

External Trade Monitoring

No3, September 2024

Authors: Oleksandra Betliy, Iryna Kosse, Vitaliy Kravchuk

The report and its results do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

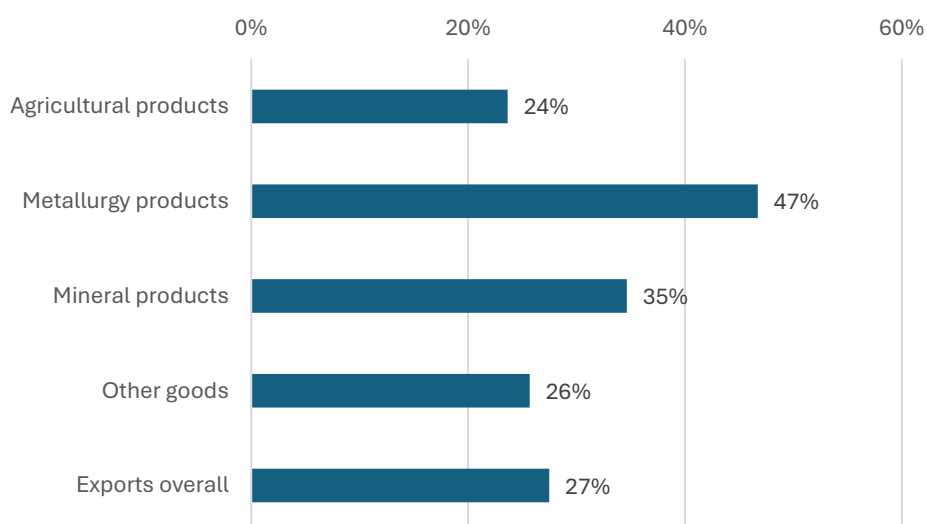
This report became possible due to the support of the American People through the United States Agency for International Development (USAID) under the Competitive Economy Program in Ukraine.

Foreign Trade Statistics

Export & Import by Major Groups

- Exports in August, according to customs data, increased by 27% year-on-year (yoy) to USD 3.42 bn. This was one of the highest numbers this year. Year-on-year growth came from a relatively low base, when the Ukrainian Maritime Export Corridor operated minimally. Exports of agricultural products increased by 24% yoy to USD 1.91 bn partly because of the low base of comparison. Also, the growth of exports in dollar terms was facilitated by more favorable export prices due to a decrease in logistics costs compared to the previous year. Due to the faster completion of harvesting of rapeseed, wheat and barley and favorable export prices, their export volumes increased significantly: by 91% yoy in total. At the same time, exports of corn and sunflower oil decreased (by 12% and 45% yoy, respectively), probably due to lower stocks than last year. Harvesting of corn and sunflower this year began at the end of August
- Exports of metallurgy products in August increased by 47% yoy to USD 438 m. Exports were the largest this year, and the comparison base remained low in August 2023. This could reflect the stabilization of electricity supplies to some metallurgical enterprises (some enterprises in the industry have already received continuous supplies due to electricity imports)
- Exports of mineral products, primarily iron ore, increased by 35% yoy to USD 251 mln. The year-on-year growth reflects the opening of ore exports through Odesa ports. However, year-on-year growth slowed down and exports were the lowest this year due to a decrease in the export price of iron ore in August. The physical volume of iron ore exports remained at the level of 2.5 million tonnes.
- Exports of other goods increased by 26% yoy and were significantly higher than the volumes reported by customs in previous months of the year: USD 817 m in August, compared to USD 535 m on average for January-July. However, the customs revised export estimates in January-July for a range of goods, primarily engineering and industrial products (including cables, heaters, seat furniture, and others). However, the new number for the average export of other goods (industrial goods, textiles and chemical products) is USD 753 m. per month in January-July, or 41% more than previous estimates. In total, the State Customs Service increased reported exports in January-July by USD 1.5 bn from USD 22.7 bn to USD 24.2 bn. In particular, the export of insulated cables changed from USD 227 m. up to USD 734 m.

