



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

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Executive summary

Tensions between Ukraine and frontline EU member states (MSs: Poland, Slovakia, Hungary, Romania, and Bulgaria) over agricultural imports from Ukraine fundamentally started when Russia invaded Ukraine and blocked its Black Sea ports in February 2022. As Russia disrupted Ukraine's seaborne agricultural exports and the EU facilitated alternative trade routes by rail, truck, and barge through its western borders, the frontline EU MSs faced a surge of imports and transits of agricultural products from Ukraine. These first resulted in huge truck queues at the border with Poland and other frontline MSs, farmers' protests escalated then the situation to the point when the frontline EU MSs individually introduced import bans on Ukraine's agricultural imports in April 2023. European Commission (EC) reacted with two financial compensation packages and with a temporary limit of imports of four agricultural products (wheat, maize, rapeseed, and sunflower seed) from Ukraine till September 15, 2023. After the expiry of the temporary import ban, however, Poland, Hungary and Slovakia continued their unilateral import bans and their farmers continued the protests, cross-border and roads' blockade. In January 2024 the EC proposed to continue free-trade imports from Ukraine, but under the pressure of farmers' protests and associations and of a coalition of five frontline EU MSs supported by France, the EC has also agreed to implement safeguard provisions for a list of 'sensitive products' (poultry, eggs, sugar, oats, maize, groats, and honey) to guard against import surges. The final decision is to be reached in late April 2024 and farmers continue to protest and block shipments from Ukraine. A glaring lack of economic evidence on the key arguments that are framing the whole discussion, however, might prevent informed and rational decisions. We hope that summarizing and structuring these arguments and rationalizing them will help the EU institutions to strike a rational and win-win decision for further free-trade regime with Ukraine.

Argument 1 – Political focus versus economic relevance

Agriculture plays a substantially bigger economic role in Ukraine than in the EU and in the frontline MSs (in terms of share of national income and trade). Moreover, Ukraine accounts only for 1-2% of the EU's total agricultural imports. So despite relative small economic relevance for the EU as a whole and for individual frontline MSs in particular, political relevance of the

issue was disproportionately elevated compared to its economic relevance and even scaled up to level of military or essentially existential level to Ukraine as some of the political leaders in the frontline EU MSs even threatened to revoke military aid to Ukraine.

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

Together with the European solidarity lanes (ESL), the EU suspended the remaining trade tariff barriers on imports Ukraine (customs duties, quotas and trade defense measures known as ATMS) in May 2022 to counteract Russia's blockade of the Black Sea ports. Free-trade regime is expected to be renewed (with some safeguards) in June 2024. Very often, however, the fact of granting free-trade regime to Ukraine's imports is presented in public domain as there was hardly a free trade between Ukraine and the EU before. In fact, Ukraine almost fully liberalized its trade with the EU under the EU-Ukraine Deep and Comprehensive Free Trade Area (DCFTA) that came into effect in January 1, 2016. The remaining trade barriers from the EU side were the 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), but in total they made up only 35% of total Ukraine's agricultural export to the EU in 2021, i.e. less than 1% in total agricultural imports to the EU. Consequently, the temporary full trade liberalization has not caused and could not cause drastic changes in the share of Ukraine in the EU agricultural imports. Moreover, the export shares of products that are in the current list of 'sensitive' products, did not change much from the pre-war time. So from an economic perspective, the list of sensitive products at least lacks an evidence.

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

This was perhaps the most widely circulated argument, especially in the spring 2023, before the five frontline countries introduced unilateral import bans on Ukraine's imports. The war indeed shocked global agricultural markets and prices soared through mid-2022. They, however, have declined significantly since then and remain at pre-war levels. This happened mainly due to increased exports supplies and better crop expectations from major global suppliers (EU, Australia, Canada, North and South America) that allowed to soften initial shocks and tight stocks. As a result, the drop of domestic market prices in the frontline and other EU MSs was a result of declining world market prices and the price data shows that domestic prices in Poland and Hungary do not demonstrate extraordinary developments that are drastically different from the world or border reference prices. Moreover, the shock of the war and resulting skyrocketing world market prices allowed European farmers and other farmers across the globe to earn record incomes over the last two decades in 2022 and 2023. This is in high contrast to Ukrainian farmers that accumulated about USD 70 billion of economic losses since the beginning of the war because of the depressed domestic prices.

Argument 4 – Costs: cheap Ukrainian grain?

Grain from Ukraine often was mentioned as 'cheap' and thus 'disrupting domestic markets and sales' for the EU farmers and thus take away incomes from farmers in Poland, Hungary or in other frontline countries. Ukrainian grains and oilseeds indeed became very 'cheap' since the beginning of the Russian war, primarily because of the disrupted seaborne exports from Ukraine and more costly alternative routes via ESL, and grain and oilseed farm-gate prices in Ukraine plummeted below their production costs and farmers of grain crops suffer losses second year in a row. This does not necessarily mean, however, that it will still be cheaper when it gets delivered to Poland, because of the logistics costs involved. The evidence available shows that the spatial arbitrage or the difference between domestic prices in Ukraine and Poland, however, is not enough to compensate for the costs of delivery of grain from Ukraine to Poland.

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

Trade data demonstrate that the only country market where this situation could be observed is Spain and to a lesser extent Netherlands that started importing relatively larger shares of corn and especially of wheat from Ukraine. Poland indeed increasingly exported wheat and corn over the last 4 years, but the data does not confirm that Spain has been a traditional market for Poland from which it could be displaced by Ukraine's wheat. Even more so in terms of corn, where Spain and Netherlands have been traditional market for Ukraine's corn and to where Poland seems to be willing to increase its corn supplies.

Argument 6 – Infrastructure: tight capacities in the frontlines EU MSs?

The argument or complain is that Ukrainian grain gets stored in inland elevators in Poland so that Polish grain has to compete for storage services and space with Ukrainian grain. Moreover, even if the grain is in the transit to polish ports, it also creates a competition for ports and logistic infrastructure there. Unfortunately, there is no reliable data in public domain on usage and performance of storage capacities in Poland. There is, however, an evidence that Gdansk port capacities have been utilized only by 50-60% and there is a substantial scope for increasing transshipments.

Argument 7 – EU consumers: not relevant?

The whole discussion over Ukraine's agricultural imports to the EU is clearly lacking another stakeholder – the EU consumer (final consumers, food processors or livestock sector, biofuel producers etc). Trade data shows that EU consumers are willing to get more of Ukraine's agricultural products. Bringing consumers into a public discussion would provide a more balanced view on the current situation and costs and benefits thereof. The available evidence demonstrate that the EU as a whole would benefit from keeping the trade free with the Ukraine.