

The impact of Russia's transit restrictions on Ukraine's exports to Kazakhstan and Kyrgyzstan

Veronika Movchan, David Saha, Robert Kirchner

German Advisory Group in cooperation with the IER Kyiv

Berlin/Kyiv, February 2018

Executive Summary

- Russia has imposed transit restrictions in 2016 on Ukrainian exports to Kazakhstan (KAZ) and Kyrgyzstan (KYR)
- Ukraine's exports to KAZ and KYR declined significantly in 2016:
 - KAZ: - USD 312 m, -44% of 2015 exports to KAZ
 - KYR: - USD 36 m, -46% of 2015 exports to KYR
- The effect of Russian transit restrictions in 2016 was at least - USD 149 m (- 0.38% of UKR world exports)
- Russian transit restrictions hence explain at least 43% of the 2016 decline of Ukrainian exports to KAZ and KYR
- Main affected product groups are machinery and agro-food exports
- Further decline of exports to KAZ (- 7%) and KYR (- 15%) in 2017 despite increase of exports to rest of world indicates continued effect of restrictions

Structure

1. Introduction
2. Ukraine's exports to Kazakhstan and Kyrgyzstan
3. Review of restrictions imposed by Russia
4. Impact of the restrictions in 2016
5. Outlook: Probable impact of restrictions in 2017

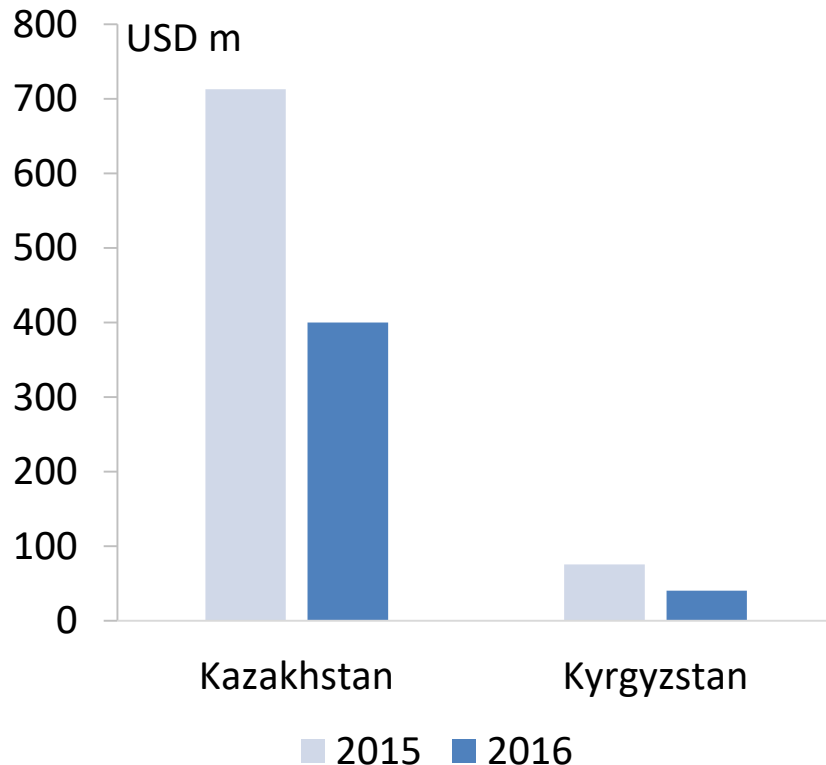
Annex: Ukrainian export transit on Russian railways

1. Introduction

- In 2016, Russia imposed restrictions on the transit of Ukrainian export goods through its territory:
 - In January, direct transit to Kazakhstan was prohibited
 - In July, a ban was imposed on any transit of goods to Kazakhstan and Kyrgyzstan if these goods are subject to non-zero duties in the EAEU or subject to Russian sanctions
- Aim of this study:
 - To estimate the impact of Russia's transit restrictions on Ukraine's trade

