



# External Trade Monitoring

No.5, November 2024

**Topic:**  
**"New Mechanism of Export Security"**

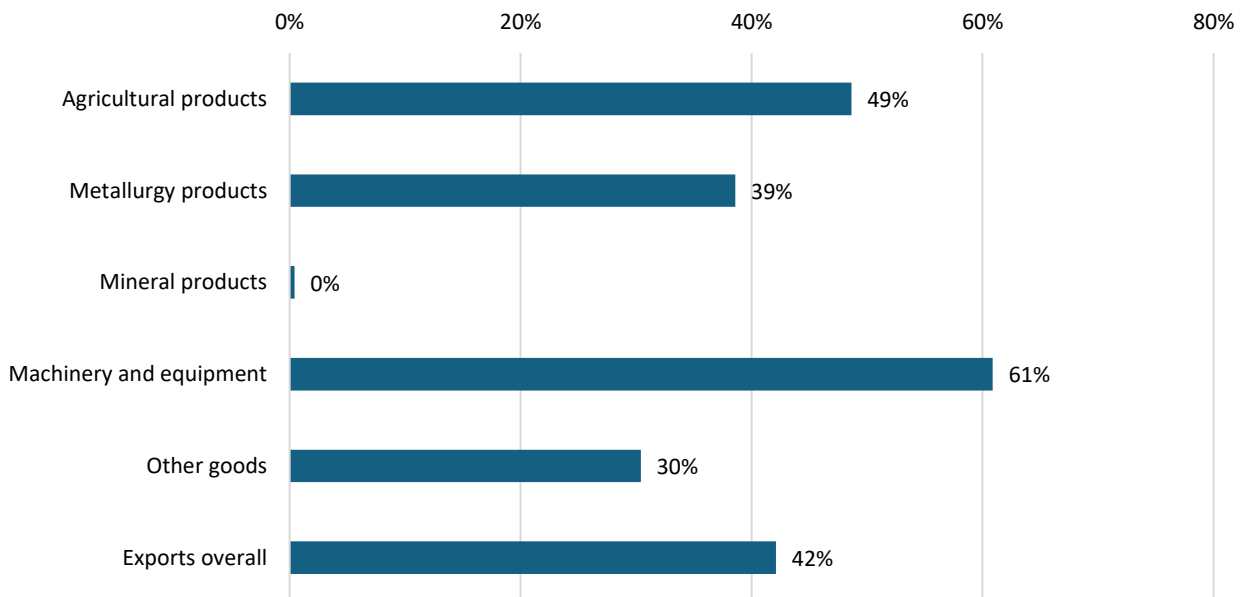
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## External Trade Statistics: Exports & Imports by Major Groups

- In October, exports, according to customs, increased by 42% year-on-year (yoy) and amounted to USD 3.89 bn. This was the highest figure this year. Export growth was from a relatively low base last year. Exports of agricultural products increased by 49% yoy to USD 2.43 bn. This was due to higher export volumes and higher export prices, driven by better logistics conditions than last year, faster harvesting and higher global prices in recent months. Thus, the physical volumes of corn exports increased by 71% yoy, and soybeans by 55% yoy due to faster harvesting. Wheat exports increased by 60% in dollar terms due to growth in the exports volumes by 27% yoy and export prices by 26% yoy. At the same time, world prices for grain crops, although they have increased in recent months, were lower than last year. However, part of the increase in exports is due to smaller stocks for export in the coming months.
- Exports of metallurgy products in October, although down compared to previous months, increased by 39% yoy to USD 378 mln due to a more reliable electricity supply than last year. The growth in exports was mainly due to an increase in volume, as export prices were close to the level of the previous year
- Exports of engineering products increased by 61% yoy to USD 305 mln. mainly due to an increase in exports of insulated wires and cables (mainly sets of wires for use in the automotive industry). According to the State Statistics Service, exports of these products fell sharply in the second half of 2023 but resumed in July 2024. Customs data show further growth in September and October. Exports of mineral products, primarily iron ore, amounted to USD 213 m and almost matched last year's figure (USD 212 m). As in previous months, the increase iron ore exports in tons (by 65% yoy) offset the decline in export prices (by 31% yoy) and smaller exports of other mineral products. Exports of other goods increased by 30% yoy.

