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External Trade Monitoring

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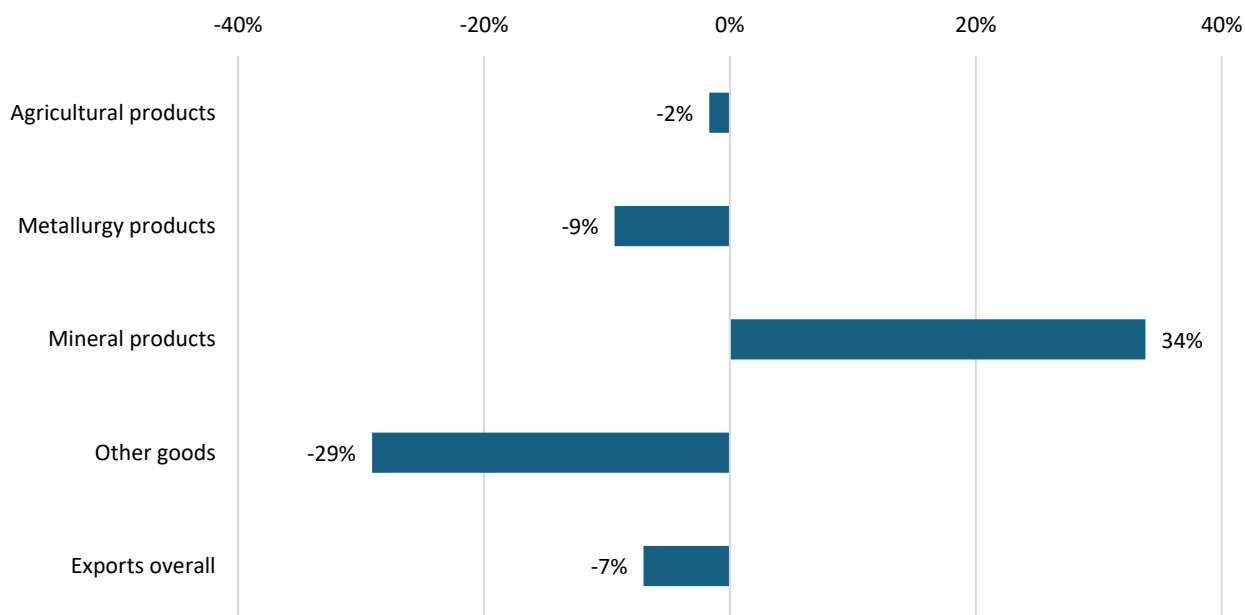
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External Trade Statistics

Exports & Imports by Major Groups

- Exports in June fell by 7% year-on-year (yoy) to USD 2.77 bn. According to customs data, this was also the lowest figure since the beginning of the year: in January-May, exports ranged from USD 3.25 bn to USD 3.40 bn. Exports of agricultural products fell by 2% yoy to USD 1.60 bn, but exports of components behaved differently. Corn exports volume (ie in tonnes) increased by 21% yoy from a relatively low statistical base and due to relatively higher balances at the end of the marketing year. Due to lower prices, dollar exports increased by only 12% yoy. Sunflower oil exports fell by 5% yoy and wheat exports by 32% yoy due to lower stocks than the previous year. Wheat stocks were low enough to prompt some bread producers to ask the Government to limit exports until the new marketing year. Compared to previous months exports decreased significantly due to the depletion of stocks of last year's grain and oilseed harvests.
- Exports of metallurgy products in June fell by more than 9% yoy to USD 355 m. To some extent, this probably reflected higher electricity costs and a change in the structure of exports: exports of pig iron and certain types of rolled products decreased, and exports of semi-finished products and other types of steel products increased. However, the decrease in logistics costs due to the resumption of exports of non-agricultural products through the seaports of Odesa helped maintain exports at a reasonably high level.
- Exports of mineral products, primarily iron ore, increased by 33% yoy but were lower than in January-April. Due to the resumption of exports from Odesa ports, iron ore exports in tonnes increased by 87% yoy, although they were lower than in previous months due to electricity shortages. The share of electricity costs for producers of iron ore and iron ore concentrate is among the highest in the industry. Exports of mineral products increased by only 33% yoy because iron ore prices remained below last year's level, and coal exports, which took place last year, were absent in June this year. Exports of other types of products also decreased. Here, too, there was probably a shortage of electricity.

