



INSTITUTE
FOR ECONOMIC RESEARCH
AND POLICY CONSULTING

Ukraine's exports in goods: key developments

Veronika Movchan
Academic director,
Institute for Economic Research and Policy Consulting

Ukraine Trade Outlook: "Sandwiched" between the EU and Russia

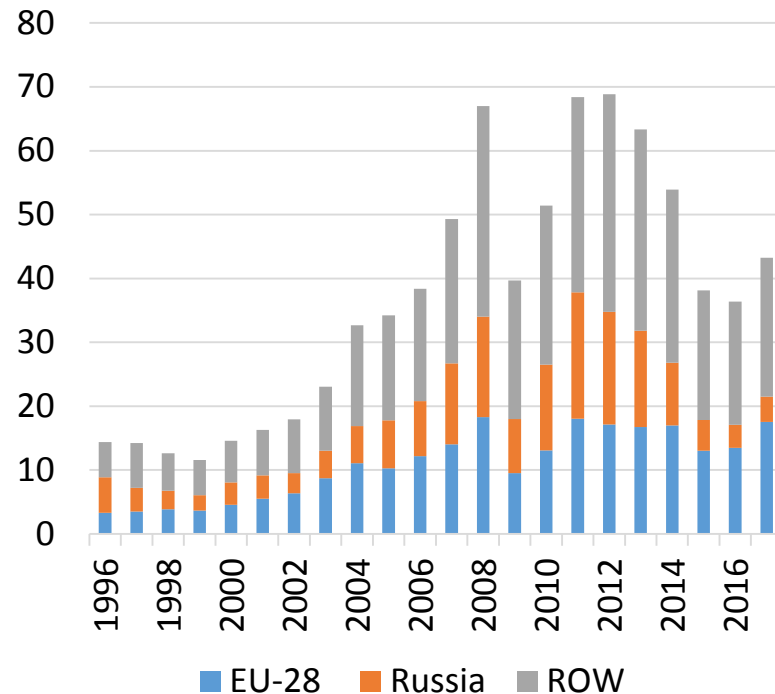
Kyiv, 25 May 2018

Topics for discussion

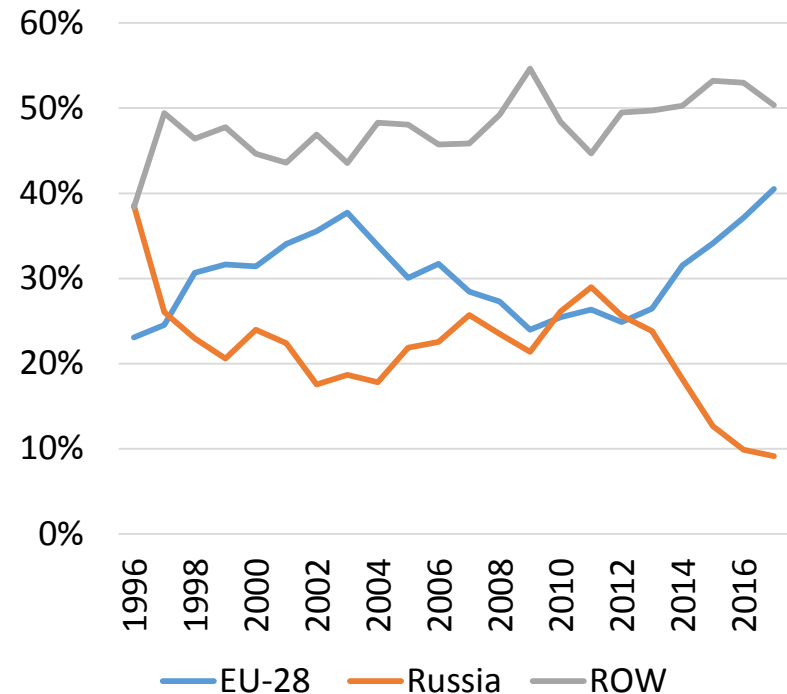
- Total export trends:
 - by key partners
 - by level of processing
 - by end use
- Exports to the EU in 2013-2017:
 - key products
 - new products
 - by level of processing
 - TRQs
- Exports to Russia in 2013-2017:
 - Key products
 - Reorientation
- Year 2018: what Q1 data shows
- Risks

