

# **EU-Ukraine Agricultural Trade Tensions: Political Focus versus Economic Relevance**

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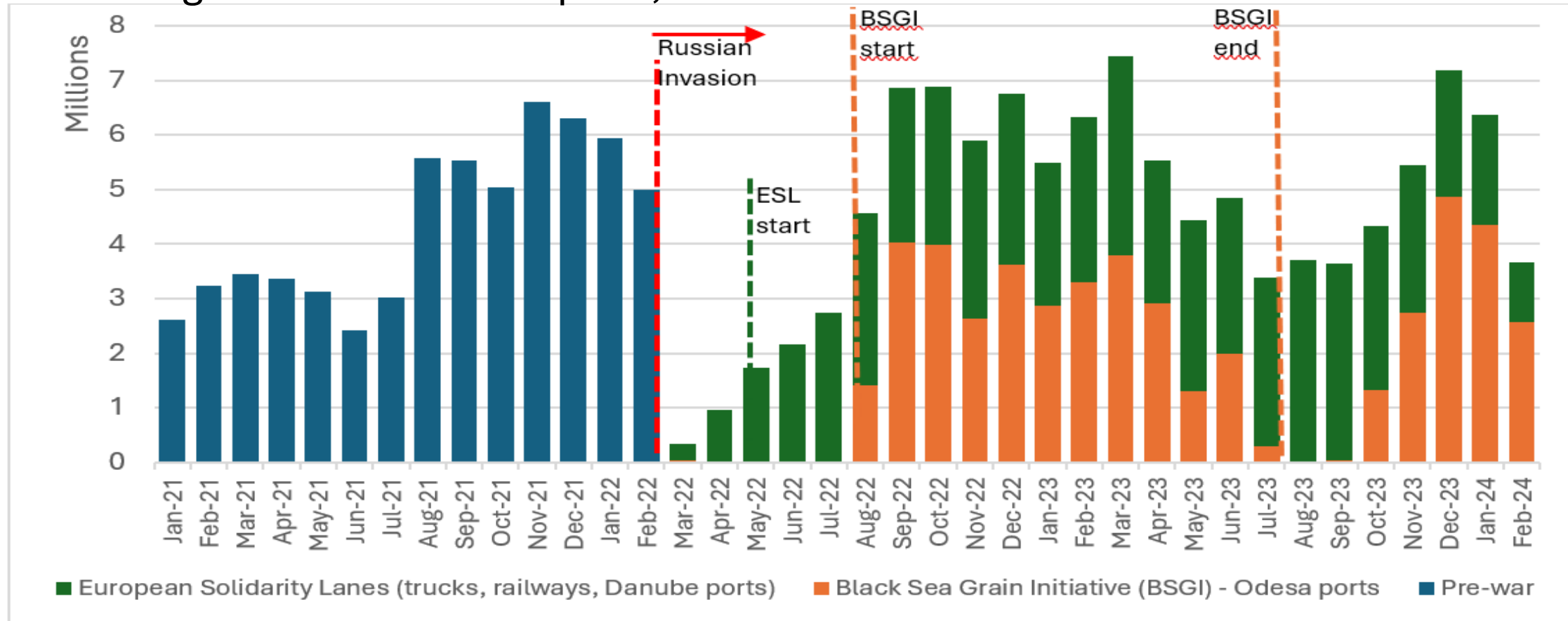
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# Outline

- How and why did the EU-Ukraine tensions over agricultural exports arise and develop
- Summarizing and rationalizing the main economic arguments in the tensions/discussion
- Conclusions and a way forward