**Figure 1: Change in exports by major groups in October, % yoy**



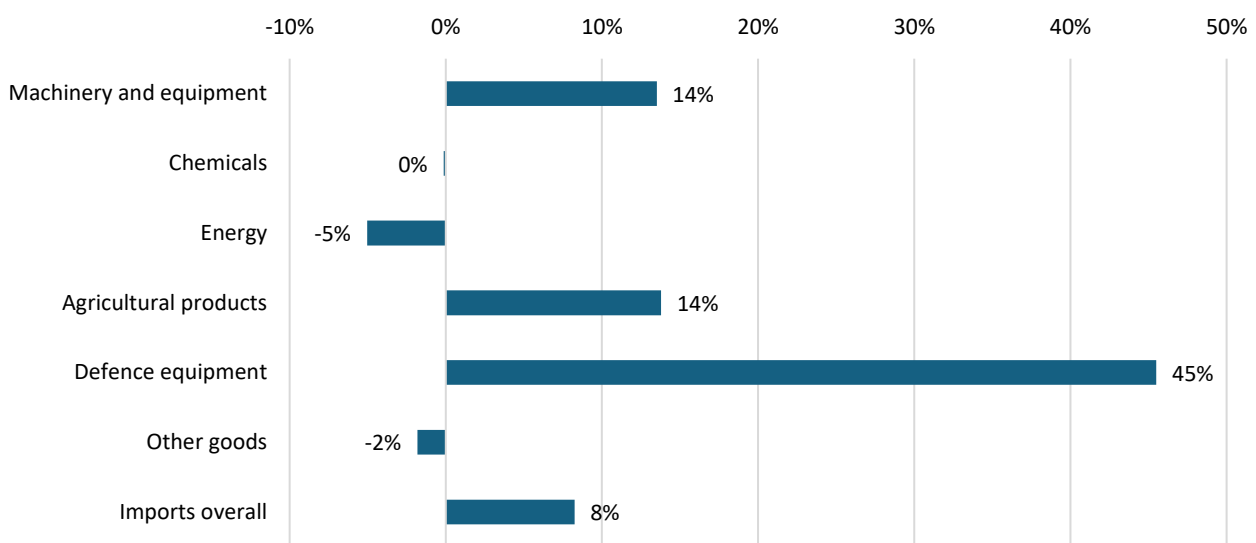
Source: Own calculations based on data from the State Migration Service and the State Statistics Service

- Imports in October increased by 8% yoy to USD 6.20. The growth rate did not change significantly compared to September and August. Imports of defense goods continued to grow the most, by 45% yoy (reported as "other goods"). This is likely to partially offset the more moderate levels of military aid this year.
- Imports of machinery and equipment increased by 14% yoy to USD 2.31 bn in October. Imports of energy equipment (generators, batteries, transformers and solar panels) reached USD 348 m compared to USD 287 m in September and USD 108 m last October. This indicates that demand remains strong despite the

significant stocks accumulated earlier. Passenger car imports remained lower than last year, while phone imports declined slightly in dollar terms due to lower import prices.

- Energy imports remained below last year: they fell by 5% yoy to USD 753 m primarily due to significantly lower import prices for petroleum products (by 24% yoy). At the same time, the physical volume of imports of petroleum products increased slightly, and imports of electricity and coal also increased.
- Imports of chemical products again remained almost unchanged compared to last year and amounted to USD 952 m. At the same time, imports of medicines and fertilizers increased significantly in dollar terms. Imports of agricultural commodities increased by 14% yoy to USD 691 m, probably on the back of a shortage of certain commodities in Ukraine. Imports of other types of goods were quite close to last year.

