

# Ukraine's Accession to the EU: Trade Scenarios and Institutional Challenges

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# Outline

- Background
- EU-Ukraine agricultural trade scenarios\*
- Issues beyond trade scenarios\*\*
  - EU – Ukraine trade regime
  - Administrative challenges and institutional capacity gap for Ukraine
  - Private sector challenges for Ukraine
  - EU Agricultural support

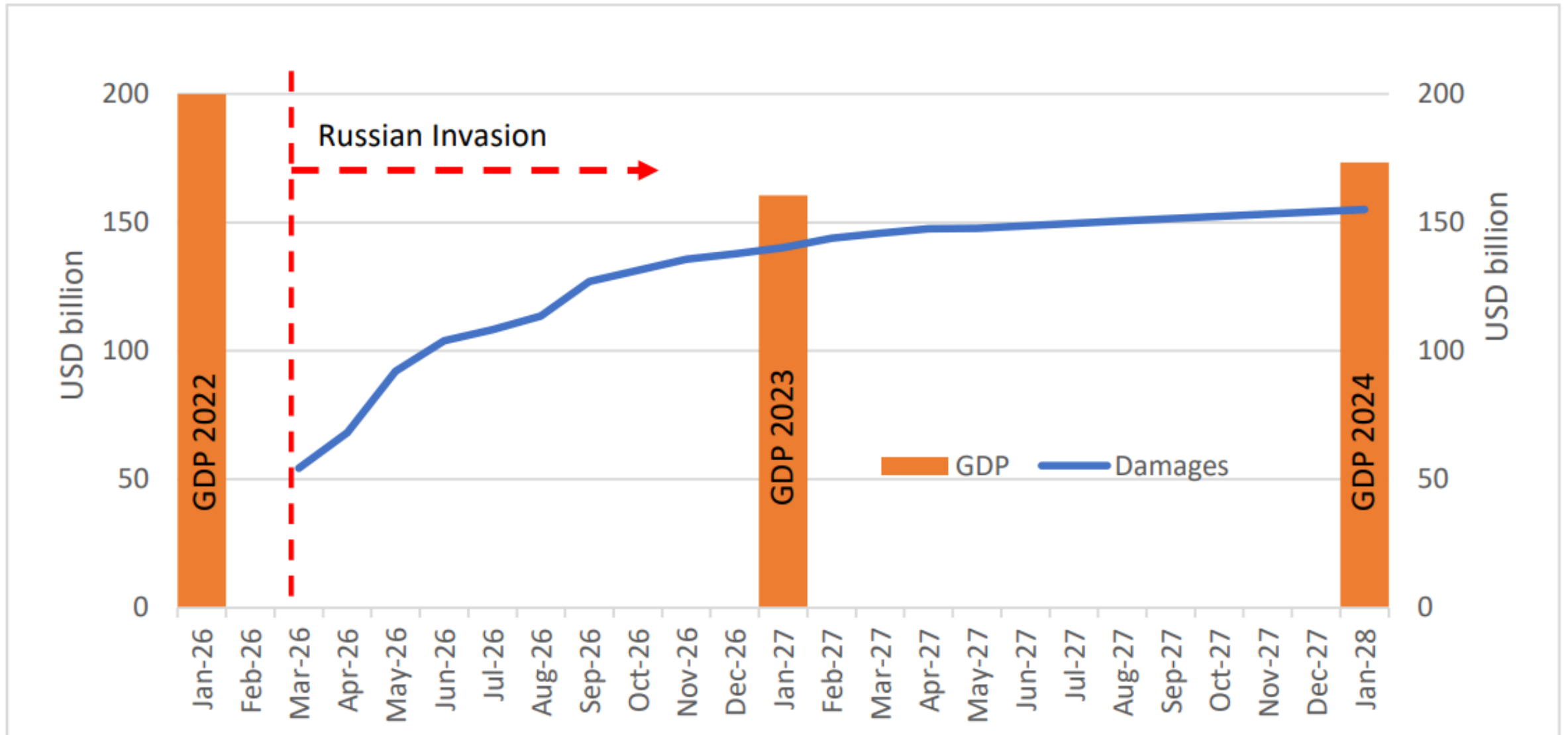
\* based on Nivievskyi and Bogonos, 2024 (forthcoming)

\*\*based on Nivievskyi, Bogonos, and Grigoriadis 2024 (forthcoming)