Ukraine's export in goods

USD bn



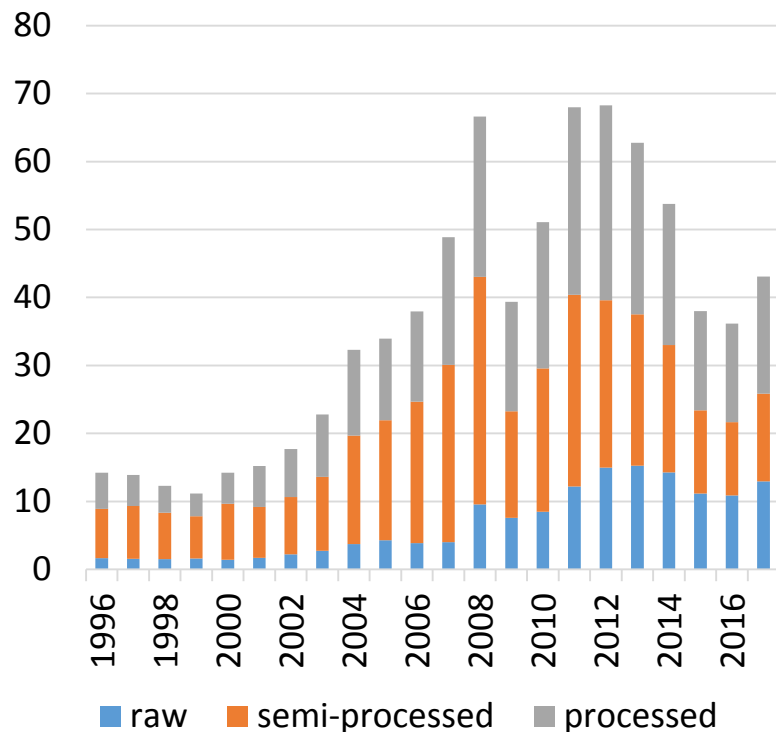
% of total



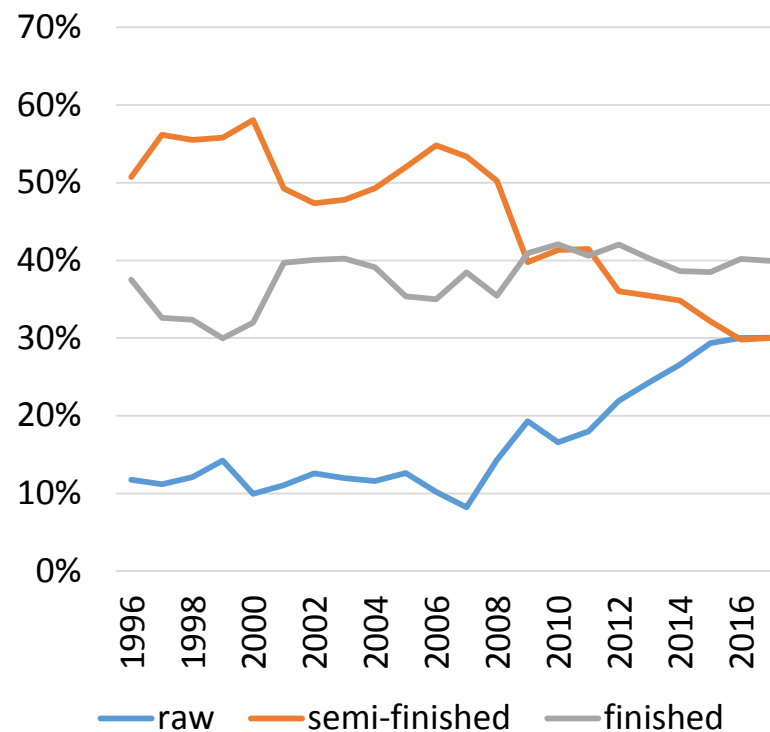
- In 2017, Ukraine exports to the EU was USD 17.5 bn (**highest since 2011**) and 41% of total (**absolute max since independence**)
- After steep reduction, exports to Russia stabilized at USD 4 bn and 9% of total. Still, Russia remained the largest export destination among individual countries