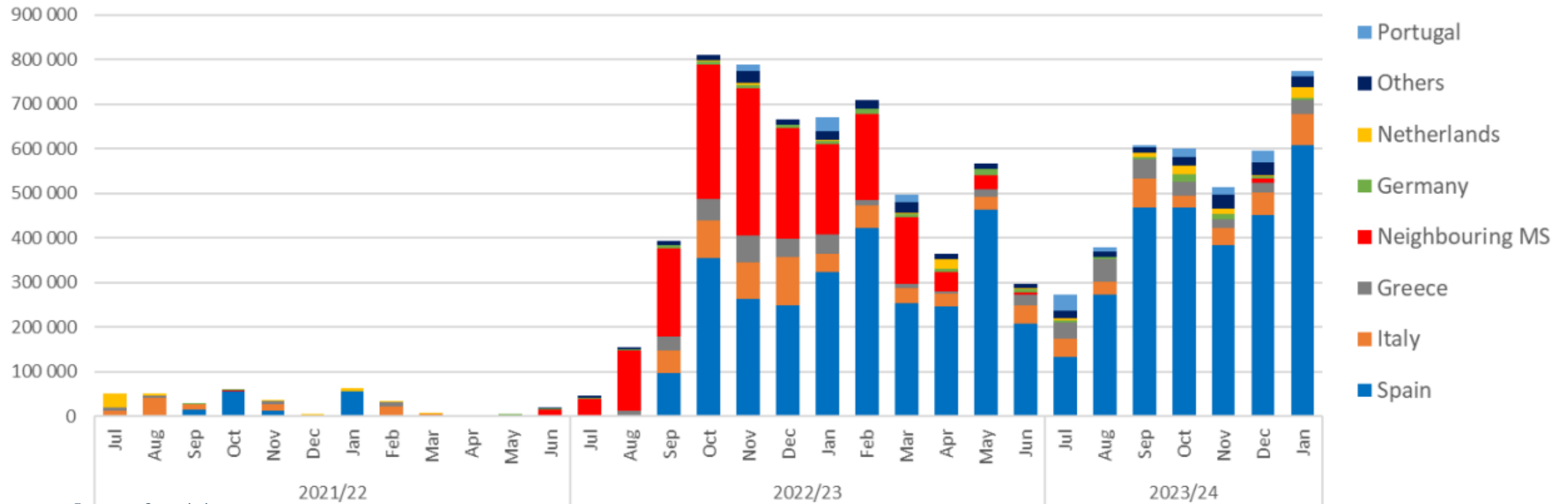
1. Russia brutally invaded Ukraine in Feb 2022
2. EU extended a hand of help (incl. ESL and full trade liberalization)

Ukraine's grain and oilseeds exports, mln tons



- 3. Ukrainian exports of ag goods to the EU grew rapidly
- 4. This triggered farmers' protests and tensions since summer 2022

Imports of wheat from Ukraine to the EU, tons



source: European Commission

- August-September 2022. Long truck queues (up to 60 km) lined up at Poland border. Unusually slow phytosanitary control services were (unofficially) blamed for
- Further strong farmer protests in frontline member states Poland, Slovakia, Hungary, and even individual countries' bans on Ukraine's agricultural imports in April 2023
- EU Commission reaction:
  - EUR160 million financial compensation package
  - + a temporary limit of imports of four agricultural products (wheat, maize, rapeseed, and sunflower seed) from Ukraine till September 15, 2023

- After September 15, 2023:
  - EU Commission did not extend the import ban,
  - but Poland, Hungary and Slovakia continued their unilateral import bans
  - and their farmers continued the protests, cross-border and roads' blockade and lobbying efforts in Brussels
- Late Spring 2024. Final Deal between the EC and farmers' associations/coalition of five frontline EU MSs supported by France:
  - continue with ATMs (full liberalization) but...
  - with safeguard provisions for a list of 'sensitive products' (poultry, eggs, sugar, oats, maize, groats, and honey) to guard against import surges

## Argument 1 – Political focus versus economic relevance

- Relatively small economic relevance for the EU as a whole and for individual frontline MSs
  - Agriculture in GDP: EU – 1.6%; Poland – 2.7%
  - Ukraine accounts only for around 0.5% of the EU's total imports of goods and 1-2% of agricultural goods
- Political focus on the issue was incomparably larger and even was escalated to essentially existential level to Ukraine and also for EU