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



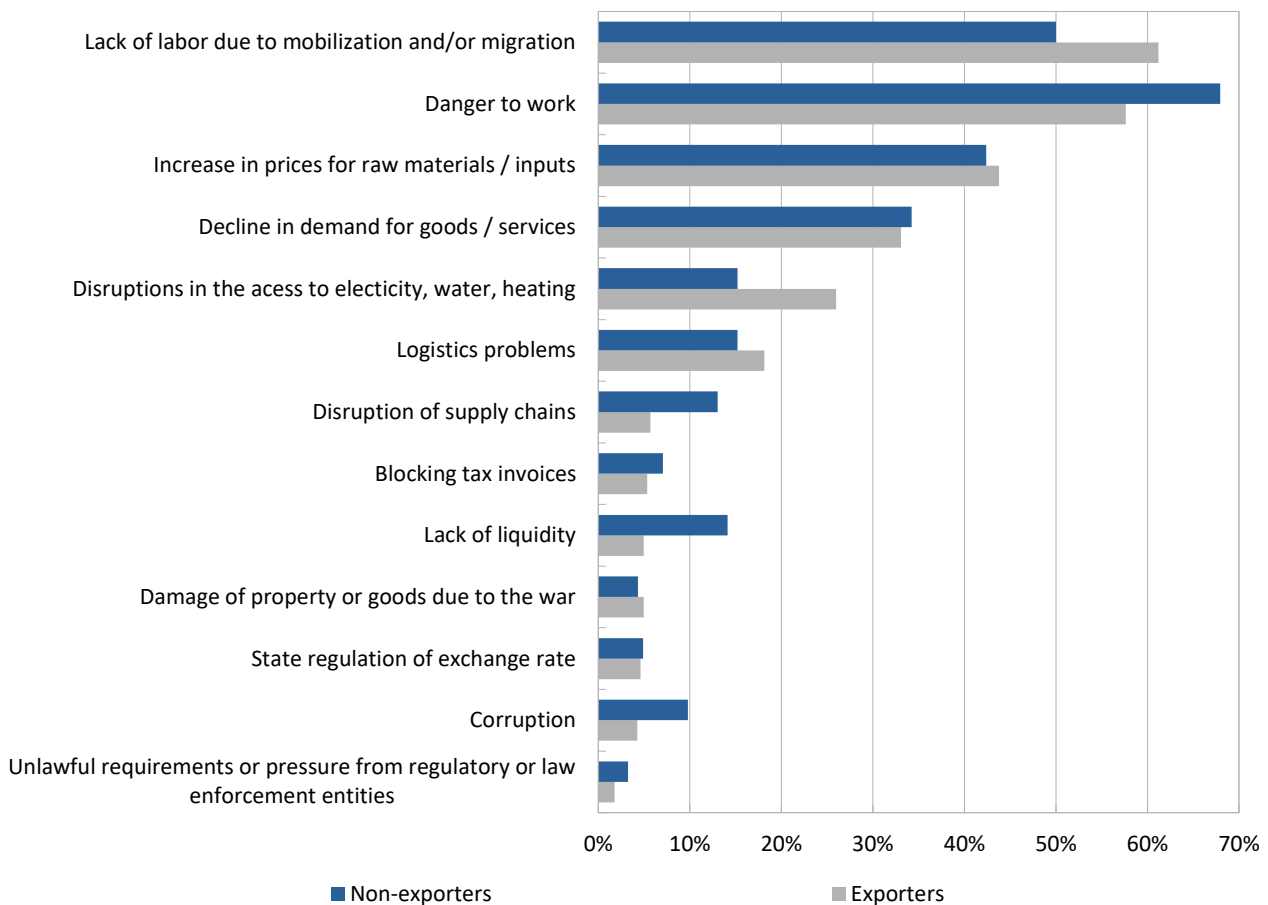
Source: Own calculations based on data from the State Migration Service and the State Statistics Service

### **Impediments to Exports**

- The top five impediments to business activity remained unchanged in October, according to the monthly IER Business Survey. At the same time, their significance has changed. Thus, due to the lack of planned power outages, significantly fewer exporters reported interruptions in access to electricity as an impediment: 26% in October compared to 49% in September. This indicates a rather fragile situation for business development, as heavy shelling of energy infrastructure by Russian drones and missiles can again harm the work of businesses. At the same time, some enterprises are ready for outages by installing their own electricity generation capacities. Also, the stability of the situation in the future should be facilitated by the expansion of the maximum capacity for electricity imports from EU countries from the current 1.7 GW to 2.1 GW from December 1, 2024.
- At the same time, for exporters, the biggest impediment to activity in October was the lack of labor: 61.2% of enterprises answered this problem in the survey. This is significantly higher than the 50% of other respondents who mentioned this obstacle. Probably, for exporters, who often have longer contracts, the issue of personnel is more critical for the timely and high-quality fulfillment of their obligations. Thus, according to the Ministry of Economy, structural unemployment remains high, and therefore they plan to develop further training and retraining programs. Discussions on the integration of IDPs into the labor market have also begun more actively, and mechanisms for attracting veterans are being developed.

- Exporters are less likely than other companies to mention such an impediment as "danger to work": 58% and 68% of companies, respectively. At the same time, the significance of this obstacle has increased for both types of companies, but more so for non-exporters.
- At the same time, the rise in prices for raw materials is a slightly bigger problem for exporters, which is probably due to the cost of competitiveness in the international market. Also, exporters are somewhat less likely than other companies to call a decrease in demand for products and services as an obstacle.
- For about 19% of exporters, logistics remains an impediment, which is significantly less than a year ago. This is explained by the facts that the work of the Ukrainian Sea Corridor continues, and Ukrzaliznytsia reports on the growth of traffic.