Ukraine's total exports by level of processing

USD bn



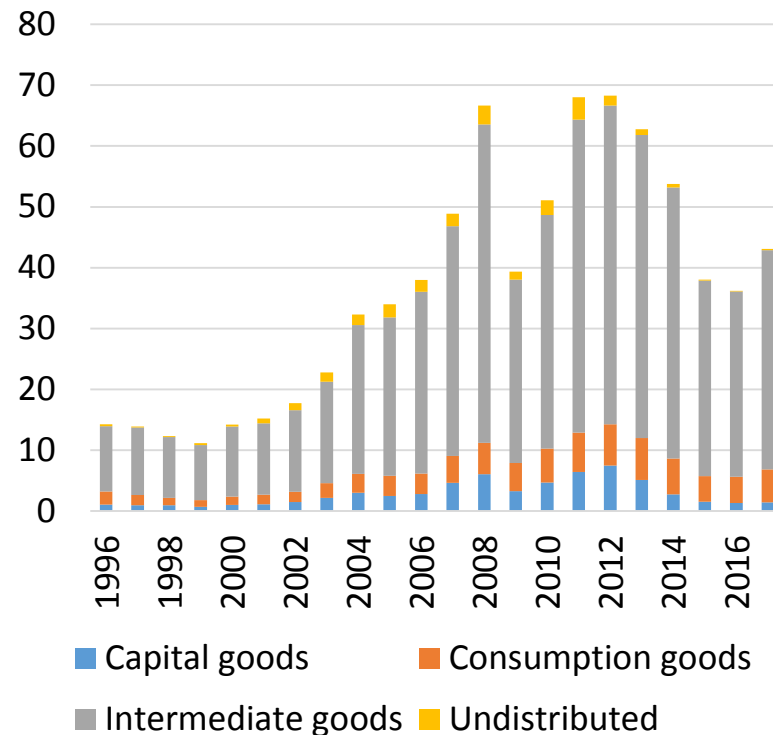
% of total



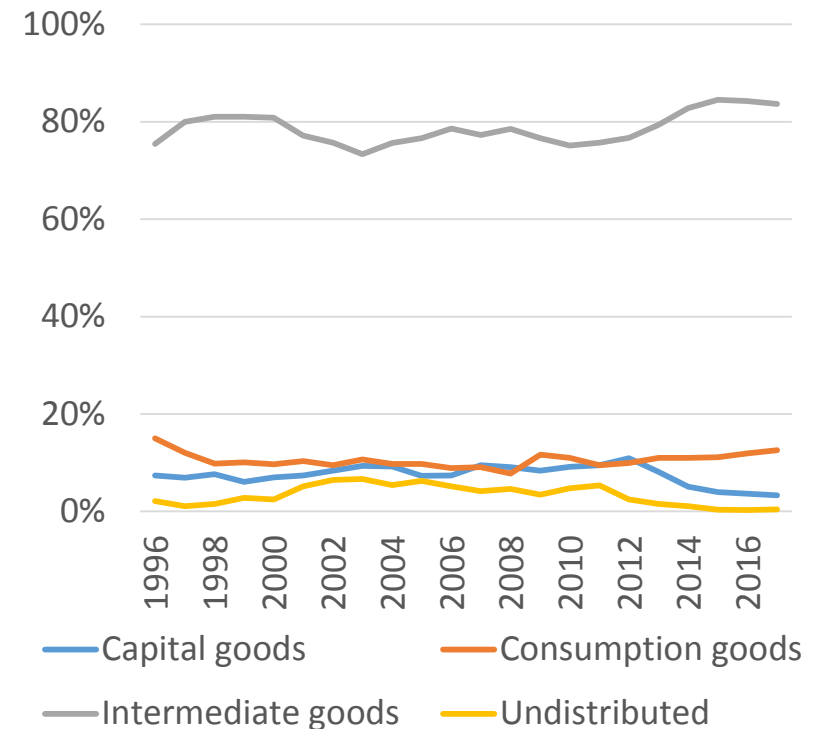
- **Finished products have the highest share** in total exports of Ukraine: 40% in 2017
- There is a long-term trend in the reduction of the share of semi-finished products
- Simultaneously, exports of raw materials have gained importance, largely thanks to agricultural exports

Ukraine's total exports by end use

USD bn



% of total



- Intermediate goods, i.e. **goods used as inputs in other production processes, dominate** Ukraine's exports. In 2017, their share was 84% of total exports
- Consumption goods is the second largest category – 13% in 2017
- Importance of capital goods exports dropped alongside with reduction in exports to Russia