Figure 1: Export changes by major groups in June, % yoy

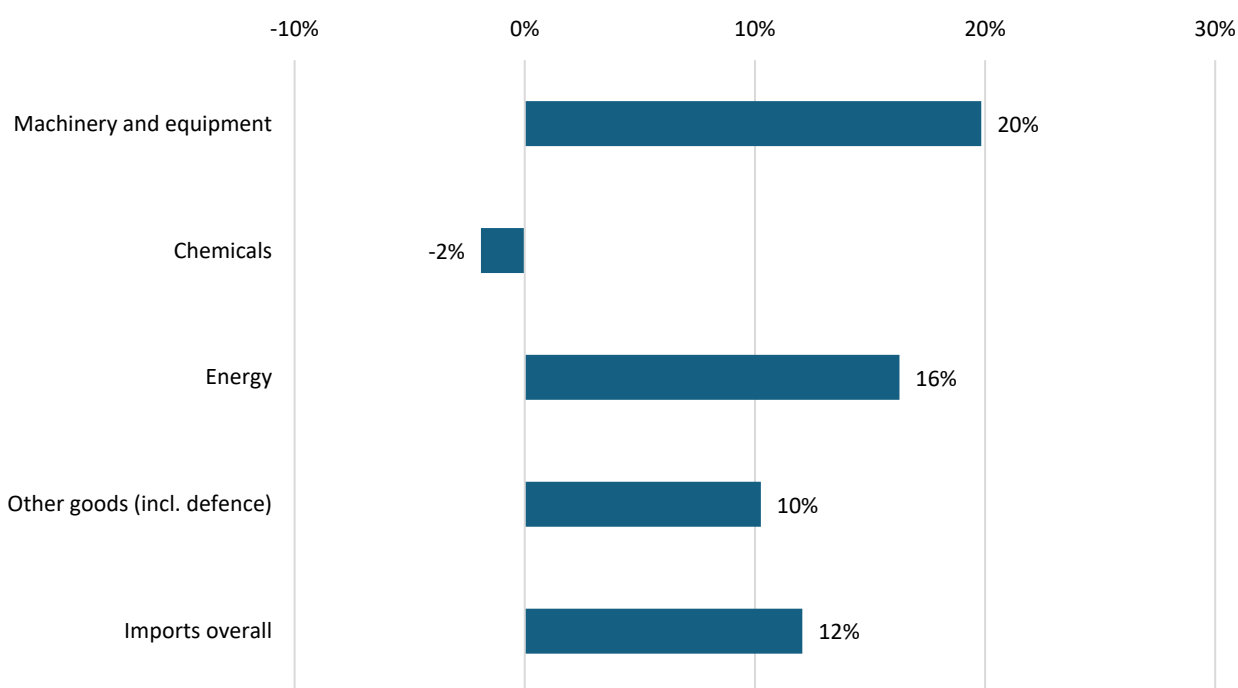


Source: Own calculations based on data from the State Migration Service

- Imports in June were almost unchanged compared to May but increased by 12% yoy to USD 5.63 bn. In June, imports of machinery and equipment increased by nearly 20% yoy (especially imports of drones, batteries, and generators). At the same time, imports of cars decreased slightly in dollar terms due to lower import prices. Imports of energy products increased by 16% yoy due to higher imports of coke and coal, probably to meet the needs of metallurgy, where steel production increased.