**Figure 3: Obstacles to business activity in September, % (multiple answers allowed)**



Source: Enterprise Survey, IER

## New in Ukraine's Trade Policy (Major Changes)

- The European Commission's Report under the EU Enlargement Package 2024 notes Ukraine's significant progress in the negotiating sections "Customs Union" and "Taxation".
- The Ministry of Economy continues the dialogue with partners to expand the possibility of providing risk insurance for companies in Ukraine. At the same time, risk insurance provided by the Export Credit Agency (ECA) continues to operate in Ukraine. In the first nine months of 2024, ECA supported the export of Ukrainian enterprises by UAH 5.7 bn, which is UAH 2.6 bn more than in the same period last year. The agency's insurance tools have become important for enterprises in various industries, providing the ability to obtain loans without collateral. The ECA continues to expand the toolkit to support exporters, in particular in the food industry, machine-building, and woodworking.

- The government has launched [beta testing](#) to simplify the procedure for extending the deadlines for foreign exchange settlements. Applications for the extension of such settlements can be submitted online, and consideration should be fast. So far, participation in testing is limited, but if successfully implemented, this mechanism will work on a permanent basis in accordance with the deregulation plan.
- The government continues to finance numerous grant programs for business development. In October, the program of grants for the development of manufacturing was expanded to producers from the war zone. The amount of the grant is up to UAH 8 m: the state finances 80% of the cost of the submitted project, and 20% must be covered by the enterprise (or sole proprietorship) from its own or credit funds. The grant is provided for investment needs: the purchase of new production or energy equipment.
- From December 1, 2024, a new export support mechanism will be introduced in Ukraine, which aims to regulate the export of agricultural products. The main changes include the introduction [of minimum export prices](#) and the mandatory registration of tax invoices before submitting customs declarations. (see more details in the Topic of the issue).
- In October, the President signed amendments to the Customs Code, according to which the concept of customs representation is introduced, similar to the one operating in the EU countries, with the division into direct and indirect representation and the separation of duties and responsibilities. Within 18 months, a gradual transition to a system of authorizations for customs brokers, warehouses and other entities is envisaged, which includes the offsetting of criteria for obtaining further authorizations, in particular AEO. The law also improves the European model of customs warehouses, expanding the list of operations and services, as well as introducing new requirements for the storage of goods and records. The obligation to call a customs officer to move goods between the company's facilities has been abolished, and electronic exchange of information between the customs authorities of Ukraine and other countries has been introduced. Certain provisions, such as the advantages for AEOs in crossing the border, come into force immediately after publication, and most of the changes – after 6 months, after the approval of the by-laws.
- The European practice of authorization of customs brokers is being introduced into Ukrainian customs legislation, which replaces the previous system of permits. Authorization can be obtained by enterprises that meet the requirements of the Customs Code of Ukraine, including compliance with customs and tax legislation and the absence of serious offenses. The new approach simplifies obtaining the status of an Authorized Economic Operator (AEO) or other types of simplifications, because the criteria are mutually referential. Valid customs brokerage permits will remain valid until April 18, 2026, during which time businesses must obtain a new authorization. The amendments are part of the preparation of the new Customs Code of Ukraine, which will be based on the EU Customs Code and is one of the requirements for Ukraine's accession to the EU.

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

- U.S. sanctions prevent Huawei's chip partners from procuring state-of-the-art extreme ultraviolet lithography systems from ASML Holding NV. Therefore, Huawei can't build more powerful chips for artificial intelligence and smartphones and is developing its next two Ascend processors around the same 7nm architecture that has been mainstream for years.
- The U.S. Department of Commerce has tentatively imposed an anti-dumping duty of 29% on Nippon Steel products for the sale of hot rolled steel in the U.S. at below-normal value prices from October 2022 to September 2023. The updated tariff, if confirmed in the final decision after hearing the positions of interested parties, is significant, as it will increase duties on Nippon Steel's hot-rolled steel products from the previous level of 1.39%.
- In France, on November 18, a protest began by farmers who want to draw attention to their problems and protest against the EU's free trade agreement with South American countries (Mercosur). In slogans

against the free trade agreement with Mercosur, farmers emphasize that very strict conditions are imposed on them, while the agreement will make it possible to import products into France with much less quality control. The protests are timed to coincide with the Group of 20 meetings in Brazil, where the bloc is expected to reach a trade agreement with the Mercosur countries.

