 m per year. Main contributor: maize

**Measure: Temporary elimination of duties for selected products**

- Products: fertilizers, pigments, footwear, copper, aluminium and equipment
- Impact on exports to EU: USD 12.5 m per year. Main contributor: equipment
- Impact on total exports: USD 12.5 m per year. Main contributor: equipment

**Combined impact for 2018**

- Exports to EU up by USD 79.3 m (or 0.6%).
- Total exports up by USD 23.9 m (or 0.07%)
- Export increase mostly due to higher prices

# Structure

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  - Conclusions
3. Impact of temporary elimination of import duties
  - Description of temporary elimination of duties
  - Exports to the EU of the relevant goods in 2016
  - Impact of elimination of duties on exports
  - Conclusions

## Annexes

# 1. The new autonomous trade measures by the EU

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## September 2016

- European Commission (EC) proposed providing temporary autonomous trade measures (ATMs) to UKR
- 2 sets of measures
  - Temporary increase of 8 tariff rate quotas (TRQs): wheat, barley, oats, maize, milling products, processed tomatoes, grape juice and honey
  - Temporary elimination of import duties for 23 tariff lines in 6 categories: fertilizers, pigments, footwear, copper and product thereof, aluminum and products thereof, and selected equipment

## June 2017

- EU Parliament generally supported the EC proposal but suggested amendments
- EU ambassadors endorsed the agreement reached between the EC President and EU Parliament on ATMs retaining all initially suggested TRQs but in smaller volumes and envisaging duties' elimination for 22 tariff lines

## July/September 2017

- EU Council and EU Parliament adopted ATMs for Ukraine

## October 2017

- New ATMs entered into force (Regulation (EU) 2017/1566)

## 2. Description of additional tariff rate quotas

	TRQs under DCFTA, t/year	Additional TRQs under ATM, t/year	Increase in % (compared to 2016)
Wheat	950,000 – 1,000,000	65,000	7%
Barley	250,000 – 350,000	325,000	130%
Oats	4,000	4,000	100%
Maize	400,000 – 650,000	625,000	156%
Milling products	6,300 – 7,800	7,800	124%
Processed tomatoes	10,000	3,000	30%
Grape juice	10,000 – 20,000 (within apple/grape juice TRQ)	500	n/a
Natural honey	5,000 – 6,000	2,500	50%

- TRQs with new ATMs cover same products as TRQs under DCFTA
- However, grape juice gets a separate TRQ compared to DCFTA, in which it is combined with apple juice ⇒ potentially new export opportunities
- Additional TRQs will stay for three years

# Usage of relevant tariff rate quotas in 2016

	Usage of quota under DCFTA, 2016	EU out-quota import duty*, %	Export to EU/quota, 2016	Limiting effect of TRQ, 2016?	Export to EU/ total export**, 2016
Wheat	100%	55.4	1.3	Yes	7%
Barley	96%	60.4	1.0	Yes	5%
Oats	100%	50.2	1.0	Yes	10%
Maize	100%	Before Aug 2017: 0.0 Now: variable rate (Sep 2017: 6.7%)	16.8	No	39%
Milling products	100%	26.0	3.0	No	75%
Processed tomatoes	100%	14.4	3.4	No	80%
Natural honey	100%	17.3	8.6	No	76%
Grape juice	0% (100% used by apple juice)	43.3	0.0	No exports	0%

Notes: \* Ad valorem equivalents estimated based on applied EU import duties and unit value of UA exports to EU

\*\*Exports in volume terms (not USD)

- For 3 products: EU out-quota import duty limited exports to the EU
- For 5 products: EU out-quota import duty did not limited exports to the EU

→ **Important distinction for our analysis**

# Impact of higher quotas on exports in case of limiting TRQs

	Additional TRQs, t/year	EU average price*, USD/t	Increase in exports to EU, USD m	Price spread, USD/t	Increase of total exports, USD m
Wheat	65,000	154	10.0	2	0.1
Oats	4,000	167	0.7	34	0.1
Barley	325,000	147	47.6	8	2.7

*Note: EU average price is estimated as unit value of UKR exports to EU in 2016*

## Impact on exports to the EU

- EU price higher than prices in other export markets („price spread“)
- Implication: Full use of additional quota for all 3 products
- But: No exports beyond additional quota, because of prohibitive duties