Figure 1: Change of exports by major groups in July, % yoy



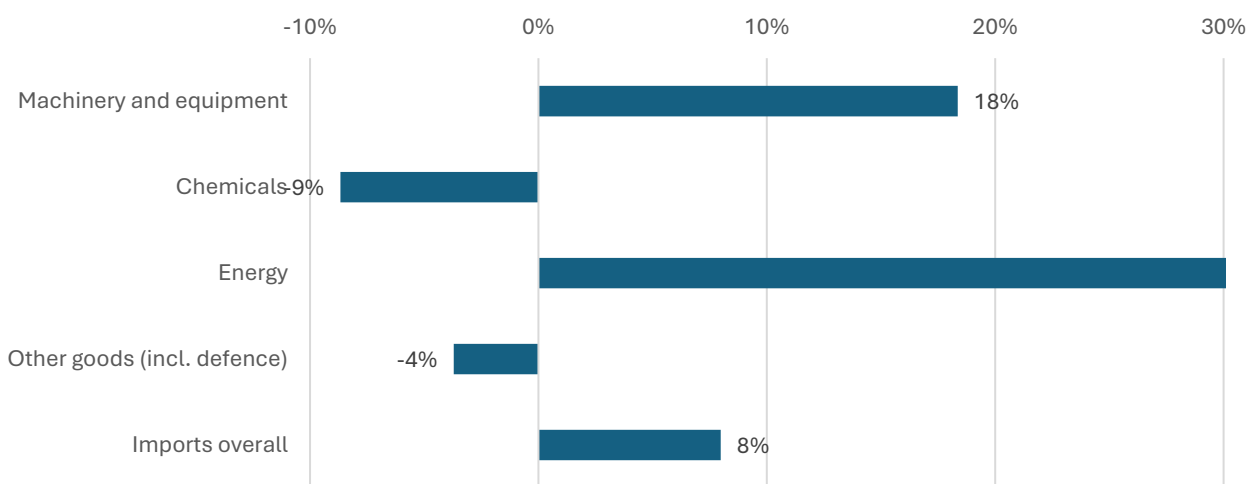
Source: Own calculations based on data from the State Migration Service and the State Statistics Service

- Imports in August increased by 8% yoy to USD 5.89 bn. The slowdown in import growth partly reflects a higher base of comparison. In August, as in previous months, energy imports grew the most: by 43% yoy to USD 926 m. Physical volumes of gasoline imports increased by 34% yoy due to stockpiling ahead of excise tax hike from September 1. Gas imports also cut to the highest level since the beginning of the year.

According to customs, electricity imports increased to USD 136 m from USD 120 m in July although data from other sources show a sharp decline in the physical volume of imports and do not indicate a significant increase in electricity prices. This may indicate a time discrepancy between the actual import and customs clearance of electricity.

- Imports of machinery and equipment also increased by 18% yoy to USD 2.07 bn. As consumer imports continued to grow, imports of batteries and generators and other electrical goods increased due to import exemptions that took effect on August 1. Therefore, the import of electrical goods was not affected by the decrease in power outages. Car imports remained lower than last year
- Imports of chemical products fell by 9% yoy to USD 915 mln. In particular, imports of medicines and fertilizers decreased from a relatively high base last year

