

Ukrainian exports to the EU: Positive impact of the DCFTA?

In April 2014 the European Union adopted autonomous trade preferences (“ATP”) for Ukraine. By doing so, the EU started implementing its obligations under the deep and comprehensive free trade agreement (“DCFTA”) way before 1 January 2016, i.e. the date in which the DCFTA came into force.

Consequently, Ukraine enjoys duty-free access to the EU market already since April 2014. As such, one would expect that Ukrainian exports to the EU would have risen in 2015, i.e. in the first full year after trade liberalisation. However, exports to the EU dropped heavily by 23% in 2015. How are these results to be interpreted? Does this mean the DCFTA does not have any positive impact on Ukrainian exports?

A solid analysis of the issue should take into account that in 2015 another major development took place, which influenced exports: A strong decline in global commodity prices, including the prices for grains and metals, which are by far the two most important export products of Ukraine, accounting respectively for ca. 16% and 24% of total exports of the country.

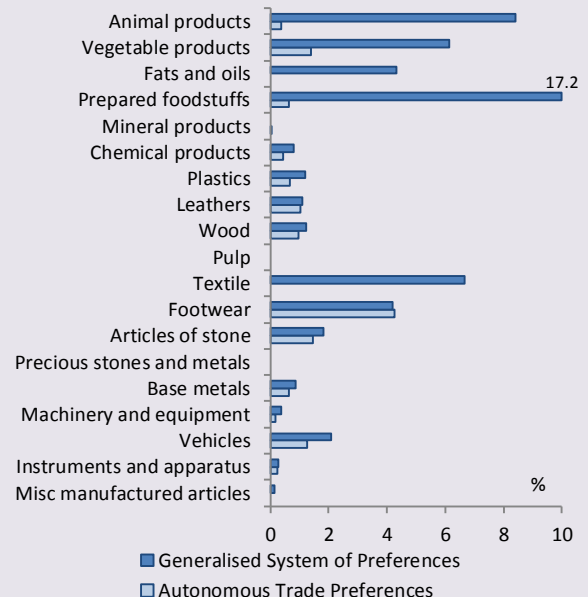
For this reason, we calculated exports to the EU in 2015 using export prices of 2014, i.e. excluding the negative commodity price effect. Our calculations show that in real terms, Ukrainian exports to the EU increased in 2015 by 2%. Thus, export volumes to the EU did not drop, but they increased. And they did so despite major disruptions to economic activity in the industrial Donbass region. Thus, it looks as if the DCFTA is already having a positive impact on the country, even in the short term.

Duty free access to the EU since April 2014

Until April 2014, Ukrainian exports to the EU were governed by the generalised system of preferences (“GSP”). On 23 April 2014, the EU unilaterally adopted autonomous trade preferences (“ATP”), which provided duty-free access for Ukrainian products to its market. By doing so, the EU started implementing its obligations within the deep and comprehensive free trade agreement (“DCFTA”) before 1 January 2016, i.e. the date at which the (provisional) implementation of the treaty began.

As a result of the adoption of ATP, most EU import tariffs for Ukrainian products were eliminated and the average import tariff dropped from 4.5% to 0.9%. The most significant reduction in tariffs took place in agri-food and textiles.

Import tariffs: GSP vs. ATP



Source: UNCTAD TRAINS database, own calculations

Exports to the EU in nominal terms

After the adoption of ATP, the question in everyone’s mind was whether the improved market access would translate into higher Ukrainian exports to the EU. In order to look at this question, we compare exports in 2015, i.e. in the first full year after ATP adoption, with the year 2014. At a first sight the results are disappointing. Exports to the EU declined from USD 17.0 bn to USD 13.0 bn; a decline by 23%.

Ukraine’s exports to the EU



Source: Ukrstat

Some commentators point out that despite this decline, the share of exports to the EU in total exports increased from 32% to 34%. But in our view this provides no relief, since this increase was to a large extent due to the massive drop of exports to Russia by over 50%. Thus, we need to deal with the fact that an improved access to the EU market was followed by a sizeable drop in exports to the EU.

Commodity prices in 2015

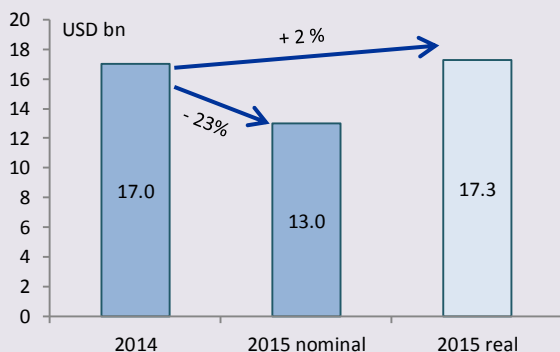
In 2015, in parallel to the improved access of Ukrainian products to the EU market, commodity prices worldwide dropped significantly. For example, the FAO cereals price index dropped by 15.4% and the IMF non-fuel price index by 17.5%. Since Ukraine exports to large extent commodities, especially grains and metals, this development had a negative impact on its exports in US dollar terms (nominal exports). Thus, in order to assess the impact of the improved market access to the EU, it is necessary to filter out this negative price effect.

Exports to the EU in real terms

In order to neutralise the effect of lower prices for commodities, we multiply - at a product level - the export volumes in 2015 with the export prices from 2014. Afterwards we compare the result of this exercise, i.e. 2015 exports to the EU in constant prices of 2014, with exports to the EU in 2014.

The comparison in real terms provides a very different picture than the nominal/US dollar comparison: Exports to the EU in real terms increased by 2%, compared with a heavy decline by 23% in nominal terms.

Nominal vs. real exports to the EU in 2015



Source: Ukrstat, own calculations

Interpretation of results

The improved access to the EU market in April 2014 was followed in 2015 by an increase in exports to the EU in real terms. This increase took place despite severe disruptions in industrial activity in the Eastern part of the country and many other problems facing the country.

Against the background, it looks likely that the better access to the EU market had a positive impact on exports to the EU, as was the case with the other DCFTA countries Moldova and Georgia. Thus, the DCFTA seems to be already working, even in the short term.

In the medium- and long term, more and more companies will establish partnerships with EU counterparts. Furthermore, the undergoing process of regulatory harmonisation will continue, thus facilitating exports to the EU. Thus, there are good reasons to be optimistic about the perspectives of Ukrainian exports to the EU in the future.

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Note: A more comprehensive analysis of the topic is provided by the Policy Briefing PB/10/2016 "Trade liberalisation with the EU and its impact on Ukrainian exports in 2015".

Available at: www.beratergruppe-ukraine.de

German Advisory Group

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