

OUTLOOK OF THE CONDITIONS OF TRADE IN AGRICULTURAL GOODS BETWEEN UKRAINE AND THE EUROPEAN UNION

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Abstract

This article describes the effects of European Union (EU) association agreement on the development prospects of agricultural good production as one of Ukraine's export-oriented sectors. Also this article provides the problems, with which Ukrainian agricultural producers will face as a consequence of the signing of the EU association agreement. Also examined the levels of tariff protection for agricultural products in the EU and Ukraine, as well as non-tariff protection, export regimes in Ukraine and the EU, provides statistics concerning the export and import of agricultural products in Ukraine. There are some problems of state regulation of enterprises of agroindustrial complex to be solved as soon as possible on the legislative level

Keywords: export, import, EU association agreement, agricultural good production

INTRODUCTION

Given the intensification of globalization processes in the world economy, discrepancy between rates of production and consumption and the diversity of the natural environment, the priority objective of the society is to ensure food security, development and implementation of a coordinated policy on agricultural production. The problem of coordination of positions of individual countries and creating a common agricultural policy for the European Union as one of the most successful integration associations of the world has always been relevant in the period after the Second World War.

In addition, the approval and signing of the Association Agreement between Ukraine and the EU in March 21, 2014 and June 27, 2014 puts the issue of study conditions of trade in agricultural goods between Ukraine and EU. Agro-industrial sector is one of the strongest

sectors of the Ukrainian economy and Ukrainian farmers more than others are ready for EU association agreement.

This study intends to explore the effects of European Union (EU) association agreement on the development prospects of agricultural good production as one of Ukraine's export-oriented sectors. Also this study intends to highlight the problems, with which Ukrainian agricultural producers will face as a consequence of the signing of the EU association agreement.

METHODOLOGICAL APPROACH & RESULTS

Content analysis has been used as the main method of research, which allowed to make a meaningful analysis of classic papers and researches of modern economists-practitioners.

Asymmetry of the conditions of trade in agricultural goods between Ukraine and the EU is characterized as follows:

A) There is **a considerable excess of EU production and trade volumes** over the agricultural goods production and trade volumes in Ukraine. Thus, the share of EU-27 in the world export and import of agricultural goods in 2010 equalled 9% (or USD 129.2 bln) and 11% (or USD 153.5 bln) with high-quality and deep-processed products prevail in the EU exports. The export value of Ukrainian agricultural goods was 13 times lower than that of EU goods (exports – USD 9.9 bln, imports – USD 5.8 bln);

B) Despite the positive balance of trade in UKTZED (Ukrainian Classification of Goods for Foreign Economic Activities) product groups between Ukraine and EU, **imports from the EU considerably exceed exports to the EU for individual product groups**, which will cause *increased asymmetry of trade conditions in case of reciprocal decrease in customs tariff rates*. Thus, the value of imports of live animals and products of animal origin from the EU is 18 times greater than the value of domestic exports to the EU, whereas the value of imports of finished food products from the EU 3 times exceeds the value of domestic exports to the EU;

C) Instead of the declared name “deep and comprehensive free trade area”, **the EU preserves a considerable number of exclusions from the free trade regime (approximately 400 product items)**, first of all in the sector of trade in agricultural goods and food products, i.e. *where the advantages of EU market liberalization would be the most noticeable for Ukraine*;

D) There is an **asymmetry in the levels of tariff protection for agricultural products**. Ukraine, like other countries with which the EU concluded free trade area agreements, was

proposed a *considerable asymmetry of tariff protection towards the EU*, first of all in relation to agro-industrial goods and products:

The average bound tariff for agricultural products is 13.5% in the EU, and 11.1% in Ukraine (according to WTO commitments). In particular, the average bound tariff for importing live animals, meat and meat products is 24.1% in the EU and 13% in Ukraine; *milk and milk products* – **52.3%** and **10%** (!) respectively; vegetables, fruit and live plants – 10.3% and 13.1%; grain and grain processing products – 21.3% and 12.7%; sugar and confectionery – 26.4% and 17.5%.