Exports to the EU: changes in market access

Schedule:

- April 2014 – December 2015: Autonomous trade measures replicating the first year of the DCFTA in terms of market access
- January 2016 – August 2017: DCFTA provisional application
- Since September 2017: DCFTA enacted

Key issues for exports:

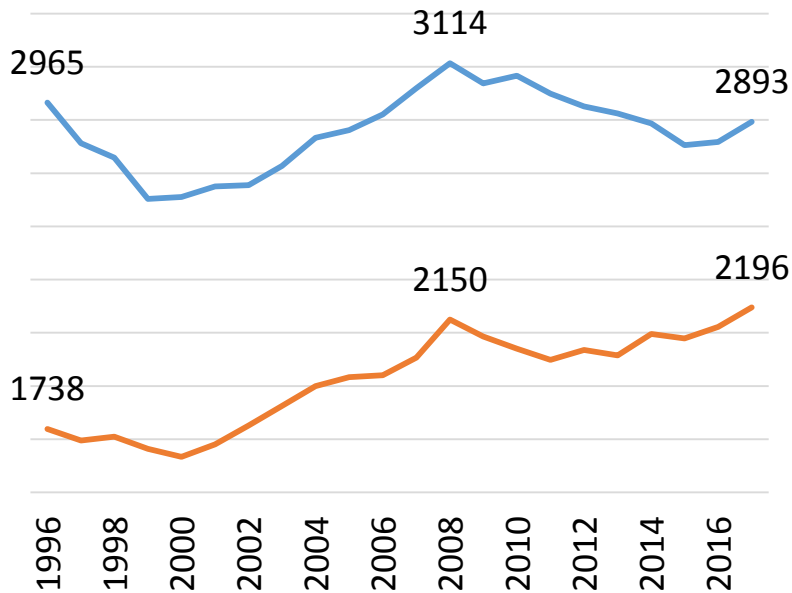
- Immediate cut in 95% of industrial and 82% of agricultural tariff lines
- Transition periods (up to 7 years) for the rest of industrial and 1% of agricultural tariff lines
- About 17% of agricultural tariff lines are subject to tariff rate quotas
- Future: harmonization of food and industrial safety regulations/standards and then treatment of the Ukrainian products equally to the EU products
- Future: access to public procurement market

Exports to the EU: key products

	% exports to EU		% change	
	2013	2017	2017/2013	2017/2016
Maize	10%	8%	-15%	39%
Sunflower oil	2%	7%	212%	20%
Ignition wiring sets & other wiring sets	6%	7%	28%	21%
Semi-finished products of iron/non-alloy steel	10%	5%	-46%	45%
Iron ores & concentrates, agglomerated	4%	5%	20%	63%
Low erucic acid rape/colza seeds	5%	4%	-13%	101%
Iron ores & concentrates, non-agglomerated	6%	4%	-32%	57%
Oil-cake & other solid residues, from extraction of sunflower seeds	3%	2%	-8%	13%
Other goods	54%	58%	11%	25%

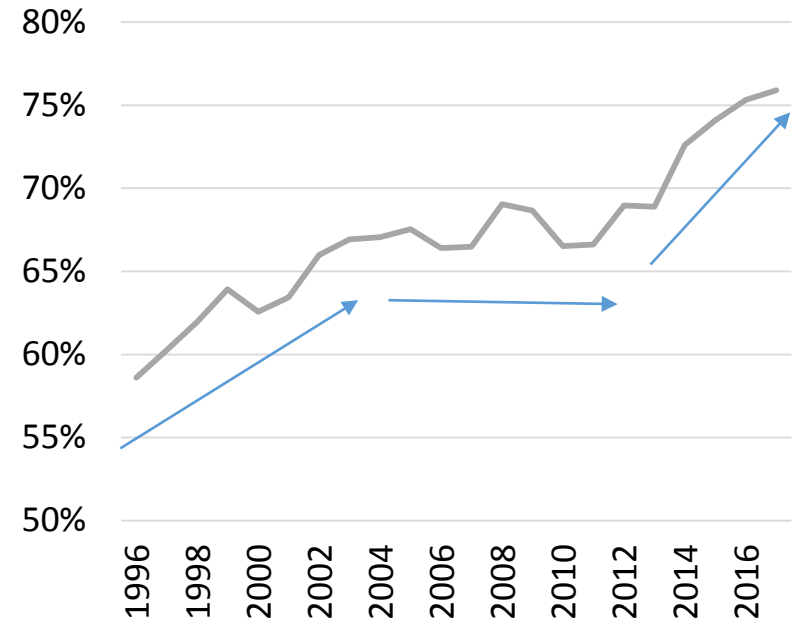
Exports to the EU: variety

Number of products, 6-digit HS



— # products exported to world, exports >10K USD
 — # products exported to EU, exports >10K USD