# WAR – the LARGEST SHOCK since 1991



# War Damages UNBEARABLE for Ukraine ALONE

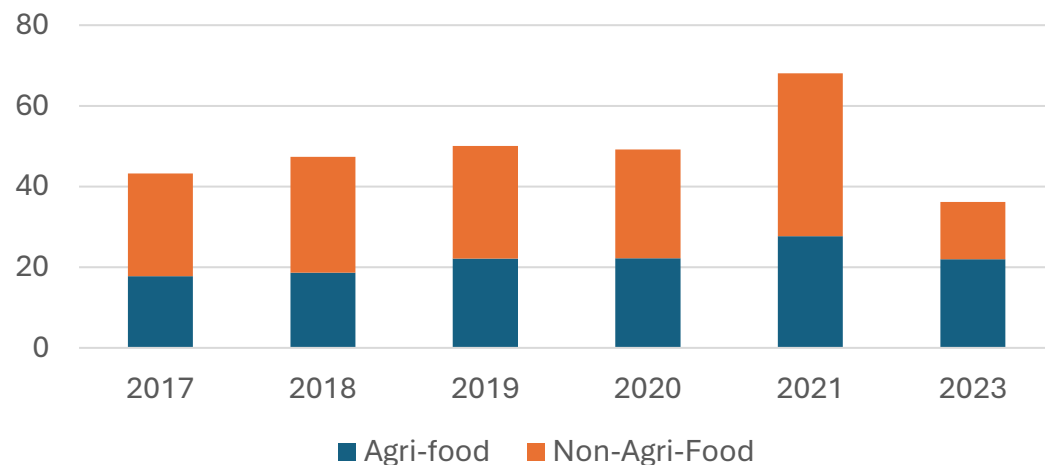


# EU Accession of Ukraine: Trade Scenarios and Issues Beyond

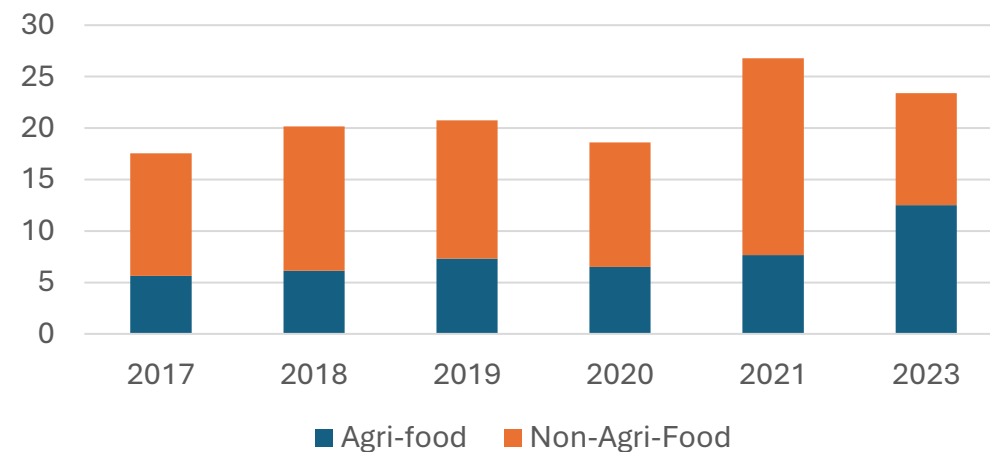
- Political economy behind the EU enlargement inside the EU itself is very difficult
  - Accession negotiations opened in December 2023
  - May 2022: Solidarity Lanes and ATMs to facilitate exports from Ukraine
  - Afterwards: imports to the EU surged and neighboring countries(farmers) protested quite heavily and put a pressure on the EU Commission
  - This signals that the EU accession for Ukraine will not be easy
  - June 2024: ATMs (with emergency clause for 7 products) for another year; Next decision on ATMs is in spring 2025
  - **Possible trade scenarios after the spring 2025?**
- Ukraine's role as a global agricultural player and its contribution to global food security
  - **Issues beyond trade scenarios: Impact on Ukraine's agricultural competitiveness**