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

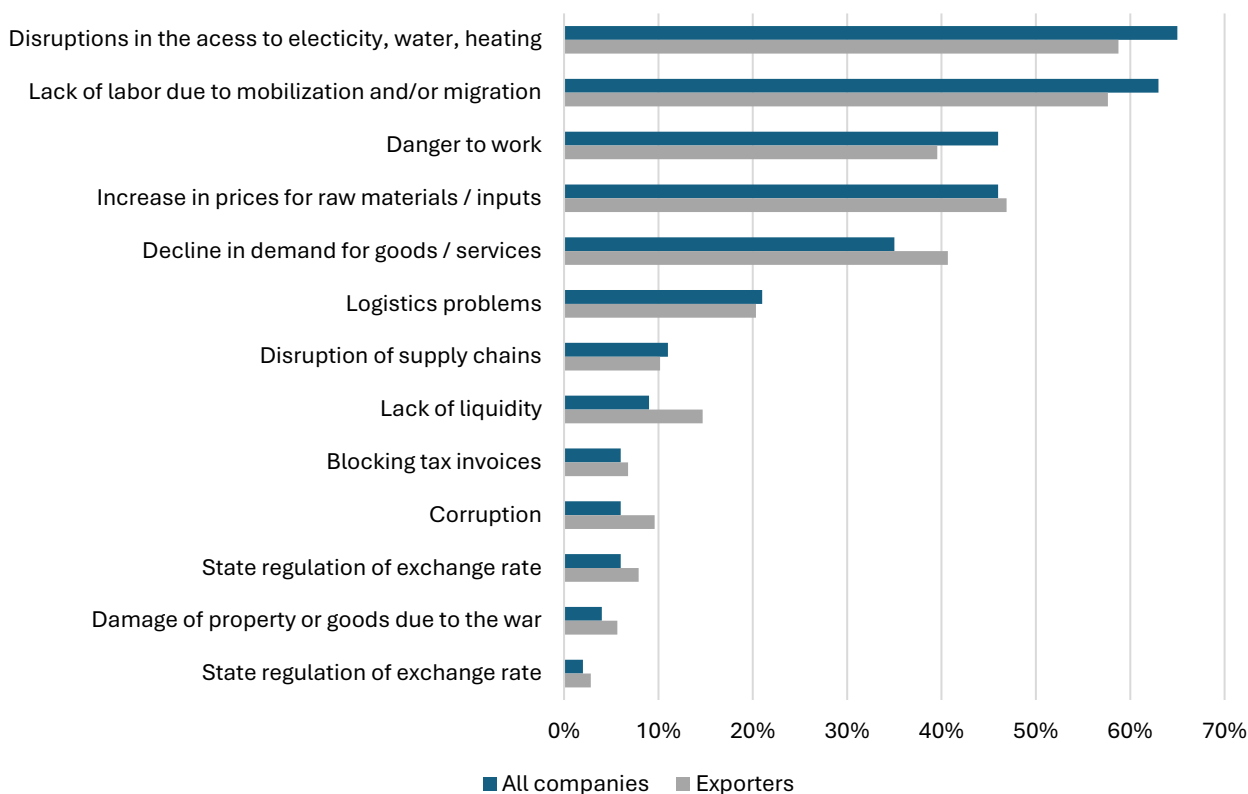


Source: Own calculations based on data from the State Migration Service and the State Statistics Service

Impediments to Export

- Impediments to business activities have changed somewhat in August. This was the result of fewer power outages, which reduced the need to buy more expensive imported gas. At the same time, the impediment remained the largest: in August, almost 59% of exporters reported its importance (80% in July). The importance of the "Unsafe to work" impediment has also decreased to 40% of exporters.
- At the same time, both for all businesses and for exporters, the importance of personnel shortage as an impediment to business activity has increased significantly: 63% and 58%, respectively. Thus, due to migration and mobilization, the number of available labor has decreased. Another problem was structural unemployment: the skills of the unemployed do not meet the needs of business. That is why the importance of the government's initiative with international partners [SkillsAlliance](#) has become relevant, designed to launch retraining and training processes for adults looking for work. The first training programs have already begun.
- Rising commodity and factor prices are as important an impediment for exporters as they are for other companies. At the same time, the decrease in demand is a more significant impediment to the development of exporters (41%) than for other companies.
- In August, the importance of the impediment increased due to greater difficulties with logistics, which was noted by 20% of exporters. This may be due to lower traffic volumes through the Danube ports due to low water.

Figure 3: Impediments to business activities, % (multiple answers allowed)



Source: New Monthly Business Survey, #28, (08/2024)

New in Ukraine's Trade Policy (Major Changes)

- Work continues on screening legislation to understand what regulatory and legislative changes Ukraine will have to introduce in order to gain EU membership. On September 17-19, the second bilateral session of Ukraine-EU will be held in Brussels. The session will be devoted to Chapter 23 "Rule of Law and Fundamental Rights and Freedoms" (Cluster 1 "Fundamentals of the EU Accession Process").
- In general, the official screening procedure takes place in 33 negotiation chapters (sections), which are grouped into 6 clusters (thematic blocks). The procedure includes two stages — explanatory sessions and bilateral meetings. Sessions have also begun to prepare the Ukrainian delegation for meetings within the framework of the official screening of the European Commission under the negotiating section of the Economic Criteria, which will take place on October 8.
- The Government has established an Interagency Working Group on ensuring the negotiation process on Ukraine's accession to the EU and the adaptation of Ukrainian legislation to EU law. 36 working (negotiating) groups will be created to prepare Ukraine's negotiating positions on the relevant sections of the EU negotiation framework.
- The first guide to translating EU legislation [into Ukrainian has been published](#). The manual covers the basic principles of EU law, terminology, legal English of the EU, and also provides an overview of the challenges and approaches to the translation of EU regulations into Ukrainian.
- The "transport visa-free regime", which provides for the liberalization of freight transportation, will last until the end of June 2025. Thanks to this visa-free regime, Ukrainian companies can transport goods to the EU without special permits. It is highly likely that the regulation will be extended after June 2025.
- On August 22, the Parliament adopted the Law of Ukraine "On Amendments to the Customs Code of Ukraine on the Implementation of Certain Provisions of the Customs Code of the European Union" (Reg. No. 10411). The relevant draft law was developed to fulfill Ukraine's commitments to harmonize Ukrainian