## Impact on total exports

- Due to price spread: increase of total exports

**→ Reorientation of exports towards the EU, but also increase in total exports**

# Impact of higher quotas on exports for non-limiting TRQs

	Additional TRQs, t/year	EU average price*, USD/t	Cost saving, %	Cost saving, USD/t	Increase in exports to EU, USD m	Increase in total exports, USD m
Maize	625,000	151	6.7**	10.1	6.3	6.3
Milling products	7,800	504	26.0	130.9	1.0	1.0
Processed tomatoes	3,000	854	14.4	123.0	0.4	0.4
Natural honey	2,500	1705	17.3	295.0	0.7	0.7

Note: \*EU average price is estimated as unit value of UKR exports to EU in 2016

\*\* Impact is estimated assuming new EU import duty applied since September 1, 2017

- Higher prices for additional amount/quota, since duties are saved
- But: Volumes do not increase; pure price effect



## Combined impact of higher TRQs

	Impact on exports to the EU, USD m	Impact on product exports to the EU, %	Impact on total exports, USD m	Impact on product total exports, %
Maize	6.3	1%	6.3	0%
Milling products	1.0	11%	1.0	8%
Processed tomatoes	0.4	1%	0.4	1%
Natural honey	0.7	1%	0.7	1%
Grape juice*	0.1	-	0.1	-
Wheat	10.0	5%	0.1	0%
Oats	0.7	107%	0.1	2%
Barley	47.6	113%	2.7	0%
<b>Total</b>	<b>66.8</b>		<b>11.4</b>	

Note: \* see Annex I for estimate

**Exports to the EU increase by USD 66.8 m, while total exports by USD 11.4 m**

# Conclusions regarding TRQs

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## Impact on export values (in USD)

- Higher TRQs lead to higher export prices (“price effect”)
- Case of limiting TRQs: Because of higher prices at EU (price spread)
- Case of non-limiting TRQs: Because of savings of import duties

→ **Increase of exports in USD terms; positive impact**

## Impact on export volumes

- Limiting TRQs: Reorientation of exports, but no additional exports/production
- Non-limiting TRQs: No increase of export volumes (incl. to EU)

→ **No positive impact on export volumes and production**

## Reasons for lack of impact on volumes

- Key barrier are the high out-quota duties, not the quotas
- Volume impact only if quotas are heavily increased permanently or duties are eliminated; no realistic scenarios for the time being

### 3. Description of temporary elimination of import duties

	Applied import duty*, 2017, %	Import duty DCFTA, 2017, %	Import duty ATM, 2017-2020, %	DCFTA duty-free since year	Note: Import duty DCFTA, 2018, %
Fertilizers	1.2	4.4	0.0	2023	3.7
Pigments	2.5	4.0	0.0	2021	3.0
Footwear	8.7	8.7	0.0	2019-2021	6.2
Copper	1.3	3.2	0.0	2021	2.4
Aluminum	3.2	4.2	0.0	2021-2023	3.2
Video & TV equipment	7.8	8.9	0.0	2021-2023	7.2

Note: \* minimum of GSP and DCFTA import duties. Application of EU GSP for Ukraine ends in 2017

- ATMs generates two types of benefits:
  - Faster market opening: in 2017 instead of 2019-2023
  - No temporary increase in duties due to termination of GSP starting Jan 2018
- However, due to temporary nature of ATMs, import duties are expected to briefly increase in 2021-2023 for fertilizers, aluminum and equipment

## Exports to EU of relevant product in 2016

	Export to EU, USD m, 2016	% of total*	Share EU in product export, %, 2016
Fertilizers	27	13%	56%
Pigments	38	19%	83%
Footwear	34	17%	83%
Copper	3	1%	21%
Aluminum	27	13%	53%
Video & TV equipment	74	37%	89%
<b>Total</b>	<b>203</b>	<b>100%</b>	

Note: \* % of total exports to the EU of goods for which import duties are abolished by new ATMs

- Faster liberalization is applied to 1.5% of Ukraine's exports to EU in 2016, key category – video & TV equipment (0.5% of UA exports to the EU)
- The EU is the main destination for exports of:
  - Video & TV equipment (89%)
  - Pigments (83%)
  - Footwear (83%)