Besides, *the applicable arithmetical mean rate of import duty* in the EU is 7.6% according to the Customs tariff, while it is 5.0% in Ukraine; these rates are 19.8% and 9.2% respectively for the products under UKTZED groups 01-24 (agriculture). At the same time, import duty rates for certain tariff lines from the EU side are *1.5 to 14 times greater than the import duty rates in Ukraine*. In 2011, the *weighted average import duty rates* that applied to the trade in agricultural products of Ukrainian origin in the EU amounted to 7.42% against 6.41% for products of EU origin in Ukraine.

Therefore, traditionally high rates are observed *in the trade in agricultural goods*; besides, the EU market is better protected than the Ukrainian market. Thus, the declared approach to the creation of FTA+ that *is asymmetrically beneficial for the EU* may create serious challenges in terms of economic development in Ukraine, and it first of all concerns development of the agricultural and food sectors.

E) The EU proposed **a frankly discriminating system of tariff quotas** set at an extremely low level for 15.1% tariff lines of agricultural goods: at 0.07% of EU market volume for beef and pork, 0.09% for poultry, 0.001% (!) for milk, 0.17% for wheat and wheat products, 0.11% for maize, 0.02% for barley, and 0.01% for oats;

F) **The EU plans to preserve intact the existing system of multibillion subsidies in the agrarian sector** that automatically make the Ukrainian production and exports less competitive in the market in the context of liberalization. For example, the level of budgetary support of agricultural enterprises in relation to the gross output of agricultural goods in Ukraine in 2012 was only 3% of the value of gross agricultural production, i.e. **4.5 times lower** than the respective level of subsidies from the budget of the EU Common Agricultural Policy (14% of the value of gross agricultural production);

G) **The EU has a high level of non-tariff protection that is much higher than in Ukraine.**

Application of these measures from the EU *creates asymmetry in trade conditions with Ukraine*, since even if the WTO recognizes these barriers unlawful, it cannot force the EU countries to eliminate them. For Ukrainian producers, additional expenses on certification, compliance with sanitary requirements, etc. may *become a reason for increased cost price of the products and, accordingly, for a decrease in their competitiveness in EU markets*. The only possibility for Ukraine as a WTO member in this situation is to introduce barriers in response.

Ukrainian producers of organic goods and wine products will face **technical barriers**. Producers of wine products will face the problem of labelling and protection of geographic names, whereas the producers of organic goods will face the problem of observance of production and labelling rules.

The level of protection of EU markets with **sanitary and phytosanitary control measures** is *one of the highest in the world and considerably higher than in Ukraine*. Food security activities cover the whole production chain from plant and animal health to labelling food products and animal welfare.

For example, *in the EU it is prohibited to import meat of animals that were given growth hormones and antimicrobial preparations during feeding*. At the same time, since the use of antibiotics and growth hormones in feeding cattle is not prohibited *in Ukraine, importing meat and meat products produced with the use of growth hormones was allowed* after accession. In addition, mechanical boning meat consisting of meat-and-bone remains are transported to Ukraine and used as cheap low-quality raw material for the meat processing industry.

The parties have confirmed their rights and liabilities within the WTO regarding **anti-dumping and compensation measures**. At the same time, *the EU and Ukraine have established additional requirements to the transparency of safeguard measures application, consideration of public interest, implementation of the rule of lower anti-dumping or compensation duty, and the revision and consultation mechanism*;

H) The EU demands that Ukraine should **assume rigid liabilities regarding the protection of approximately twenty geographic names**, including the names of beverages («cognac», «champagne») and cheeses («Parmesan», «Feta» and others), i.e. in the issue that still remains controversial within the WTO;

I) **Asymmetry is characteristic of the export regimes of Ukraine and the EU**. Thus, *Ukraine does not apply and has undertaken not to imply export subsidies for agricultural products within the WTO*. At the same time, 36 WTO members have the right to apply export subsidies, and

more than 20 WTO member states (including EU, USA, and Canada) actually apply them. At this, the EU accounts for 90% of the total amount of export subsidies used by the WTO members;

In the WTO, Ukraine has undertaken to **decrease the export duty for sunflower seeds** from 15% to 10%, while the duty shall go pointwise down to zero over 15 years (replaced with additional duty) within the FTA+ agreement. However, if the exports of sunflower seeds in the EU exceeds 100 thousand tons per year, the duty rate will increase to the level applied in WTO.