customs legislation with EU legislation. In particular, the draft law provides for the introduction of the concept of customs representation, which is close to EU practice, as well as the European approach to generalizing provisions on customs regimes. At the same time, the Ministry of Finance continues to work on a completely new version of the Customs Code.

- In August, the Verkhovna Rada ratified the Agreement on Ukraine's Participation in the EU Anti-Fraud Program (EUAF). The agreement provides for the introduction of IT tools aimed at strengthening transnational cooperation with the European Commission; support and facilitation of financial investigations; technical and operational support to the relevant authorities to strengthen the fight against fraud and other illegal activities; building IT capacity, increasing data exchange; organization of specialized training, seminars, studies aimed at improving cooperation and coordination between services related to the protection of the EU's financial interests.
- The Cabinet of Ministers of Ukraine has approved a new version [of the action plan for deregulation](#). The plan provides for about 100 tasks and 140 step-by-step measures aimed at simplifying the conditions for doing business in construction, energy, agriculture, land relations, transport, logistics, information and electronic technologies, foreign economic activity, production. In particular, it provides for simplification in the field of granting permission for negotiations in the field of foreign economic activity: permission to negotiate with foreign business entities on the exploration and use of outer space, production and operation of space technology, export, import and re-export of space equipment and space technologies, their temporary export from Ukraine or temporary import into its territory, transit through the territory of Ukraine. The changes will also apply to the granting of individual licenses, permits for the import into Ukraine of goods subject to supervision or regional supervision measures, as well as the re-export of certain goods.
- On September 1, the Digital Trade Agreement between Ukraine and the United Kingdom entered into force. The agreement will contribute to the development of small and medium-sized enterprises and ensure a closer connection between Ukrainian IT companies and the UK's digital markets. In particular, it provides for the reduction of administrative costs of trade through digital solutions; use of electronic signatures, contracts and accounts for international trade; strengthening cybersecurity and data protection; enshrining fundamental freedoms for trade in digital goods and services.

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

- The World Trade Organization (WTO) has urged governments to avoid tariffs and other barriers to international trade because it could undo thirty years of progress in narrowing the gap between rich and poor countries. The WTO has released a report defending the pillars of globalization, such as low tariffs and compliance with rules, which are now being criticized. Trade restriction can raise production costs and trigger retaliatory action from trading partners. The WTO insists that countries must ensure that as many of their citizens as possible can take advantage of the opportunities created by open and regulated international markets.
- Turkey has formally applied to join the BRICS, seeking to strengthen its global influence and forge new ties beyond traditional Western allies. Turkey is frustrated by the lack of progress in years of EU accession talks and is seeking to improve economic cooperation with Russia and China. Turkey is also trying to resume negotiations on EU membership, which remains its strategic goal. The BRICS group will discuss further enlargement at a summit in Kazan in October, where applications from Malaysia, Thailand and Azerbaijan may also be considered.
- Canada has introduced new tariffs of up to 100% on Chinese electric vehicles, steel and aluminum, effective October 1. China responded by filing a complaint with the WTO, calling the tariffs "trade protectionism." This is the third time China has turned to the WTO on the issue of tariffs on electric vehicles this year, after cases from the US and the EU. China has also launched an anti-dumping investigation into imports of Canadian rapeseed.
- The WTO reported that global trade in goods is recovering from last year's decline. The WTO Goods Index rose to 103, indicating an increase in trade in the third quarter of 2024. Despite growth, the outlook

remains uncertain due to changes in monetary policy in advanced economies and weak export orders. All components of the index, except for electronic components, show growth or are at the trend level.