# Impact of faster elimination of import duties

	Impact on exports to the EU, USD m	Impact on product exports to the EU, %	Impact on total exports, USD m	Impact on product total exports, %
Fertilizers	1.0	4%	1.0	2%
Pigments	3.2	8%	3.2	7%
Footwear	0.7	2%	0.7	2%
Copper	0.4	14%	0.4	3%
Aluminum	2.5	9%	2.5	5%
Video & TV equipment	4.8	6%	4.8	6%
<b>Total</b>	<b>12.5</b>		<b>12.5</b>	

Note: impact is estimated using WITS SMART simulator, base year: 2016, EU applied import duties are used as a baseline scenario for tariff elimination (see Annex II)

- **Exports to the EU and total exports increase by USD 12.5 m per year compared to base year**

# Conclusions regarding import duties

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## Impact on exports on the EU

- As zero duties under ATMs will be replaced by zero duties under DCFTA ⇒ Permanent change in trade regime
- Zero duties allow offering lower prices on UA products on the EU market ⇒ Increase in demand
- Ukraine has excess production capacities after the crisis ⇒ Increase in supply and exports

**→ Increase of exports to the EU in value and physical terms; positive impact**

**→ Increase in total exports = increase in exports to the EU**



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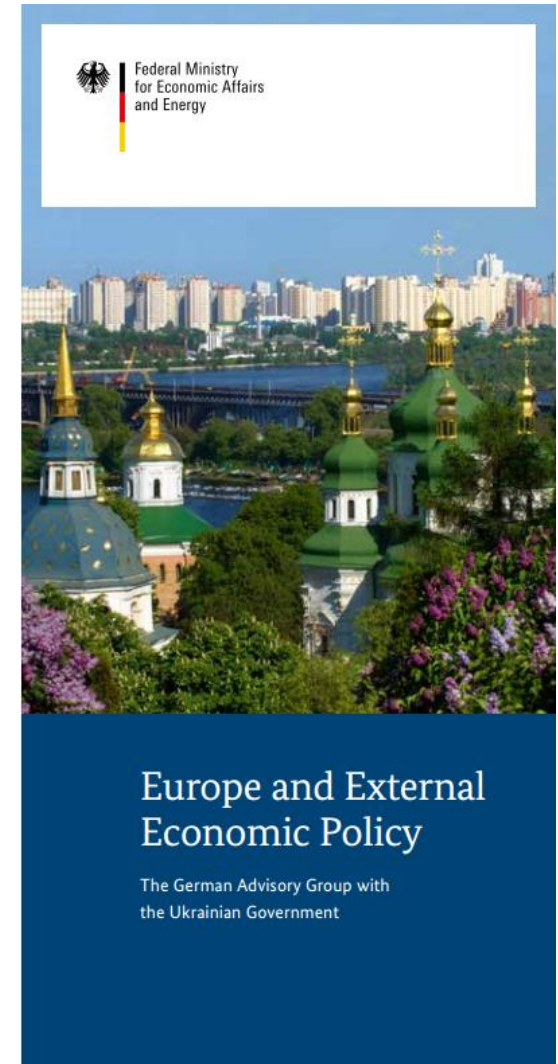
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## Annex I. Impact of TRQ on grape juice

- TRQs for grape juice are applied for the juice of a value:
  - Not exceeding USD 212 per ton net weight for juice of a Brix value  $\leq 67$
  - Not exceeding USD 260 per ton net weight for juice of a Brix value  $> 67$
- Ukraine has not exported this type of grape juice before
- In 2016, unit value per ton of Ukraine's exports of grape juice was much higher:
  - USD 522 per ton to EU
  - USD 762 per ton to ROW
- New separate TRQ might generate new export flow assuming that the product is available on domestic market and competitive. No additional production is expected given the temporary nature of the TRQ

	TRQ, t/year	EU average price, USD/t	Increase in exports to EU, USD m	Increase in total exports, USD m
Grape juice	500	212 - 260	0.05 – 0.06	0.05 – 0.06



## Annex II. Methodological note

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- Impact of duty's change was estimated using SMART partial equilibrium modelling tool developed by WITS (<http://wits.worldbank.org/>)
- Base year: 2016
- Impact on UA exports to the EU is estimated as **total trade effect for EU imports** including:
  - **Trade creation**: the direct increase in imports of the EU from Ukraine following an elimination of the import duty
  - **Trade diversion**: the substitution away from imports from other countries that becomes relatively more expensive
- Impact on total Ukraine's exports is estimated to be equal to the impact on exports to the EU given available excess production capacities