2. Ukraine's exports to Kazakhstan and Kyrgyzstan

UKR exports to KAZ and KYR



Source: Ukrstat

Note: Goods exports only

Decrease in exports to KAZ, 2016/2015:

- - USD 312 m
- -44% of 2015 exports
- Share change: from 1.9% to 1.1% of total UA goods exports

Decrease in exports to KYR, 2016/2015:

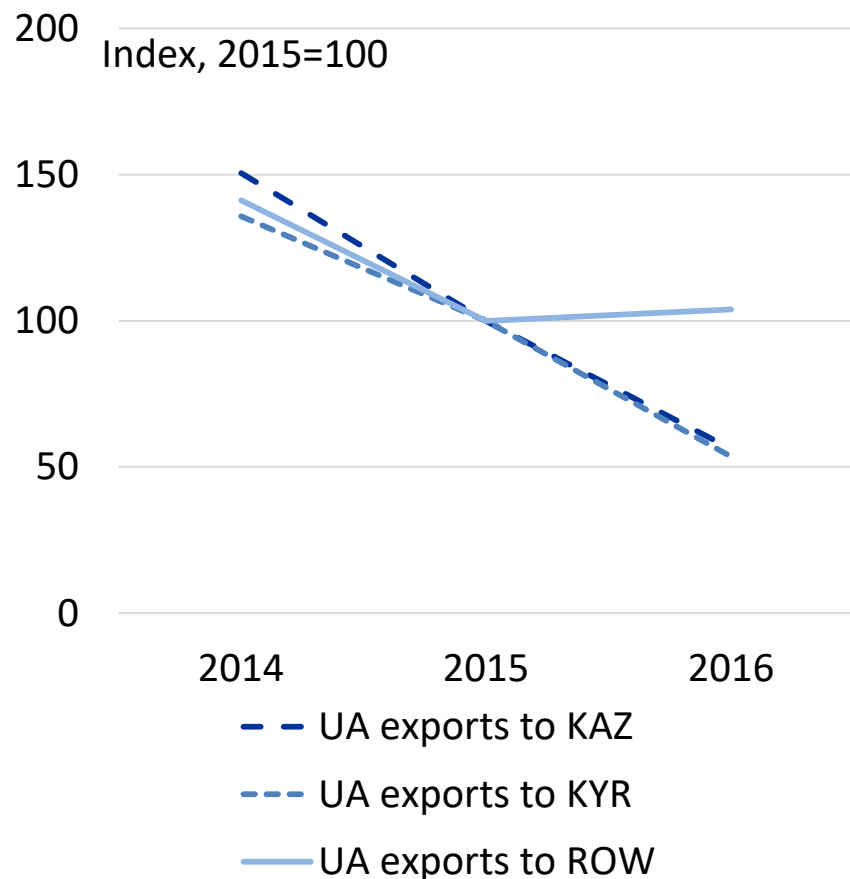
- - USD 36 m
- -46% of 2015 exports
- Share change: from 0.2% to 0.1% of total UKR goods exports

⇒ Very significant drop for both countries

⇒ To what extent is the observed drop due to transit restrictions?