% share of product variety exported to world

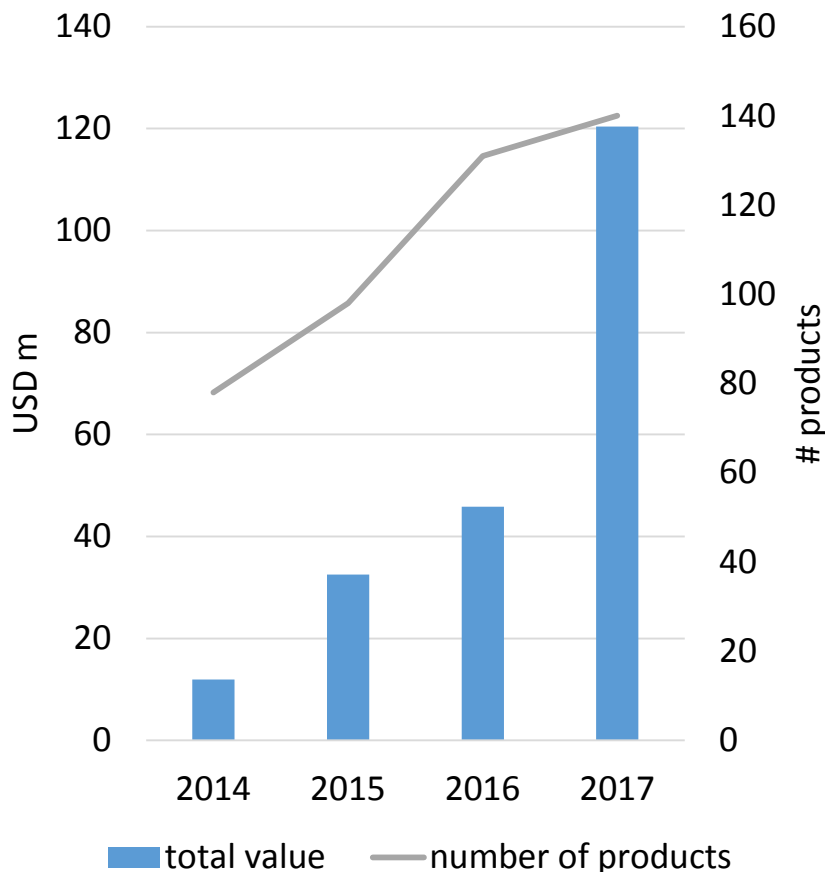


— # products exported to EU / # products exported to world, exports >10K USD

- **Product diversify of exports has increased** noticeably since the DCFTA launch
- Compared to 2013, in 2017 Ukraine exported 181 products more, while variety of its exports to the ROW shrunk by 173 products