- The European Parliament supported the position of the European Commission to postpone the entry into force of the Regulation on combating deforestation for a year until December 30, 2025, as well as a number of amendments made by political groups. The result of the vote triggers a longer process of changing regulations aimed at curbing deforestation in countries that send products such as coffee, cocoa, soy and beef to the bloc. If the European Parliament and EU countries do not agree on changes to the Deforestation Regulation in the near future, it will enter into force on December 30.
- Bundesbank President Joachim Nagel has warned that the rise in U.S. import duties expected from Donald Trump could hurt the German economy. "If the tariff plans are implemented, it could cost us 1% of economic production," he told the newspaper Die Zeit. Ahead of the November 5 vote, Trump promised to impose tariffs on Chinese products and up to 20% on all other countries' products.
- The European Union sees very limited progress in negotiations with China aimed at finding an alternative to tariffs on electric vehicles, so there is currently little prospect of reaching a quick agreement. Both sides are studying an agreement on so-called price commitments, a complex mechanism for controlling prices and export volumes that is used to avoid protective duties. At the same time, China has filed a complaint with the World Trade Organization against European Union tariffs on imports of Chinese electric vehicles, exacerbating a dispute that is straining already tense relations.
- South Africa's car exports have nearly halved, partly due to slowing demand in Europe due to tighter emissions regulations and competition from cheaper electric vehicles from China. Exports fell by 42.6% yoy in October to 17 324 vehicles. The European Union, South Africa's largest car export market, is gradually introducing stricter regulations to reduce carbon dioxide emissions from cars.

## Topic of the issue: "A New Mechanism of Export Security"

- From December 1, 2024, a new export support mechanism will be introduced in Ukraine, which aims to regulate the export of agricultural products. The main changes include the introduction [of minimum export prices](#) and the mandatory registration of tax invoices before submitting customs declarations.
- Minimum prices will be set by the Ministry of Agrarian Policy of Ukraine (Ministry of Agrarian Policy) on a monthly basis until the 10th day of the month. Prices will be determined in US dollars per 1 kilogram for [15 types of agricultural products](#), including wheat, corn, soybeans and rapeseed. The prices set will be based on weighted averages of the lowest export prices for the previous month. In case of a decrease in market prices, it is possible to export at a discount of up to 10% of the minimum price.
- Before submitting a customs declaration, exporters will need to register a tax invoice. This innovation aims to increase transparency and control over export operations.
- The export of goods whose price is lower than the established minimum export prices will be prohibited. Also, those companies that are not VAT payers will not be able to export.
- [The VAT rate](#) for the export of agricultural products, which is subject to the export security regime, will depend on the percentage of return of foreign exchange earnings in Ukraine received from the export of such goods. This percentage will be calculated based on the data of export transactions of such goods carried out by the payer during the last 12 calendar months, for which the deadlines for settlements have already expired. If the percentage of return of foreign exchange earnings is 80% or more, then the tax invoice is issued at the VAT rate of 0%, if this percentage is less than 80%, then an increased VAT rate of 14% or 20% will be applied (as in the case of delivery in the customs territory of Ukraine).
- The main purpose of these changes is:
  - o Reduction of shadow exports. The introduction of the minimum price mechanism is designed to reduce opportunities for abuse in the export of agricultural products, which, in turn, should have a positive impact on foreign exchange earnings to the state and the stability of the national currency
  - o Increase in tax revenues. It is expected that the new rules will help increase revenues to the state budget by legalizing part of agricultural exports
- Representatives of the agricultural sector are concerned about a possible drop in export volumes due to the introduction of minimum prices. The Ukrainian Grain Association notes that this can lead to significant losses for agricultural producers. Participants of the agricultural market believe that the proposed mechanism will lead to the impossibility of concluding forward contracts, because during the period of delivery of goods, its market value may be higher than the contractual value, which was agreed long before Supplies. It is also proposed that the minimum prices should be updated more often than once a month in order to avoid a situation where prices on world markets will be lower than the minimum discount. And they consider it expedient to introduce a six-month transition period for the implementation of the proposed price mechanisms.
- The mandatory registration of tax invoices before submitting customs declarations is also a concern. Exporters point to possible delays in clearance processes, which can complicate export operations and increase administrative costs.
- Thus, new changes in legislation may significantly affect the agricultural market of Ukraine, and their implementation will require careful monitoring and adaptation by exporters. In case of problems and identification of gaps, the government will have to quickly make decisions on possible changes in the operation of the mechanism.
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