Exports to KAZ and KYR

Index of nominal exports by Ukraine

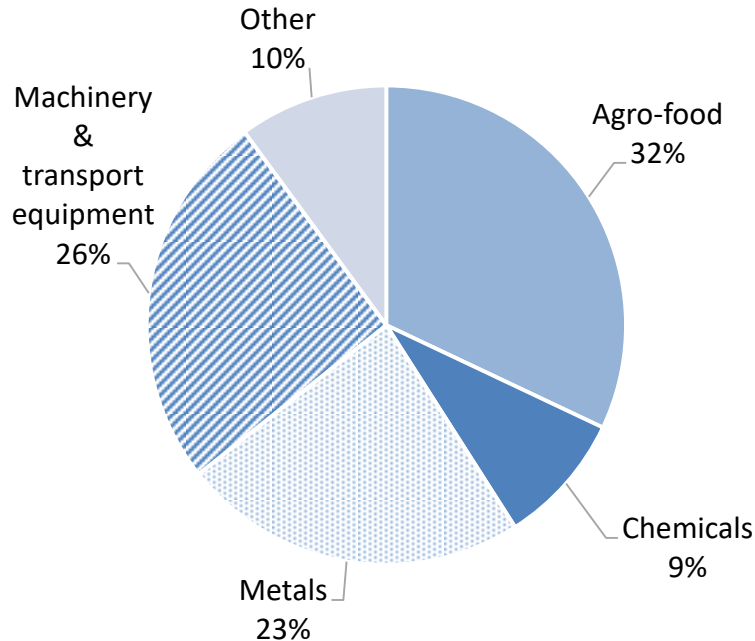


Source: UN Comtrade

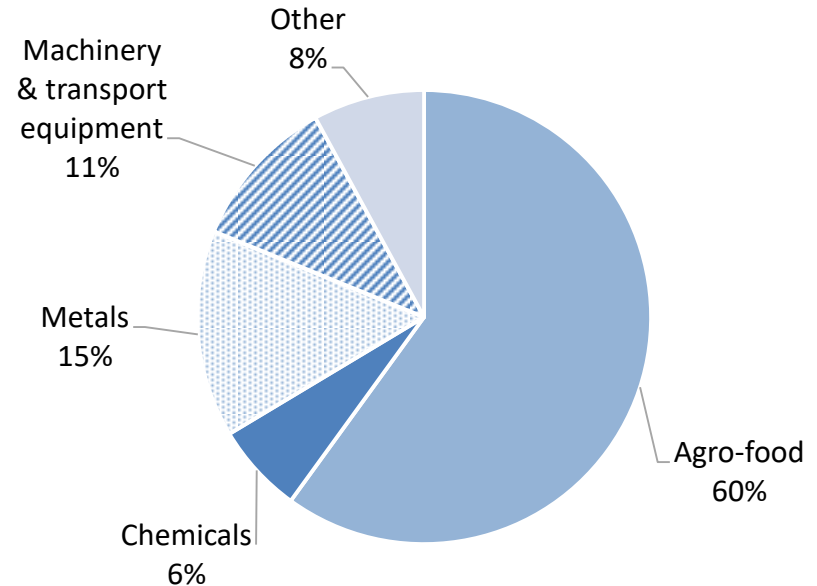
- Ukraine's exports to KAZ and KYR strongly decreased 2015-2016
- Ukraine's exports to the rest of the world (ROW) slightly recovered in the same time
- Could the observed deviation from the trend be due to Russian sanctions?

Exports to KAZ and KYR in 2015: Structure

Kazakhstan



Kyrgyzstan



Source: UN Comtrade

- Structure *before* transit restrictions
 - Key export products to KAZ: Agro-food products (32%); machinery & equipment (26%)
 - Key export products to KYR: Agro-food products (60%)
- Exports to KAZ and KYR accounted for 8.4% of total UKR prepared foodstuff exports

3. Review of restrictions imposed by Russia

- In 2016, Russia introduced transit restrictions on Ukraine's trade with two countries – Kazakhstan and Kyrgyzstan
- Two types of restrictions are applied:
 - **Ban of direct transit:**
 - Since January 2016: to Kazakhstan (*see PB/04/2016 for details*)
 - Since July 2016: to Kyrgyzstan
 - Alternative route through Belarus is offered
 - **Ban on any transit:**
 - Since July 2016
 - Covers exports to Kazakhstan and Kyrgyzstan
 - Concerns goods subject to non-zero duties in the EAEU or subject to Russian sanctions (84% of trade nomenclature, all product categories)
 - Special permission could be granted in request of Kazakhstan and Kyrgyzstan Governments
- Restrictions were recently extended until 30 June 2018