- At the same time, imports of chemical products and food products decreased. However, the most significant impact was caused by the increase in imports of "other goods" (primarily goods purchased for the needs of the Armed Forces of Ukraine). Imports of "other goods" reached USD 752 m compared to about USD 400 m in the previous months.
- The electricity shortage led to increased electricity imports (USD 78 m in June compared to USD 6 m in June 2023) and batteries (USD 68 m in June compared to USD 18 m in June 2023). These two positions ranked 7th and 8th place among the groups of goods by dollar imports, following "other goods," petroleum products, cars, medicines for retail sale, drones and mobile phones. However, battery imports have not yet reached winter 2023 volumes, and gasoline imports grew by only 5% yoy, partly due to higher import prices. This indicates that the gasoline needs of generators have so far had a limited impact on total gas imports.

Figure 2: Change in imports by major groups in June, % yoy



Source: Own calculations based on data from the State Migration Service

Obstacles to Export

- According to the results of the IER business tendency survey, problems with logistics remain the main impediment to export development. Since the survey was conducted in March, when Polish farmers and carriers blocked the border, this was the main impediment. However, unblocking the border for road transport does not solve the logistics problem for large players.
- That is why the work of the Ukrainian Sea Corridor is essential. It contributed to the growth of production in the mining and metallurgical complex, whose enterprises were able to start exporting through seaports. Thus, the high cost of logistics for exporting products was among the main factors that restrained the partial recovery of production.
- Problems with logistics also include lack of rail cars, trucks, as well as driver shortages. At the same time, the business survey, conducted monthly by the IER, shows that lack of labor is a really important obstacle to business activity now. One of the reasons for this is the mobilization of drivers. Therefore, with the support of donors, the Government has launched retraining and training programs for workers in specific sectors of the economy. Certain businesses are implementing training programs for women, particularly for driving heavy trucks.

- Complex customs regulations and procedures were the fourth most crucial obstacle to the development of exports. At the same time, customs legislation is complex in any country and, therefore, requires business capacity or the involvement of specialized intermediaries. At the same time, it should be taken into account that the Government and parliament are currently working on amendments to customs legislation, and the agenda includes the preparation of a new Customs Code, which will be harmonized with EU legislation.

Figure 3: Problems with exports, % of respondents



Source: NRES 2022-2024, data for March 2024

- In June, according to the IER business tendency survey, the biggest impediments to business operations in Ukraine was problems with access to electricity, which resulted from the destruction and damage of electricity generation by Russian drones and missiles. Exporters, particularly in the metallurgy sector, have benefited from the opportunity to purchase imported electricity, which allows them to avoid or minimize power outages. At the same time, on June 1, 2024, according to the decision of the Cabinet of Ministers of Ukraine, the share of electricity that the relevant business is obliged to buy during a planned power outage in the region increased from 80%. Since imported electricity is 20-25% more expensive than that produced in Ukraine, the business appealed to the Government to reduce the share to 50%, which was in effect during the heating season.

New in Ukraine's Trade Policy (Key Changes)

- Ukraine and the European Union have updated the Agreement on the Liberalization of Road Transport text and extended it until June 2025 with the possibility of automatic extension until the end of 2025. According to the new requirements of the "transport visa-free regime," Ukrainian trucks must have an appropriate sticker, a copy of their license in English, and cargo documents, even for empty vehicles.

Although the amendments to the Agreement came into force on the day of signing on June 20, they were officially promulgated only on July 2. This delay led to misunderstandings at the border. On July 1, the Polish customs service did not allow Ukrainian trucks to pass without bilateral international permits or permits for transportation under the ECMT Agreement. The situation was resolved only in the evening of the same day.

These changes aim to simplify the road transport process between Ukraine and the EU for bona fide carriers and avoid accusations of cabotage and cross-border trade without appropriate documents.

- In June, the Government abolished import duties on spare parts to manufacture specialized vehicles at Ukrainian enterprises. In particular, this relates to special-purpose vehicles for the National Police, medical

services, the State Emergency Service, law enforcement agencies, and the military. The re-export of such special vehicles to EU countries is allowed.