Exports to the EU: new products

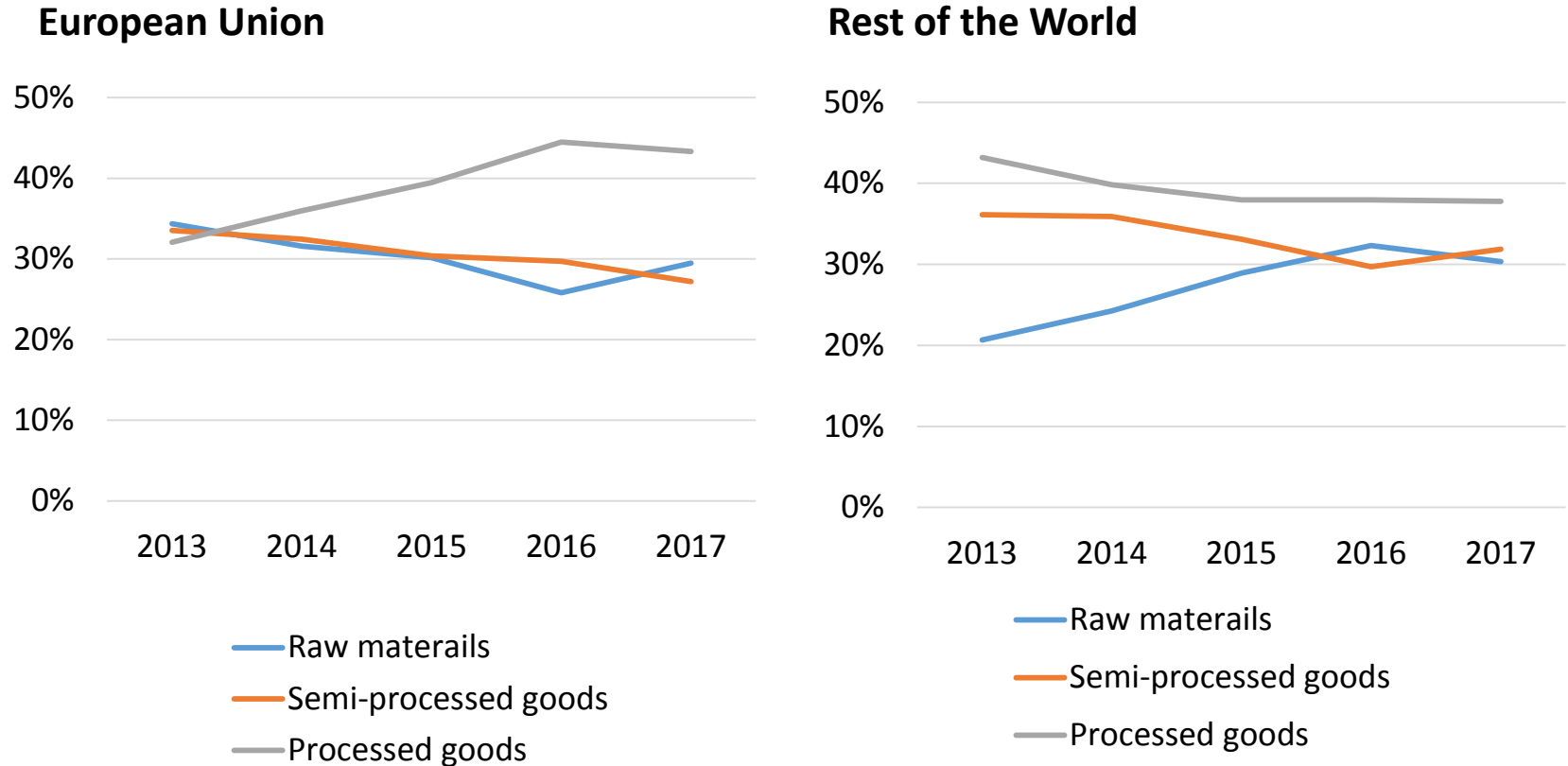
New products* on the EU market



- In **2014-2017**, Ukraine started to export **265 new products***, not exported to the EU in 2005-2013
- Average duration of exports – 2 years
- 15 products were exported 4 years, their value in 2017 – USD 10 m
- Largest exports in 2017:
 - Poultry cuts – USD 74 m (3 years, +245%)
 - Butter – USD 14 m (2 years, +448%)
 - Lard – USD 3 m (4 years, +523%)
- New machinery & equipment exports:
 - Image projectors – USD 0.8 m (2 years, +7324%)
 - Washing machines – USD 0.3 m (3 years, +411%)
 - Snowmobiles – USD 0.2 m (1 year)