# EU became a major trade partner of Ukraine

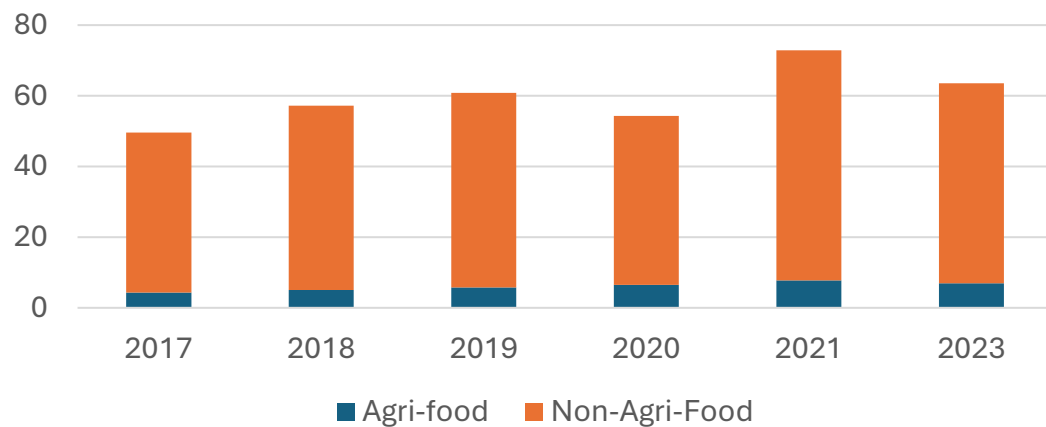
*Total export from Ukraine, bn USD*



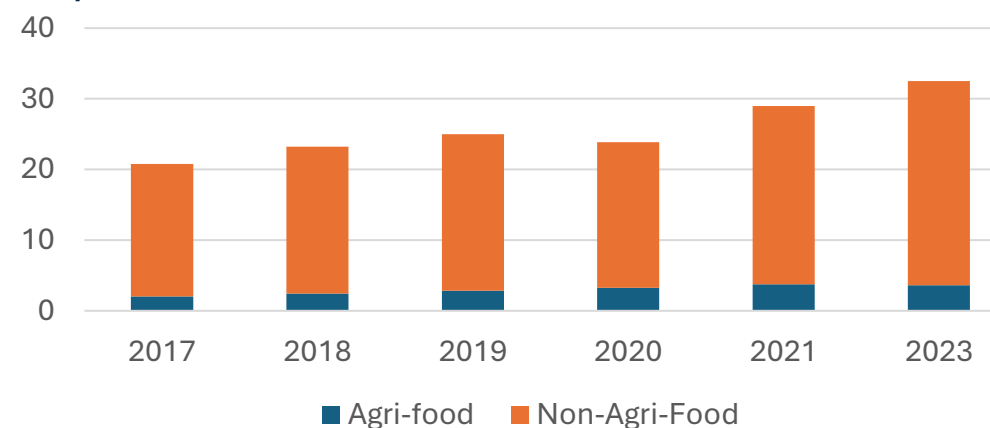
*Export from Ukraine to the EU, bn USD*



*Total import to Ukraine, bn USD*



*Import in Ukraine from the EU, bn USD*