J) **The EU also extensively uses special safeguard measures (SSMs)** as set forth in the WTO Agreement on Agriculture for safeguarding its producers from increased imports and price reduction. Developed countries use SSMs for restricting imports from developing countries. Thus, *23.8% of tariff lines of agricultural goods are protected with SSMs*. The use of SSMs protects 40% of imported agricultural market in the EU, on the other hand, there are only several developing countries that are allowed to use SSMs, however, they are virtually unable to use them because of the limited ability to collect the necessary data. At the same time, *Ukraine as a new WTO member is not allowed to use SSMs for its protection*.

Table 1 shows that total exports of agricultural products from Ukraine amounted to USD 17.02 bln in 2013, which makes up 26.9 % of the total exports from Ukraine. Table 1 provides basic statistical data on the exports and imports of Ukrainian agro-industrial products in 2012 and 2013.

Table 1. Exports and imports of Ukrainian agro-industrial products in 2012 and 2013

Indicator	Unit	2012			2013			Growth rate 2013 to 2012, %	
		Exports	Imports	Balance «-» negative, «+» positive	Exports	Imports	Balance «-» negative, «+» positive	Exports	Imports
1	2	3	4	5	6	7	8	9	10
Agro-industrial production – total	bln USD	17.88	7.52	+10.36	17.02	8.18	+8.84	95.2	108.8
<i>Relative value of agro-industrial complex (AIC) in total volume</i>	%	26.0	8.9		26.9	10.6			
<i>including:</i>									
Live animals and products of animal origin	bln USD	0.96	1.72	-0.76	1.08	1.89	-0.81	112.8	110.1
<i>Relative value in total AIC volume</i>	%	5.4	22.9		6.4	23.1			

Products of vegetable origin	bln USD	9.21	2.43	+6.78	8.88	2.67	+6.21	96.3	109.9
<i>Relative value in total AIC volume</i>	%	51.5	32.3		52.1	32.6			
Fats and animal or vegetable oils	bln USD	4.21	0.41	+3.81	3.51	0.40	+3.10	83.3	99.3
<i>Relative value in total AIC volume</i>	%	23.6	5.4		20.6	4.9			
Finished food products	bln USD	3.49	2.97	+0.53	3.56	3.22	+0.34	101.8	108.5
<i>Relative value in total AIC volume</i>	%	19.5	39.4		20.9	39.3			
<i>Reference</i>									
European Union (28)	bln USD	4.93	2.97	+1.96	4.47	3.08	+1.39	90.7	103.5
<i>Relative value in total AIC volume</i>	%	27.6	39.6		26.3	37.6			
Russian Federation	bln USD	199	0.73	+1.27	1.94	0.84	+1.11	97.5	114.9
<i>Relative value in total AIC volume</i>	%	11.2	9.7		11.4	10.2			
Other countries	bln USD	10.96	3.82	+7.14	10.61	4.27	+6.34	96.8	111.8
<i>Relative value in total AIC volume</i>	%	61.3	50.8		62.3	52.2			

Source: WTO ITC UNCTAD World Tariff Profiles (2013)

The structure of agricultural goods exports from Ukraine in 2013 indicates that the products of vegetable origin made up 52.1 %, fats and animal or vegetable oils – 20.6 %, finished food products – 20.9 %, and live animals and products of animal origin – 6.4 %.

In 2013, the agricultural goods exports from Ukraine to the Russian Federation amounted to USD 1.94 bln, which makes 3.1 % of the total exports from Ukraine and 11.4 % of the total value of Ukrainian agricultural goods exports. The growth rate of exports to the Russian Federation in 2013 was 97.5% as compared to 2012. i.e. it decreased by 2.5 points.