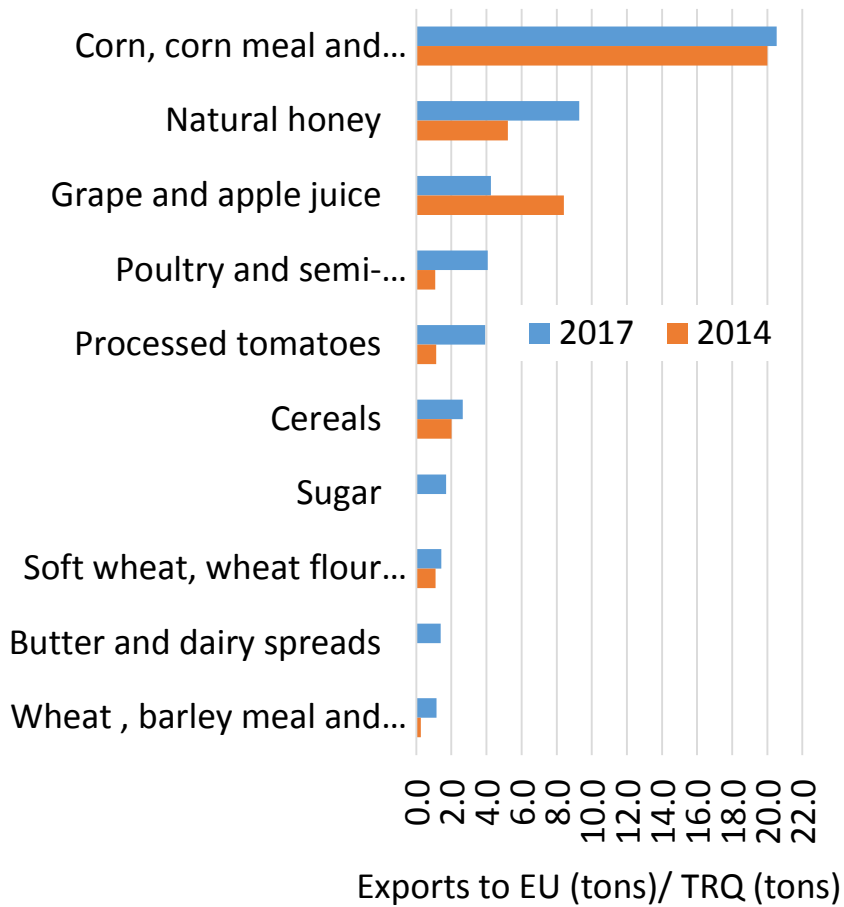
Note: * product is defined as new if no exports >10K USD in previous period(s)

Exports to the EU by level of processing



- Importance of **finished products in exports to the EU increased** from 32% in 2013 to 43% in 2017, while importance of raw materials exports reduced
- Key finished products exported to the EU are sunflower oil and electric machinery

Tariff rate quotas applied by the EU



2014:

- Fully used – 6 TRQs (natural honey, cereals, processed tomatoes, grape and apple juice, wheat, maize)
- Partly used - 12 TRQs
- Not used – 18 TRQs

2017:

- Fully used – 10 TRQs (+butter, sugar, poultry and wheat)
- Partly used – 16 TRQs
- Not used – 10 TRQs (beef, pork, lamb meat, mushrooms, yogurt, milk paste, cigars & cigarettes etc.)

Exports for 7 out of 10 fully used TRQs is much higher than TRQ → **tariff outside TRQ is not binding**

Exports to Russia: key products

YEAR 2013

	USD m	% total	rank
Aluminium oxide (excl. artificial corundum)	579.0	4%	1
Bars & rods of iron/non-alloy steel	498.3	3%	2
Diesel-electric locomotives	468.5	3%	3
Tank wagons & the like, railway/tramway	396.0	3%	4
Turbo-propellers, of a power >1,100kW	387.7	3%	5
Cheese	314.1	2%	6
Self-discharging vans & wagons	294.1	2%	7
Pebbles/gravel/broken/crushed stone	292.1	2%	8

YEAR 2017

	USD m	% total	rank	% change 2017/2013
Aluminium oxide (excl. artificial corundum)	467.9	12%	1	-19%
Uranium; natural uranium and its compound	130.1	3%	2	-41%
Turbo-propellers, of a power >1,100kW	113.0	3%	3	-71%
Iron or non-alloy steel; U sections	99.8	3%	4	-61%
Iron or non-alloy steel; (not in coils), flat-rolled	81.9	2%	5	-38%
Railway or tramway parts, axles and wheels, and parts thereof	76.9	2%	6	-68%
Iron or non-alloy steel; flat-rolled, plated or coated with zinc	74.0	2%	7	-18%
Steel, alloy; flat-rolled, hot-rolled, not in coils	61.6	2%	8	-51%