# Methods and data

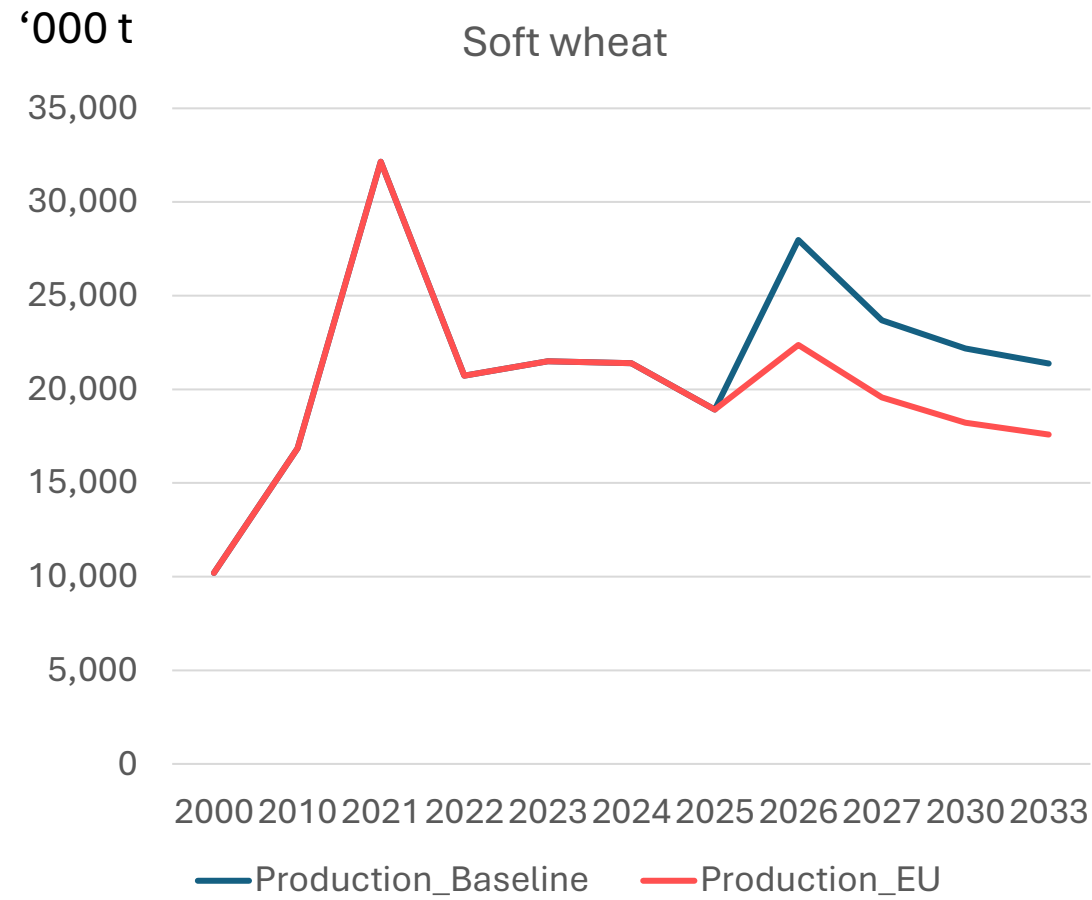
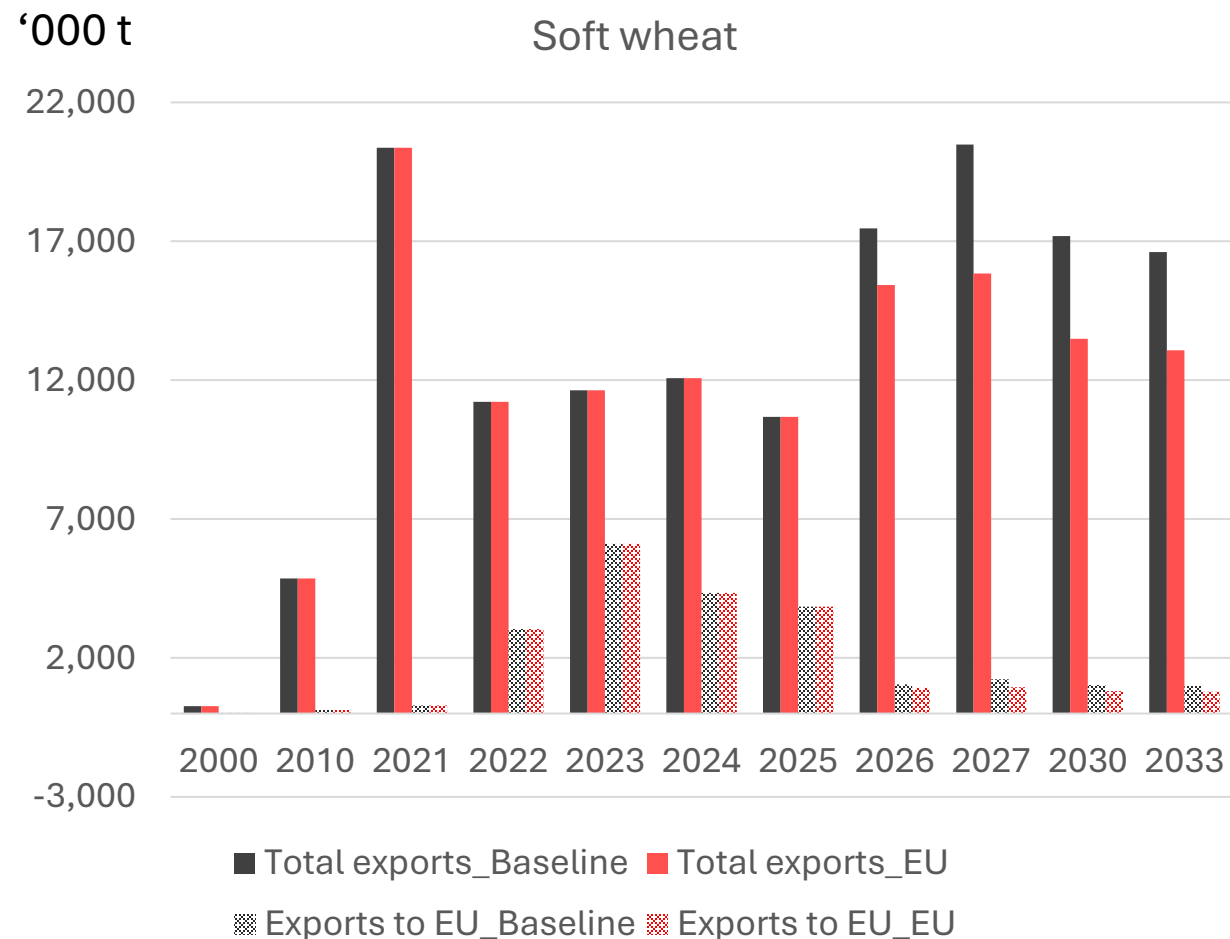
AGMEMOD model (also used by the EU Commission)	2023 version with 2024 database  Econometric dynamic partial equilibrium regional model  Actively used in Ukraine since 2016  Data: State statistics service of Ukraine, FAO, USDA