- On July 1, the updated Free Trade Agreement between Ukraine and Canada came into force, built on the example of the Canada-Mexico Free Trade Agreement and the Trans-Pacific Partnership Agreement (Ukraine also plans to join the latter). The updated Agreement was signed in September 2023 to expand opportunities for cooperation compared to the 2016 Free Trade Agreement. In the trade in goods, the new Agreement more clearly defines the possibilities of diagonal cumulation, contributing to the formation of longer production chains. The new Agreement also provides for the liberalization of the services market. It also contains the provisions on the promotion and protection of investments in addition to the 1995 Agreement on the Protection of Investments between Ukraine and Canada, which can be very useful for attracting Canadian businesses to reconstruct Ukraine.
- On July 10, the National Bank of Ukraine (NBU) revised the settlement deadlines for certain export-import operations, taking into account the Government's recommendations adopted in June 2024:
 - o The NBU has abolished payment deadlines for military and dual-use goods and equipment imported by contractors of state defense procurement contracts.
 - o The NBU has increased from 90 to 120 days the deadlines for settlements on transactions for the export of certain types of agricultural products, including grain and oil.

Such changes should benefit exporters who face logistical problems.

New in the trade policy of the EU countries and other trading partners

- The USA has extended the suspension of additional import duties on Ukrainian steel and steel products, including those manufactured in the European Union, for a year.
- Germany's ruling coalition has agreed on a proposal to remove critical Huawei and ZTE components from the country's leading 5G mobile network by the end of 2026 for national security reasons.

Germany's security review of its 5G network lasted more than a year. The Interior Ministry said Deutsche Telekom, Vodafone Group, and Telefonica Deutschland Holding have agreed to sign contracts that oblige them to comply with the decision to withdraw Huawei and ZTE parts on an agreed schedule. Companies will have until the end of 2029 to remove parts made by Huawei and ZTE from the 5G access and transport network.

- The American Forest and Paper Association is calling on the EU to postpone the implementation of rules aimed at limiting the impact of EU consumption on deforestation, particularly by regulating several essential consumer goods (such as beef, coffee, cocoa, and wood products). The EU Deforestation Regulation aims to reduce deforestation worldwide by 10% and thus reduce the loss of biodiversity associated with EU consumption. If the law comes into force, the prices of goods, particularly diapers and sanitary pads made from cellulose derived from wood, will increase, which could lead to inflationary pressures in the EU. US government officials have also called for the postponement of new EU rules.

Topic: Participation in public procurement of other countries

- On May 18, 2016, Ukraine acquired the status of a full party to the Government Procurement Agreement (GPA), one of the Multilateral Agreements within the framework of the World Trade Organization (WTO). The Agreement is aimed at the mutual opening of public procurement markets between the participating countries. This Agreement provides transparency and non-discriminatory conditions for companies participating in public tenders at the international level.
- The basic principles of GPA include:
 - o Non-discrimination: equal conditions for domestic and foreign companies from GPA countries,
 - o Prohibition to determine technical characteristics that would restrict competition,