Reorientation away from Russia's market

- In 2012, Ukraine exported* 2153 products (HS 6 digits) to Russia
- Out of them, in 2017:
 - Ukraine **still exports (somewhere) 2073 out of 2153 products (96%) exported to Russia**. But value of their exports dropped by 41% compared to 2012
 - Ukraine **ceased exports of 82 products**. Their export value in 2012 was USD 939 m, including:
 - Petroleum oils and oils obtained from bituminous minerals – USD 321 m (2% of exports to Russia)
 - Rail locomotives – USD 274 m (2% of exports to Russia)

*Note: * exports is defined to exist if it is >10K USD*

Year 2018: what Q1 shows

Ukraine's exports by sectors

	USD m	% change	% share
Total	11,435	10.3	100
including			
Metals	2,988	23.0	26
Plants and products thereof	2,224	-3.8	19
Oils and fats	1,150	-10.3	10
Machines and equipment	1,137	21.8	10
Mineral products	1,026	7.8	9
Others	2,910	3.0	26

Ukraine's exports by countries

	USD m	% change	% share
Total	11,435	10.3	100
including			
EU	5,073	27.4	44
Russia	853	-7.6	8
Turkey	703	12.4	6
India	603	-19.0	5
Egypt	515	-12.9	5
China	387	5.2	3
Others	3,301	-0.6	29

Risks

- External:

- Reduction in global prices on key commodities
- Slower economic growth
- Growing protectionism of trade partners:
 - EU introduced import duties on maize (maize is subject to TRQs under DCFTA)
 - EU anti-dumping duty on steel products
 - USA safeguard import duties on steel and aluminum

- Internal:

- Incomplete reform agenda
- Deficit of labor market

Ukrainian Trade: Political Background

Igor Burakovsky
Head of the Board,
Institute for Economic Research and Policy Consulting



Trade policy: policy making environment

1. **Ukraine international commitments:** WTO, Association agreement with EU, Free Trade Agreements, etc.

Problem: inadequate institutional capacity of the Government to manage international agreements.

2. **Russian aggression and mutual economic sanctions.**

Problem: legal basis needs improvement (Law “On Sanctions” adopted in 2014 is not enough), enforcement.

3. **Controlled versus non-controlled** regulatory problem.

Problem: non-controlled economic activities, smuggling.

4. **Legislative competition** between the Parliament and the Government.

Problem: law quality of legislation, attempts of lawmakers to impose politically motivated decisions upon the Government.

5. **Internal conflicts within the government:** “difficult” relations between Fiscal Ministry and State Fiscal Service.

Problem: necessary reforms delayed or hampered.

6. **Growing populist and protectionist sentiments.**

Problem: loss of reform momentum, conflicts with trade partners.

Export strategy: long playing process

27 December 2017: Export Strategy of Ukraine (roadmap of strategic development of trade) adopted by the Cabinet of Ministers of Ukraine. The process started in 2015.

9 sectoral and cross sectoral strategies to be developed:

ICT, creative industries, innovations for export, engineering improvement of skills, food and processing industry, transportation and trade facilitation, aircraft maintenance and repair of trade data and export promotion.

Customs Reform: unclear perspectives

Step forward – step back:

Decisions taken (29 March 2017, CMU Resolution “On Reforming of Certain Territorial Bodies of State Fiscal Service”; 19 July 2017, CMU Order “On Approval of the Concept of Reform of the System of Bodies Implementing State Fiscal and Customs Policies - 11 January 2018, decisions cancelled.

Separate changes are implemented: 25 May 2016, “Certain Issues of “Single Window” Principle Implementation in the Course of Customs, Sanitary-Epidemiological, Phytosanitary, Ecological, Radiological and other Types of State Control” (amended in 2017).

But the strategic vision has yet to be agreed

Growing populist and protectionist sentiments

1. Law «Buy Ukrainian, Pay to Ukrainians» adopted in the 1st reading in 2017: privileges to Ukrainian producers in the process of public procurement.
2. Law “On Export Credit Agency adopted in 2016: good idea, multipole risks when it comes to implementation.
3. Law “On Ban on Export of Non-Processed Timber” adopted in 2015: violation of Ukraine’s international obligations.

More populist and protectionist initiatives are to be expected on the eve of Presidential and Parliamentary elections.

Дякуємо за увагу! Thanks for Attention!



INSTITUTE
FOR ECONOMIC RESEARCH
AND POLICY CONSULTING

8/5-A Reytarska str., Kyiv 01030, Ukraine

tel: +38-044-278-6360

e-mail: institute@ier.kiev.ua



www.ier.com.ua



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