# Scenarios description

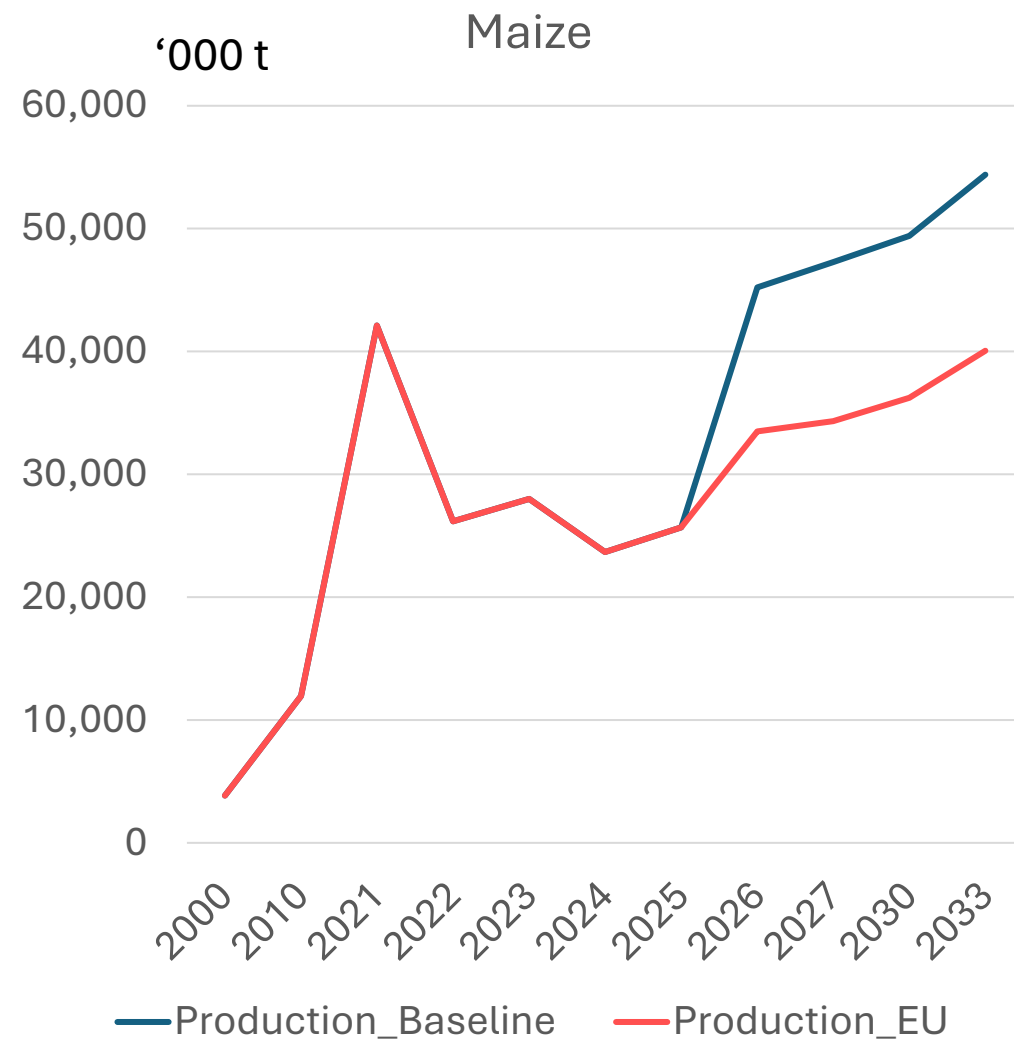
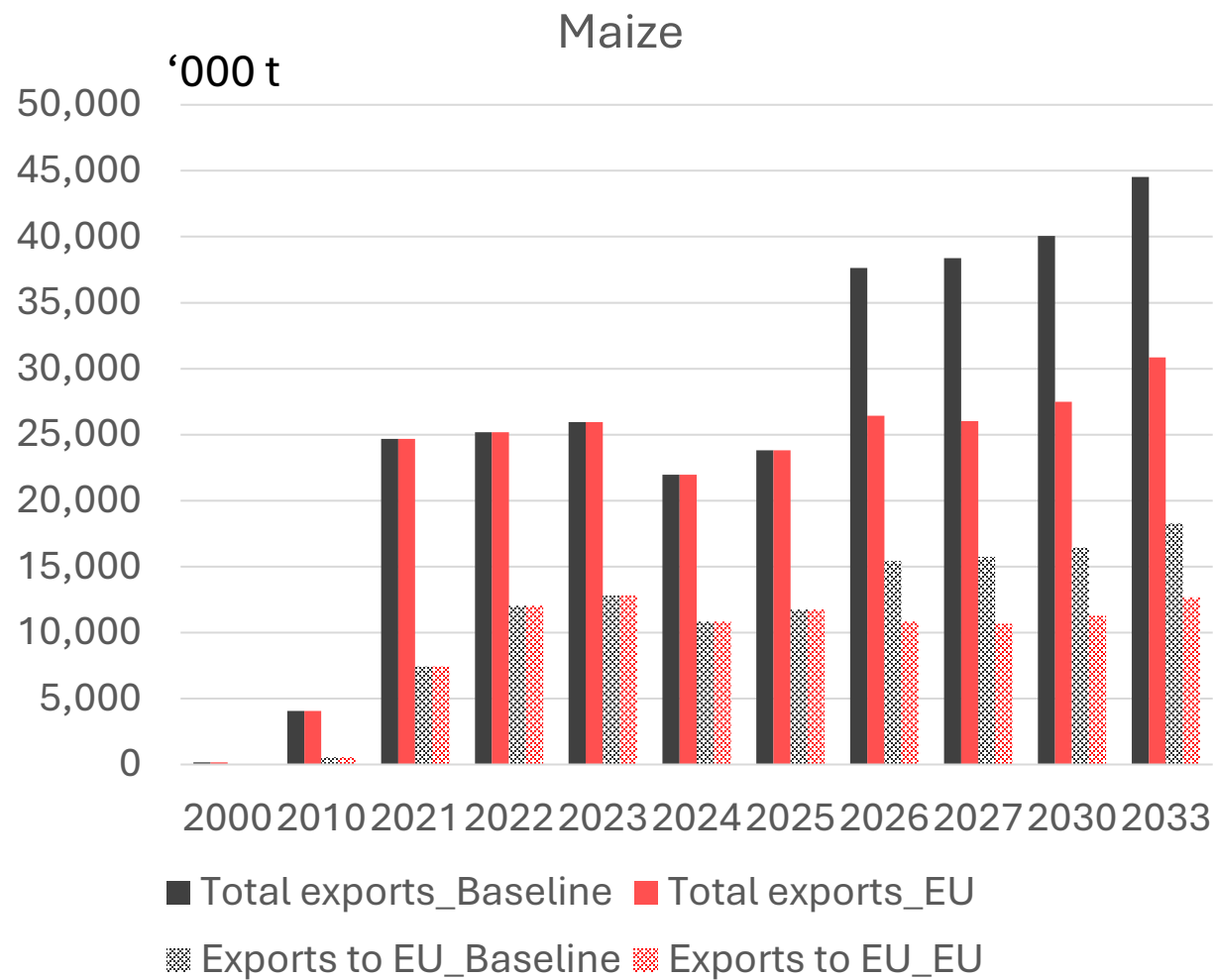
	<b>Baseline</b>	<b>ATMs</b>	<b>Free Trade</b>	<b>EU membership</b>
Trade with the EU	ATMs in 2025 DCFTA in 2026-2033 (with 40 TRQs)	ATMs in 2025 and until 2033	ATMs in 2025 and Free Trade afterwards until 2033	ATMs in 2025 and Free Trade afterwards until 2033  Additional compliance costs (up to 10%) for agricultural producers