- India and Singapore have signed agreements to develop talents in chip design and manufacturing, as well as to attract Singaporean investment in technology in India. This cooperation will help both countries take a more important position in the global chip supply chain, which is changing due to tensions between the United States and China. Indian Prime Minister Narendra Modi aims to transform India into a technological superpower, and a strong semiconductor ecosystem is key to this. In turn, Singapore has significant experience in chip manufacturing and can help India grow its semiconductor industry faster.

Topic of the issue: "Industrial visa-free regime"

- When Ukraine and the EU signed the Association Agreement in 2014, they also agreed to later conclude an Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA) as an annex to the Association Agreement. This document is also shortened to ACAA or referred to as "the industrial visa-free regime". The agreement is designed to reduce the role of non-tariff restrictions, which play an important role in the field of trade in industrial goods as import duties are reduced to zero under the Association Agreement.
- The ACAA Agreement is a type of Mutual Recognition Agreement (MRA). Classic MRAs are concluded mainly between economically developed and institutionally stable countries that have a high level of mutual trust. For example, the EU has MRAs with the United States, Canada, Japan, New Zealand, Australia, Switzerland, and Israel. The ACAA agreement with Ukraine will be one of the first with a middle-income country.
- The signing of the ACAA will allow the supply of industrial goods recognized as safe and compliant for sale in Ukraine to the EU without additional inspections by EU countries. Under the Association Agreement, Ukrainian producers can already supply industrial goods to the EU without paying duties, and after the signing of the ACAA, the main technical barriers to trade with the EU will be removed. To do this, Ukraine needs to convince the EU that Ukrainian legislation, especially in the field of technical standards, metrology and market surveillance, is harmonized with EU rules. In addition, Ukrainian institutions that monitor compliance with these norms need to prove that these norms are properly implemented.
- Initially, the ACAA will be extended to the "priority" sectors where the greatest progress has been made in convergence with EU rules (and they are relatively easy to implement): machine safety, low-voltage equipment and electromagnetic compatibility assessment. As legislation in other areas approximates to EU rules, the scope of the ACAA will expand until Ukraine fully joins the EU internal market (e.g. as part of Ukraine's accession to the EU or through integration into the European Economic Area).
- At the moment, the agreement has not yet been concluded, although a long way has been traveled towards approximating Ukrainian legislation and quality infrastructure to EU rules. The first talks about the conclusion of the ACAA began in the mid-2000s, and in 2005 an action plan for the conclusion of the ACAA was adopted. As of 2023, almost two-thirds of the more than 45 thousand current national standards have been harmonized with European ones, and an additional share are aligned with international standards (common to Ukraine and the EU). Also, according to the Government, 101 out of 114 adopted technical regulations were developed based on EU rules. Finally, the National Accreditation Agency has mutual recognition agreements with colleagues from the EU and other international cooperation bodies, representing together more than 80 countries.
- In 2020-2023, an EU mission worked in Ukraine to conduct a preliminary assessment of Ukraine's readiness for the conclusion of the ACAA. There were 8 missions, where more than 100 legal acts and more than 60 public and private institutions were analyzed. The Mission acknowledged Ukraine's significant progress and prepared a list of recommendations for Ukraine: 7 priority and 13 second stage recommendations.
- After the implementation of the EU recommendations, it is necessary to agree on a mandate for a formal assessment of the compliance of Ukrainian legislation and institutions and determine the possibility of signing the ACAA. Next, it is necessary to negotiate the text of the agreement and carry out the necessary procedures for the adoption of the ACAA. This process may take several years, and it is likely that work will be underway in parallel to expand the coverage of the ACAA.
- Currently, the three initial sectors of the ACAA cover a relatively small share of Ukrainian exports to the EU, but the removal of technical barriers could increase this share. According to the calculations of a joint study by the IER and the German Economic Team (GET) in Ukraine in 2020, goods from priority sectors of the ACAA covered 5% of Ukraine's exports to the EU. Also, the agreement will be bilateral, and Ukraine will similarly recognize the conformity assessment carried out in the EU when importing to Ukraine. Imports of ACAA goods to Ukraine from the EU in 2020 accounted for 20% of total imports. Lowering barriers to EU certification in Ukraine can contribute to post-war reconstruction.