## Argument 2 – Trade: Full trade liberalization only after Russian invasion?

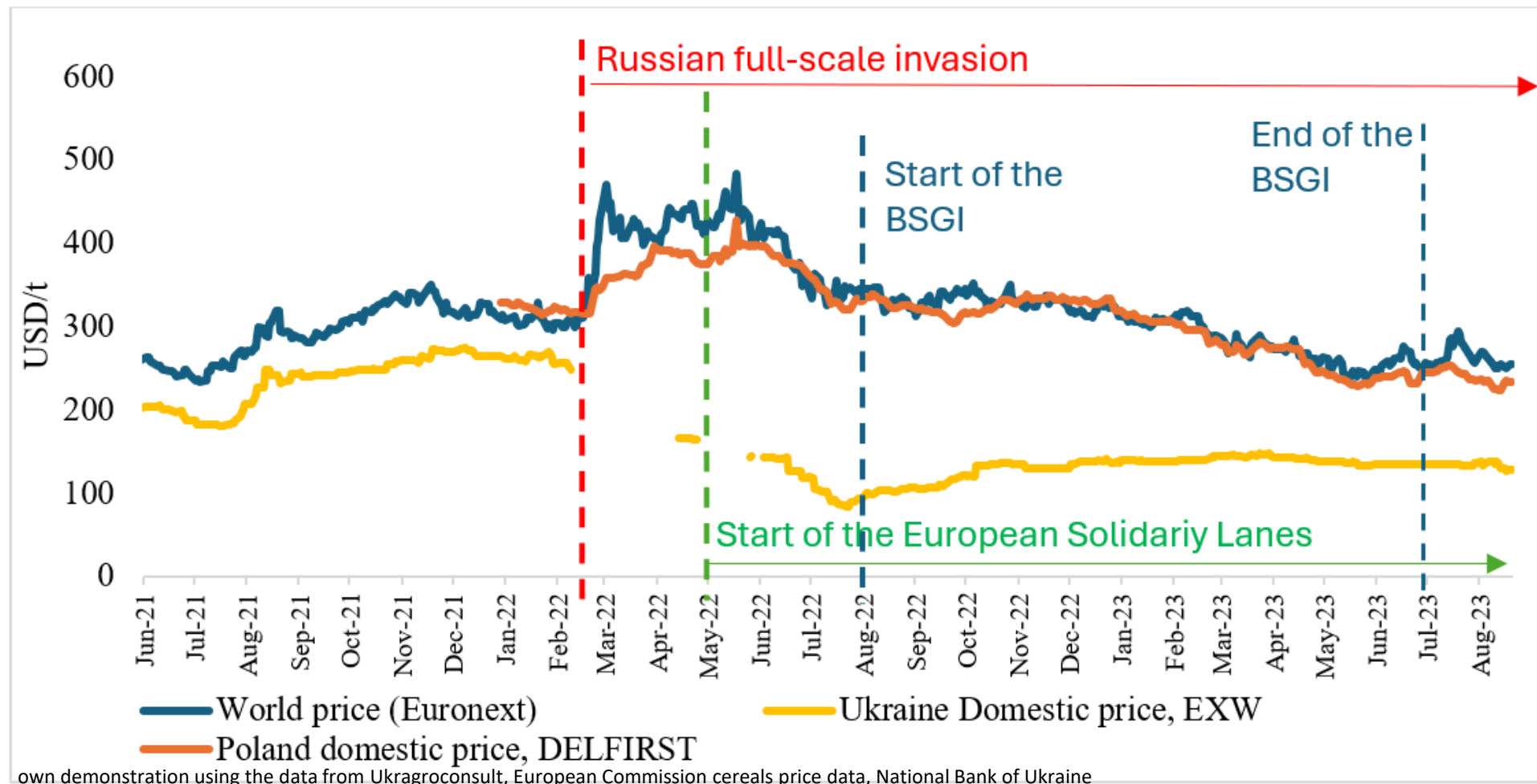
- Example: “*Following the Russian invasion of Ukraine, the European Union (EU) lifted import tariffs for Ukrainian commodities to maintain Ukrainian exports to the world market. This led to a considerable decrease of prices for cereals and oilseeds in affected Member States*”
- In 2016: a Deep and Comprehensive Free Trade Area (DCFTA) between the EU and Ukraine came into effect and resulted in almost full trade liberalization
- Only the EU tariff rate quotas (TRQs) for altogether 40 product lines (grain, beef, pork, sheep and poultry meat, sugar, eggs, selected dairy products, selected vegetables, selected fruit juices, ethanol, and cigarettes) remained
- Imports under the EU TRQs made up 35% of total Ukraine’s agricultural imports to the EU in 2021, or less than 1% in total agricultural imports to the EU