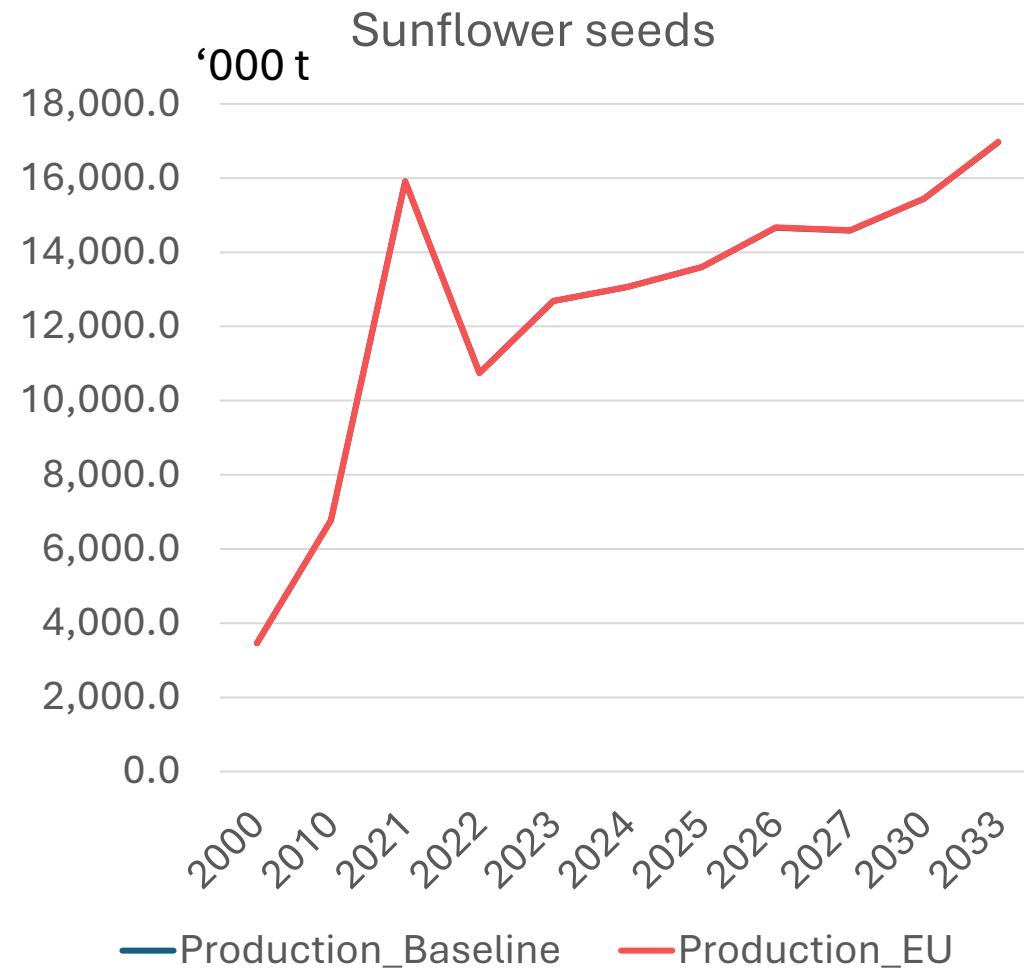
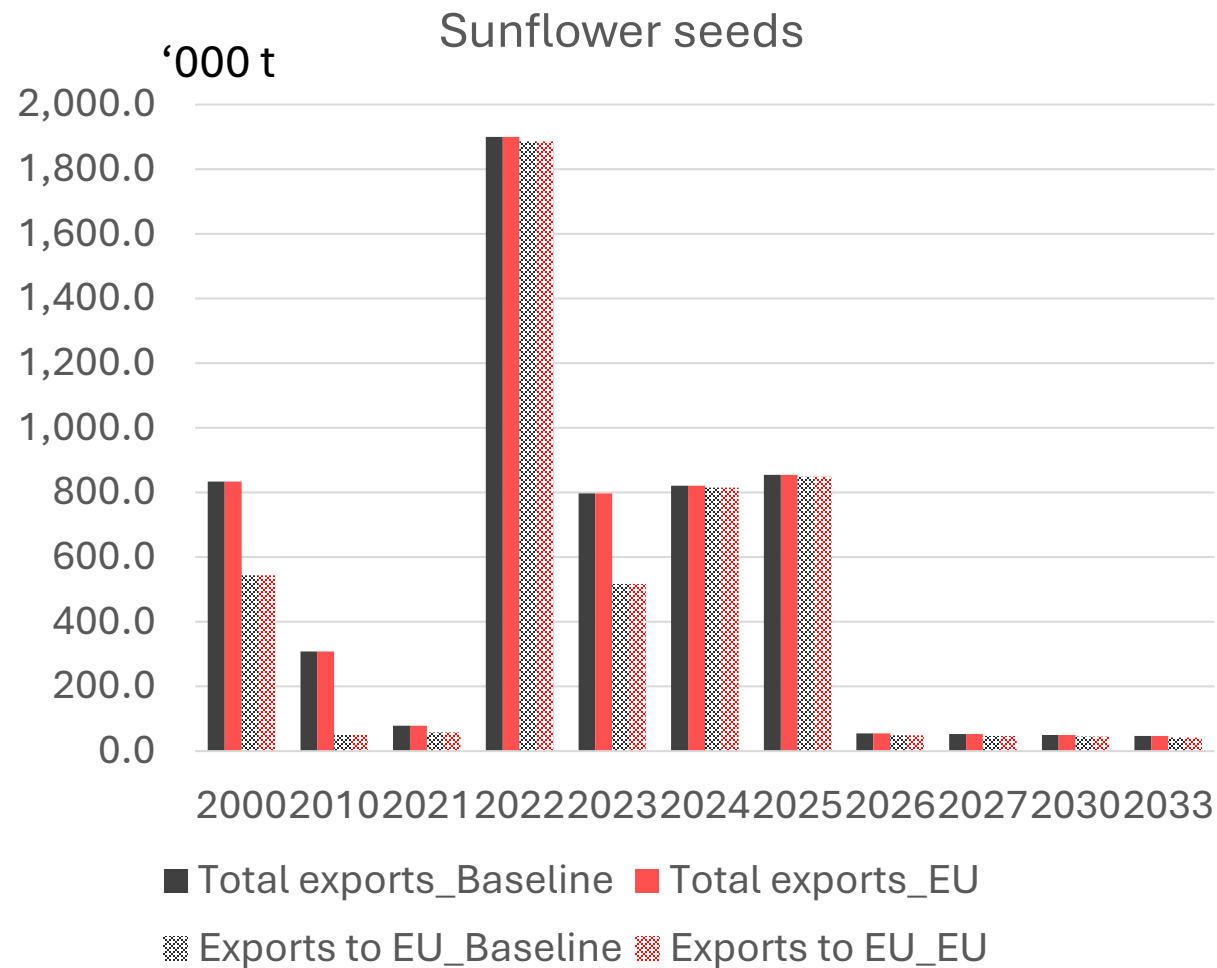
# Trade modelling results: wheat



