

EU autonomous trade measures: Positive, but minor impact

The free trade agreement (DCFTA) between Ukraine and the EU entails a wide, but not complete trade liberalisation. Several Ukrainian agri-food products face EU tariff rate quotas (TRQs) and for a number of industrial products the EU's import tariffs will only be abolished in some years' time.

Against the background, the EU adopted a set of temporary autonomous trade measures (ATMs) in favour of Ukraine, which came into effect in October 2017. On the one hand, eight TRQs for agri-food products were increased. Due to these measures, Ukrainian exporters will be able to fetch higher prices, and in some cases even increase the volume of exports to the EU. The main impact will be on barley, whose TRQ was increased by 130%.

On the other hand, the import duties for 22 tariff lines of industrial products were eliminated earlier than foreseen under the DCFTA. The main beneficiaries will be producers of video and TV equipment.

The combined impact of these two sets of measures is positive, but relatively minor. Exports to EU will grow by USD 79.3 m or 0.6%. Part of this increase is due to a reorientation of exports. Consequently, the increase of total exports will be slighter and amount to USD 23.9 m or 0.07%.

EU autonomous trade measures: background

In October 2017, the EU launched temporary ATMs in favour of Ukraine. These are unilateral measures for three years with the goal of improving Ukraine's access to the EU market. The ATMs include two sets of measures. First, an increase of 8 TRQs for agri-food products. Second, the elimination of import duties for 22 tariff lines in 6 categories of industrial goods.

Expansion of tariff rate quotas in agri-food

8 out of 36 existing TRQs were increased. Seven of them have been fully exhausted in 2016, with the exception of grape juice. For three of them – wheat, barley, and oats – EU import duties above the quota are prohibitively high, i.e. they effectively block further imports. This can be shown in the table below, where the amount of exports is almost identical with the quota (export to EU / quota \approx 1).

Increased TRQs and usage in 2016

	Additional TRQs, t/year	Increase compared to 2016, %	Export to EU/quota, 2016	Export to EU/total export*, 2016
Wheat	65,000	7%	1.3	7%
Barley	325,000	130%	1.0	5%
Oats	4,000	100%	1.0	10%
Maize	625,000	156%	16.8	39%
Milling products	7,800	124%	3.0	75%
Processed tomatoes	3,000	30%	3.4	80%
Natural honey	2,500	50%	8.6	76%
Grape juice	500	n/a	0.0	0%

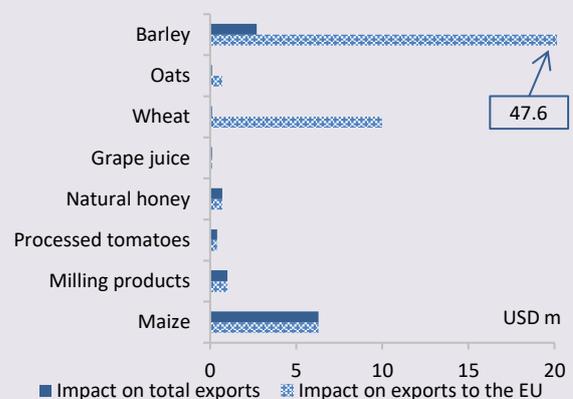
Source: Regulation (EU) 2017/1566, Ukrstat

Note: *Exports in volume terms (not USD)

As the time horizon of the measures determines the behaviour of producers, the temporary nature of new TRQs makes them very distinct from the measures within the DCFTA. While the permanent market opening due to the DCFTA created stimuli for production expansion, the temporary increase of TRQs result in price gains and reorientation of exports, rather than an increase in production.

The higher TRQs for products subject to limiting TRQs will result in an expansion of exports to the EU at the expense of other markets (export reorientation) in order to secure higher prices. For products subject to non-limiting TRQs, the expansion of export values in US-dollar is driven by cost savings on import duties. As the measures are temporary, they do not stimulate physical expansion of exports.

Impact of temporary increased TRQs on Ukrainian exports



Source: Authors' calculations

Overall, new TRQs will increase exports to the EU by USD 66.8 m per year, mostly thanks to barley. Total exports will increase by a more moderate USD 11.4 m per year.

Faster elimination of duties for industrial goods

The faster elimination of import duties is applied to 22 tariff lines accounting for 1.5% of total Ukraine's exports to the EU in 2016.

Eliminated import tariffs

	Applied import duty*, 2017, %	Import duty DCFTA, 2018, %	Import duty ATM	Share EU in product export, %, 2016
Fertilisers	1.2	3.7	0.0	56%
Pigments	2.5	3.0	0.0	83%
Footwear	8.7	6.2	0.0	83%
Copper	1.3	2.4	0.0	21%
Aluminium	3.2	3.2	0.0	53%
Video & TV equipment	7.8	7.2	0.0	89%

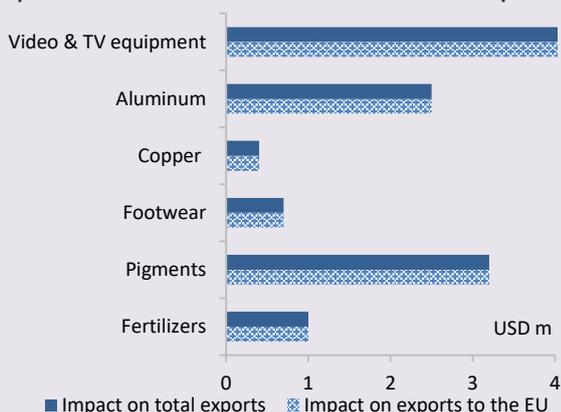
Source: Regulation (EU) 2017/1566, Ukrstat, WITS

Notes: *minimum of GSP and DCFTA import duties

This component of the ATMs means that liberalisation takes place already in 2017, and not in 2019-2023, as foreseen in the DCFTA.

Unlike the temporary expansion of TRQs, the faster elimination of duties could be interpreted as a permanent change, as it will eventually be substituted by a duty-free regime within the DCFTA. Zero duties allow offering the products on the EU market cheaper, thereby stimulating demand, while the availability of excess production capacities in Ukraine creates opportunities for higher production. Therefore, the faster elimination of import duties results in an increase in exports to the EU both in value and physical terms.

Impact of faster duties elimination on Ukrainian exports



Source: Authors' calculations

Overall, the nullification of import duties is expected to increase exports to the EU and therefore total exports by USD 12.5 m per year, with video and TV equipment gaining the most.

Conclusions

The ATMs launched by the EU have a positive impact on Ukraine's exports, mainly due to price effects. However, this positive impact is quite limited. Exports to EU will grow by USD 79.3 m or 0.6% per year, also due to an export reorientation. Total exports are due to increase by a more moderate USD 23.9 m or 0.07%.

In order to achieve higher gains, a permanent and substantial expansion of TRQs or an elimination of out-of-quota import duties is required. However, both scenarios are in our view currently unrealistic.

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A more comprehensive analysis is provided by the Policy Briefing PB/09/2017 "[New autonomous trade measures by the EU: Impact on Ukrainian exports](#)".

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