Ukraine's exports subject to full transit ban

% of UKR exports (2015) subject to full transit ban	Kazakhstan	Kyrgyzstan
Animal products	98%	100%
Vegetable products	38%	100%
Animal or vegetable fats and oils	100%	100%
Prepared foodstuffs	98%	94%
Mineral products	45%	100%
Products of the chemical industries	97%	94%
Plastics; rubber	89%	98%
Raw hides and skins, leather	100%	100%
Wood and articles of wood	99%	98%
Pulp of wood	99%	100%
Textiles and textile articles	100%	100%
Footwear, headgear, umbrellas	100%	100%
Articles of stone, plaster, cement, glass	64%	50%
Precious stones, metals	100%	N/A
Base metals and articles of base metal	100%	97%
Machinery and equipment	57%	70%
Vehicles, aircraft, vessels	93%	100%
Instruments and apparatus	43%	60%
Miscellaneous manufactured articles	99%	100%
TOTAL	86%	92%

- Since July 2016, all transit is banned for:
 - 86% of UKR exports to KAZ (2015 value)
 - 92% of UKR exports to KYR (2015 value)
- Transit is prohibited for most products
- Effect of transit restrictions could be significant

Legend

100% of exports subject to full transit ban
80% to 99% of exports subject to full transit ban
50% to 79% of exports subject to full transit ban
Less than 50% of exports subject to full transit ban

4. Impact of the restrictions in 2016: Methodology

Key question

- To what extent can the observed reduction of exports to KAZ and KYR in 2016 be attributed to transit restrictions

Methodology

- Impact: Difference between *actual* and *potential* trade without restrictions
- 2 values for *potential* trade:
 - Constant share of UKR in KAZ/KYR imports
 - Constant share of KAZ/KYR in UKR exports
- Only use the smaller of the two differences to avoid mirror statistics distortions
- Hence measure the *minimum impact of transit restrictions* by Russia
- Calculation by product at HS 6 digits level
- Impact can only be calculated for 2016, HS 6-digit trade data for 2017 for KAZ and KYR is not yet available

Impact of transit restrictions on exports to KAZ, 2016

	Minimum loss, USD m	% of total loss	% of exports to KAZ, 2015	% of UA world exports, 2015
Animal products	2.59	2%	5%	0.3%
Vegetable products	0.58	0%	16%	0.0%
Animal or vegetable fats and oils	5.45	4%	45%	0.2%
Prepared foodstuffs	21.45	16%	13%	0.9%
Mineral products	1.07	1%	24%	0.0%
Products of the chemical industries	2.74	2%	5%	0.1%
Plastics; rubber	4.19	3%	16%	1.0%
Raw hides and skins, leather	0.00	0%	0%	0.0%
Wood and articles of wood	5.33	4%	29%	0.5%
Pulp of wood	4.76	4%	14%	0.8%
Textiles and textile articles	1.36	1%	17%	0.2%
Footwear, headgear, umbrellas	0.24	0%	9%	0.2%
Articles of stone, plaster, cement, glass	8.29	6%	38%	2.5%
Precious stones, metals	0.07	0%	91%	0.1%
Base metals and articles of base metal	20.19	15%	27%	0.2%
Machinery and equipment	32.34	25%	19%	0.8%
Vehicles, aircraft, vessels	3.69	3%	36%	0.5%
Instruments and apparatus	1.79	1%	33%	1.1%
Miscellaneous manufactured articles	15.34	12%	36%	2.9%
TOTAL	131.46	100%	18%	0.3%