## Argument 3 – Price: Is Ukraine’s export responsible for drop in prices in the frontline EU member states?

- Example: *“Following the Russian invasion of Ukraine, the European Union (EU) lifted import tariffs for Ukrainian commodities to maintain Ukrainian exports to the world market. This led to a considerable decrease of prices for cereals and oilseeds in affected Member States”*

# Argument 3 – Price: Is Ukraine’s export responsible for drop in prices in the frontline EU member states?



## Argument 4 – Costs: cheap Ukrainian grain?

- Example: “*Farmers continue to protest that cheap grain imports, mandated by the European Union, are hurting them, despite financial support*”
- Price indeed was very low in Ukraine, because of the export disruptions and high logistic costs
- But markets were integrated and existing spatial price arbitrage was not enough to compensate for transfer costs between Ukraine and Poland

# Argument 5 – Competition: does Ukraine crowd out Poland from other EU countries’ markets?

- Example: *‘The other day, Poland's deputy minister of agriculture, Michal Kolodziejczak, said that the country's government is concerned that Ukrainian agricultural products are displacing Polish products on the German market’*

Figure 10 Exports of wheat from Poland, mln t

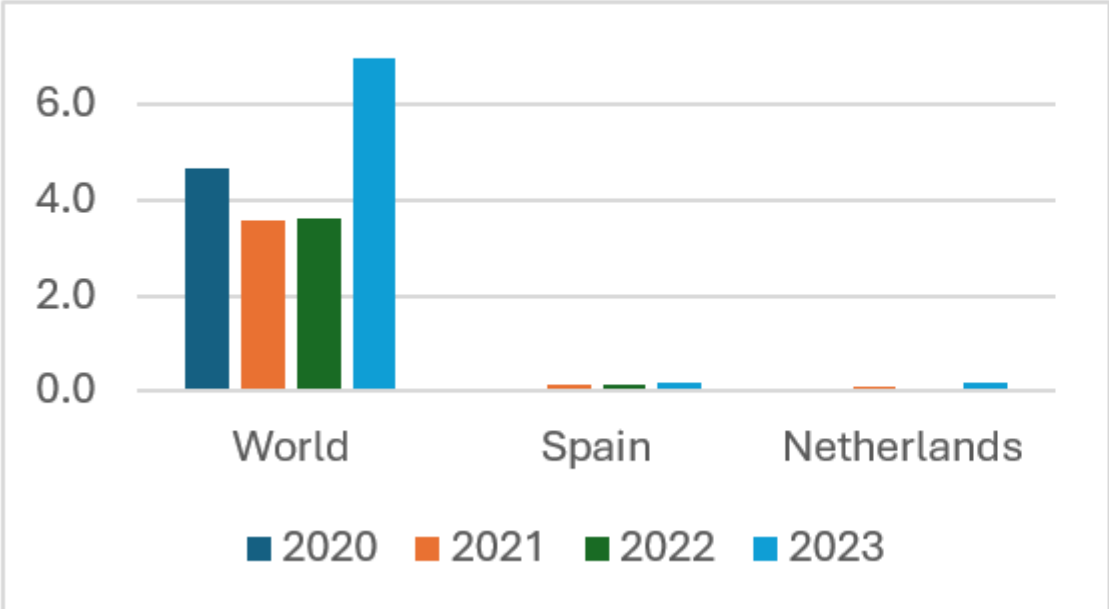
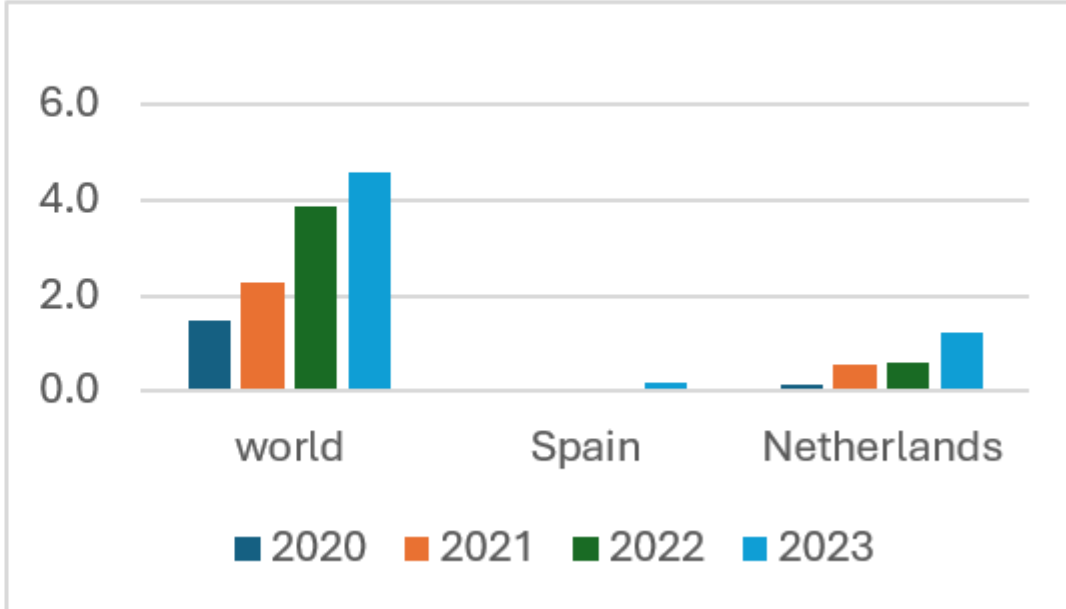


Figure 11 Exports of corn from Poland, mln t



source: own demonstration using UN Comtrade data

## Argument 6 – Infrastructure: tight grain infrastructure capacities in the frontlines EU MSs

- Example: *‘... the capacity of Polish silos and the storage system is definitely not enough to absorb the Ukrainian grain, sunflower and other goods...’*
- ... there is no reliable data on usage and performance of storage capacities in Poland.
- But there is analytics that demonstrate that Gdansk port capacities have been utilized by 50-60% so there is a substantial scope for increasing transshipments.

## Argument 7 – EU consumers: not relevant?

- Bringing consumers into a public discussion would provide more balanced view on the current situation and costs and benefits thereof.
- Countryman et al (2024) analyzed the global effects of weak or strong ESL using a CGE: welfare loss of USD 520 million under the weak ESL, and almost USD 2 billion welfare gain under the strong ESL scenario

# Conclusions

- Tensions between Ukraine and frontline EU MSs fundamentally origin back to February 2022, when Russia invaded Ukraine at full-scale
- Economic perspective of the arguments in the discussion is quite weak
- we hope this will help the EU institutions to continue with a win-win decision for further free-trade regime with Ukraine, and without a list of 'sensitive products'
- ...paving the way to Ukraine's EU membership