- Sufficient time for the preparation and submission of bids,
- Predetermined criteria for evaluating and determining the winner.
- 48 countries, including all EU member states, have joined the GPA. In particular, the parties to the Agreement are the United States, Japan, Canada, and the United Kingdom. The Agreement defines the thresholds from which tenders under GPA conditions are possible in procuring state and regional state institutions and other enterprises and organizations covered by public procurement legislation. The relevant public procurements are published on the websites of the countries that joined the GPA.
- Mutual access to the procurement market under the GPA does not require additional changes in the procurement rules of the parties to the Agreement if the basic principles of the Agreement are met. This significantly differs from the Association Agreement (AA) between Ukraine and the EU, which requires Ukraine to gradually do its "homework" to harmonize public procurement legislation with EU acquis and provides for the phased granting of Ukraine's access to the EU procurement market only after a positive assessment of the fulfillment of this task. Ukraine has already partially received such access under the GPA Agreement. However, harmonization with EU rules also allows Ukraine to move forward in EU accession negotiations.
- With complete fulfillment of obligations under the Association Agreement, Ukraine will have broader access to the EU public procurement market than already available under the GPA. In particular, the difference lies in access to procurement in the utility sector and the procurement of certain types of services and goods, such as state concessions, which the EU does not provide within the GPA.
- As part of the GPA, the EU has set the same thresholds for access to its market for applying public procurement rules as those currently in force under the updated Annex XXI of the AA. At the same time, Ukraine has not yet complied with all the provisions of the EU Directives governing public procurement.
- In most cases, both Ukraine and the EU have not set restrictions on the participation of foreign companies in public procurement. Therefore, the provisions of the AA here work instead as a guarantee of the absence of future restrictions. At the same time, local companies always have an advantage in the procurement market due to cheaper logistics and regional expertise.

The main EU Public Procurement Directive (2014/24/EU) provides for the right of equal access to procurement for all participants. However, the Directive on Procurement by Entities Operating in the Water, Energy, Transport and Postal Services Sectors (2014/25/EU) contains a provision that a bid may be rejected if the localization is lower than 50% of the total value of the tender (Article 85). This restriction does not apply if it forces the organization to purchase equipment of a different quality than what is available, leading to technical inconveniences or disproportionately higher prices. This article applies only to goods from third countries that do not have other bilateral or multilateral arrangements with the EU, i.e., it does not apply to Ukraine as a participant in the GPA.

- Under Ukrainian law, companies from EU member states already have full access to the Ukrainian public procurement market. However, its practical use is complicated by technical obstacles that may make it more convenient for EU businesses to participate in procurement through Ukrainian subsidiaries.
- The project "GPA in Ukraine" data shows that Ukrainian companies have already begun to enter the public procurement markets of the EU and other countries. GPA provides significant opportunities for Ukrainian companies to participate in international tenders, open new markets, and contribute to economic development. However, to fully exploit these opportunities, it is necessary to increase the awareness and preparation of Ukrainian enterprises to participate in global procurement and simplify access to information on tenders.
- Familiarizing with the websites where public procurement tenders are published is essential. In particular, all public procurement in the EU that is above the thresholds is published on the <https://ted.europa.eu/en/website> (the rest on the procurement portals of the member states): thresholds of EUR 130 thous. for goods and services and EUR 5.1 m for works.
- Financial and insurance issues with the participation of Ukrainian companies in public procurement of other countries are resolved by the Export Credit Agency of Ukraine. In the future, the participation of

Ukrainian companies in public procurement of EU countries will be facilitated by an "industrial visa-free regime."

- In the USA, the basic requirements for public procurement are regulated by the relevant law, which complies with the principles of the GPA. For Ukrainian companies, the "Buy American" does not apply for above the threshold tenders under the GPA rules. Some purchases are restricted for foreign companies, in particular in the field of defense. Information about tenders can be found on the portal: <https://www.fbo.gov/>. Companies need to register in the Public Procurement Management System to participate in tenders.
- It is crucial to remember that tender documentation is often submitted in the official language of the purchaser's country. However, it is possible to choose an alternative translation into English on the EU website. Not all countries have implemented an electronic procurement system; therefore, it is sometimes necessary to submit applications for participation in tenders on paper. The logistics costs – which are now significant in Ukraine – is most often the responsibility of the company that performs a tender within the framework of public procurement. Taking into account the specifics of public procurement at the level of different countries, the Diia.Business website already provides the information on participation in international public procurement of several countries: https://export.gov.ua/69-mizhnarodni_publichni_zakupivli. Additional country-by-country information is also available on the website of the Ministry of Economy <https://shorturl.at/KaOjb>.