Impact of transit restrictions on exports to KYR, 2016

	Minimum loss, USD m	%	% of exports to KYR, 2015	% of UA world exports, 2015
Animal products	1.00	5%	19%	0.12%
Vegetable products	0.05	0%	9%	0.00%
Animal or vegetable fats and oils	1.39	8%	70%	0.04%
Prepared foodstuffs	10.66	58%	27%	0.43%
Mineral products	0.00	0%	0%	0.00%
Products of the chemical industries	0.23	1%	5%	0.01%
Plastics; rubber	0.19	1%	26%	0.05%
Raw hides and skins, leather	0.00	0%	0%	0.00%
Wood and articles of wood	0.46	2%	16%	0.04%
Pulp of wood	0.59	3%	11%	0.10%
Textiles and textile articles	0.16	1%	53%	0.02%
Footwear, headgear, umbrellas	0.00	0%	0%	0.00%
Articles of stone, plaster, cement, glass	0.32	2%	25%	0.10%
Precious stones, metals	0.00	0%		0.00%
Base metals and articles of base metal	0.49	3%	32%	0.01%
Machinery and equipment	1.54	8%	19%	0.04%
Vehicles, aircraft, vessels	0.01	0%	15%	0.00%
Instruments and apparatus	0.00	0%	6%	0.00%
Miscellaneous manufactured articles	1.18	6%	39%	0.22%
TOTAL	18.25	100%	24%	0.05%

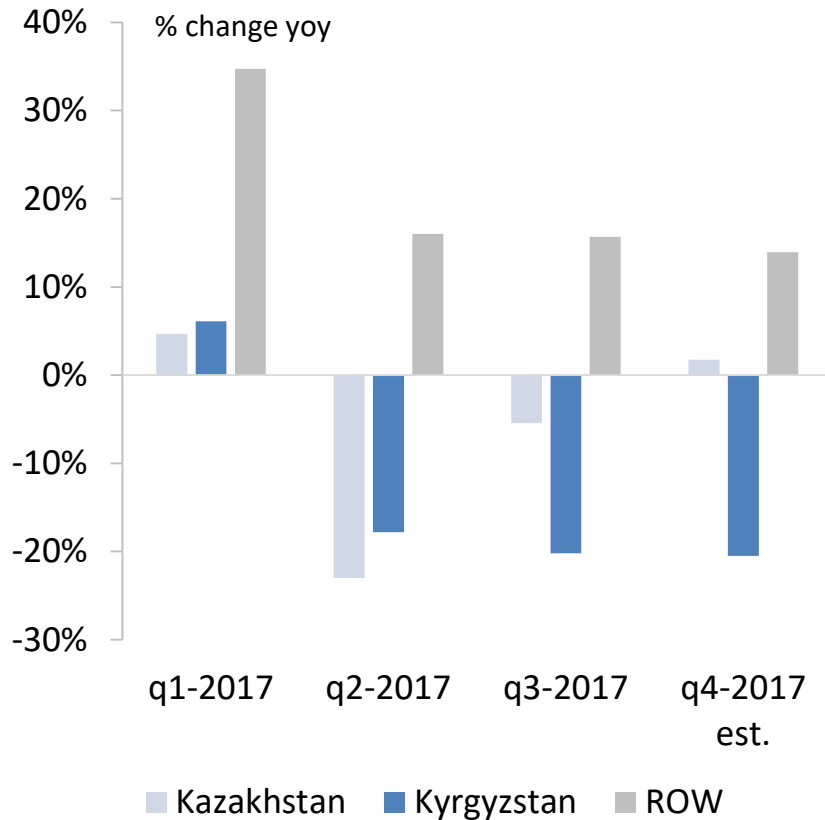
Impact of transit restrictions in 2016: Summary

	Kazakhstan	Kyrgyzstan
Total observed reduction of UKR exports in 2016	USD 312 m (44% of 2015 exports to KAZ)	USD 36 m (46% of 2015 exports to KYR)
Minimum effect of transit restrictions	USD 131 m (18% of 2015 exports to KAZ)	USD 18 m (24% of 2015 exports to KYR)
Key product groups affected	Machinery & equipment: USD 32 m	Food: USD 11 m
	Food: USD 21 m	
	Metals: USD 20 m	

- **Minimum total loss of exports in 2016 due to transit restrictions:**
 - USD 149 m or 0.38% of UKR world exports
 - About 43% of total decline of UKR exports to KAZ and KYR in 2016