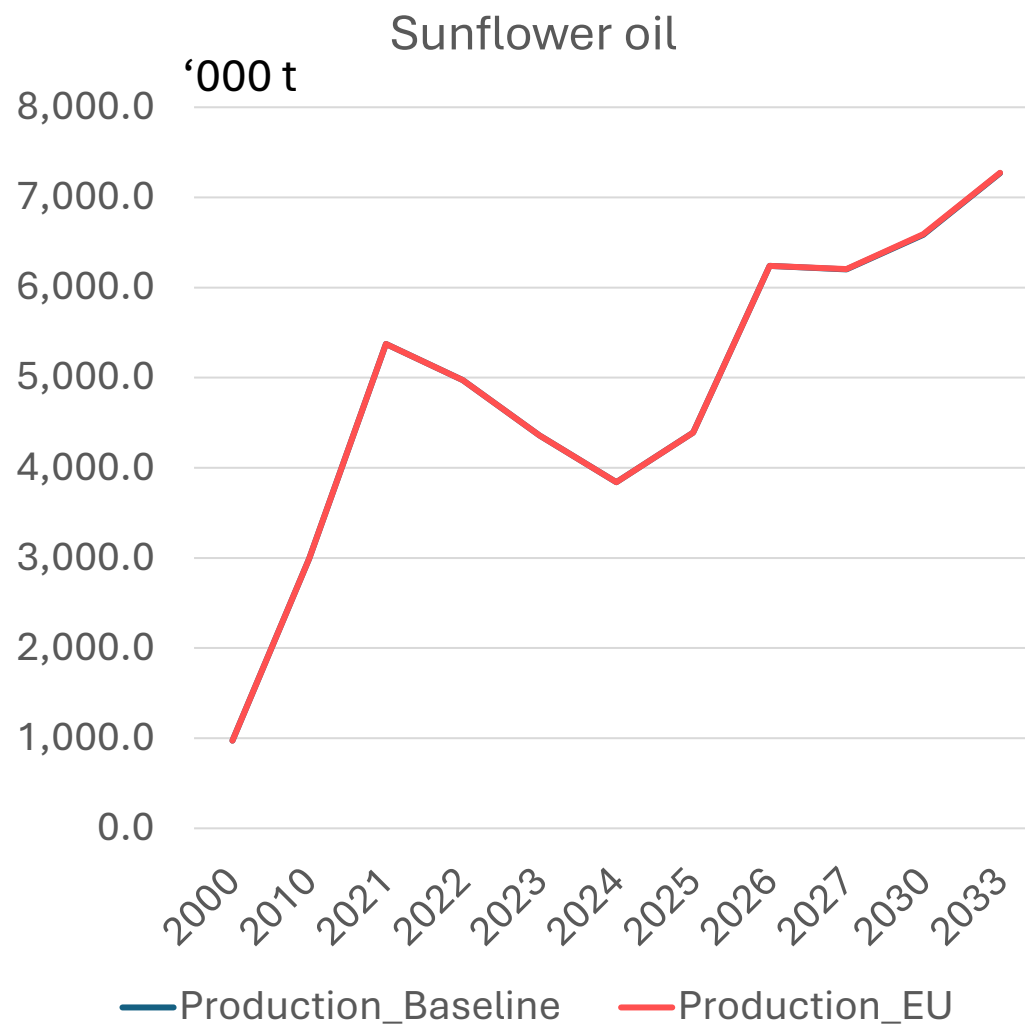
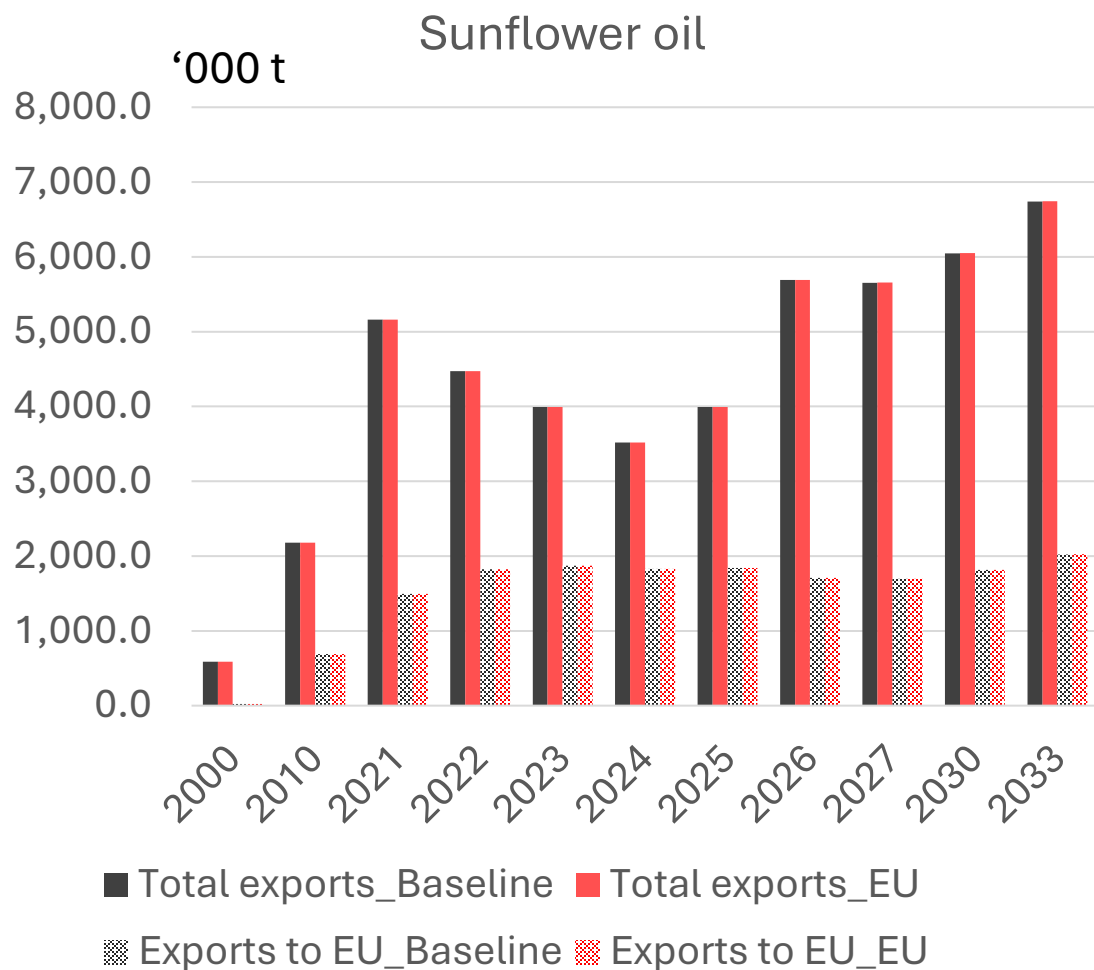
# Trade modelling results: corn