It should be noted that the agricultural goods exports from Ukraine to the EU in 2013 amounted to USD 4.47 bln, which makes 7.1 % of the total exports from Ukraine and 26.3 % of the total value of Ukrainian agricultural goods exports; exports to other countries equalled USD 10.61 bln, which makes 16.8 % of the total exports from Ukraine and 62.3% of the total value of Ukrainian agricultural goods exports.

According to many experts, **the only way of reforming the agro-industrial sector of Ukraine** in the context of its membership in the WTO and association with the EU is reforming of the management system in this economy sector and its deregulation. Reorganization of the management structures and legislation in the agro-industrial complex are reasonable only after the agrarian policy of the country is defined, since the management structure and legislation are tools for the implementation of this policy. Thus, for example, Bernard Casey, President of the

American Chamber of Commerce in Ukraine, considers that the Ministry of Agrarian Policy shall enhance control over the activity of accountable bodies, including the State Veterinary and Phytosanitary Service of Ukraine and the State Agricultural Inspection, and develop special procedures allowing businesses to appeal to the actions (or inaction) of the representatives of these bodies within a certain period of time (generally 10 days or less) [Tatarenko et al 2014].

Table 2 represents certain topical issues of the state regulation of agro-industrial enterprises that need to be resolved at the legislative level as soon as possible.

Table 2. Topical issues of the state regulation of Ukrainian agro-industrial enterprises in 2014

Issue	Consequences	Possible solution	Notes
1	2	3	4
Ban on import and use of certain food additives (bill No. 2643 of 28.03.13)	Disappearance of certain food products from the market	To reject the bill in the first reading	Food additives that it is proposed to ban are recognized as safe at the international level. Bill provisions do not meet the WTO standards and Ukraine's commitments towards the WTO
Restriction of production, import, distribution of polymer bags and packages for long-term storage (bill No. 2353 of 20.02.13)	Closure of most of producers of food products	To reject the bill in the first reading	An alternative to the bill may be implementation of the European model of packaging waste treatment. The correspondent bill "On packaging and packaging waste" has been submitted for approval to the Cabinet of Ministers of Ukraine
Need to adopt the bill "On introducing changes to individual legislative acts of Ukraine relating to food products security"	Imperfection of food products security system in Ukraine, absence of a single control body, large number of licensing documents, existence of corruption mechanisms	To register a new bill in the Verkhovna Rada and to consider it taking into account the alternative bill	Bill No. 3102 of 20.08.13; alternative bill No. 3102-1 of 05.09.13
Non-GMO labelling of food products	According to the European legislation (in particular EU Directive No. 1830/2003), there is a requirement to labelling of GMO-content in food products. In Ukraine, there is a requirement to its absence	To cancel the requirement for compulsory non-GMO labelling of food products packages that does not exist in any country. To adopt complete bill No. 912 of 12.12.12	The bill has been elaborated taking into account remarks of people's deputies and non-governmental organizations

Groundless adjustment of customs value of imported products and delay in their customs registration	Delays in customs registration of goods and groundless overestimation of the basic value of goods	To introduce changes to the Customs Code, ensuring that the document confirming the declared customs value shall be the declaration of customs value	Resolution of this issue is of particular importance for Ukrainian enterprises that import raw material for domestic production
Introduction of duties on solid household waste recycling for producers and importers of packages and packaged goods	Introduction of another ecological tax on solid household waste. Non-transparent implementation of this tax	To reject bills No. 2611a of 18.07.13 and No. 2612a of 18.07.13 in the first reading. To adopt the bill "On packaging and packaging waste" in the first reading	Bills No. 2611a of 18.07.13 and No. 2612a of 18.07.13 contradict the Regulations of the European Parliament and EU Council 94/62 of 20.12.94

Source: Tatarenko et al (2014)

CONCLUSIONS

Representatives of the leading branches of the agricultural sector expect certain benefits from the implementation of the EU Association Agreement, since European markets will become more accessible for Ukrainian producers. These expectations are justified by the fact that Ukraine made considerable concessions in favor of the EU when it joined the WTO. The EUAA lion's share of which consists of the agreement on the creation of free trade area, largely remedies this situation, i.e. levels the conditions of cooperation for Ukrainian and EU agrarian and agroprocessing industries and increases the accessibility of European markets for national producers.

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