5. Outlook: Probable impact of restrictions in 2017

Ukraine's exports in 2017, by quarters



Source: Ukrstat

- UKR export development to KAZ and KYR remained negative:
 - **Decrease in exports to KAZ** (2017E/2016): USD 28 m (7%)
 - **Decrease in exports to KYR** (2017E/2016): USD 6 m or (15%)
- Exports to ROW increased in 2017
- Further deterioration of KAZ/KYR exports indicates that sanctions continued to reduce exports in 2017
- KAZ exports: first signs of recovery
- KYR exports continue to fall



Veronika Movchan

movchan@ier.kiev.ua

David Saha

saha@berlin-economics.com

Robert Kirchner

kirchner@berlin-economics.com

German Advisory Group

c/o BE Berlin Economics GmbH

Schillerstr. 59, D-10627 Berlin

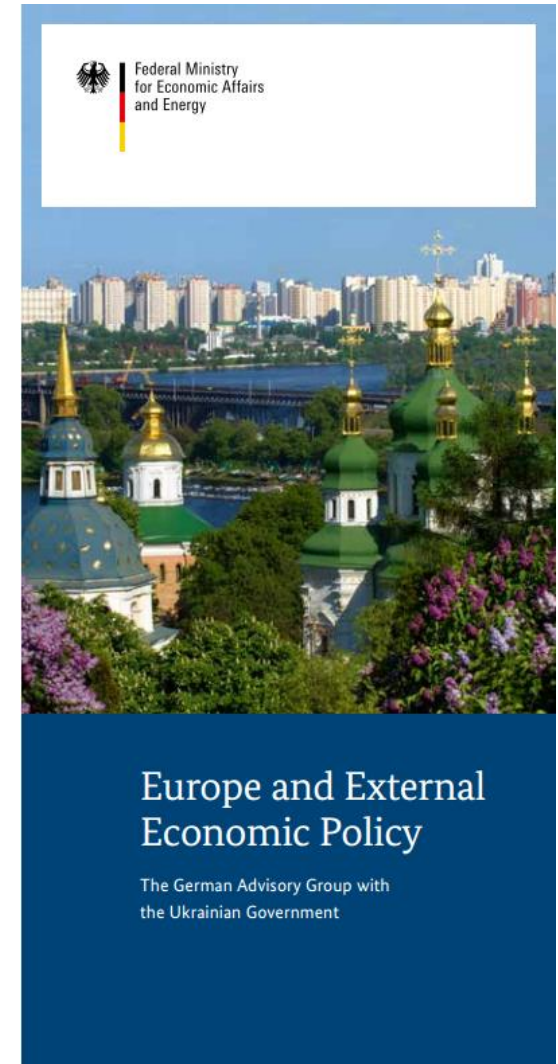
Tel: +49 30 / 20 61 34 64 0

Fax: +49 30 / 20 61 34 64 9

E-mail: info@beratergruppe-ukraine.de

www.beratergruppe-ukraine.de

Twitter: [@BerlinEconomics](https://twitter.com/BerlinEconomics)



Annex: Ukrainian export transit on Russian railway

	2015, thsd. t	2016, thsd. t	2017, thsd. t	2016/2015, % yoy	2017/2016, % yoy
Total	988	377	368	-62%	-2%
Azerbaijan	236	126	164	-47%	30%
Kazakhstan	385	104	15	-73%	-85%
Kyrgyzstan	78	10	0	-88%	-96%
China	2	0	0	-75%	-100%
Tadjikistan	17	14	21	-22%	52%
Turkmenistan	131	26	30	-80%	17%
Uzbekistan	104	59	96	-43%	64%
Georgia	5	2	1	-61%	-36%
Mongolia	16	6	6	-62%	-13%

Source: <https://cargo-report.info/stat/transit-country/>

- Although the transit restrictions are formally imposed only on exports to KAZ and KYR, UA transit by rail to other countries dropped in 2016
- 2017: Transit to KAZ and KYR almost zero due to transit ban on most products.
- Transit to most other countries has somewhat recovered