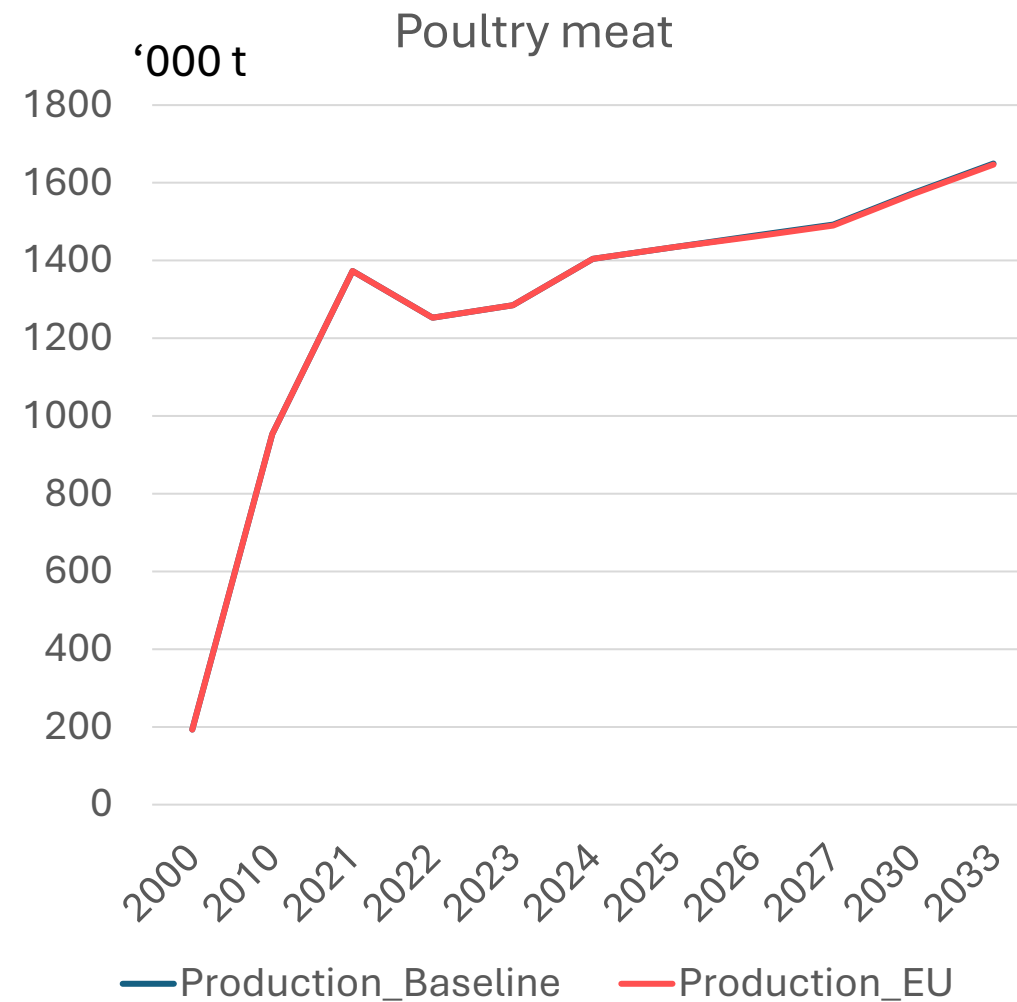
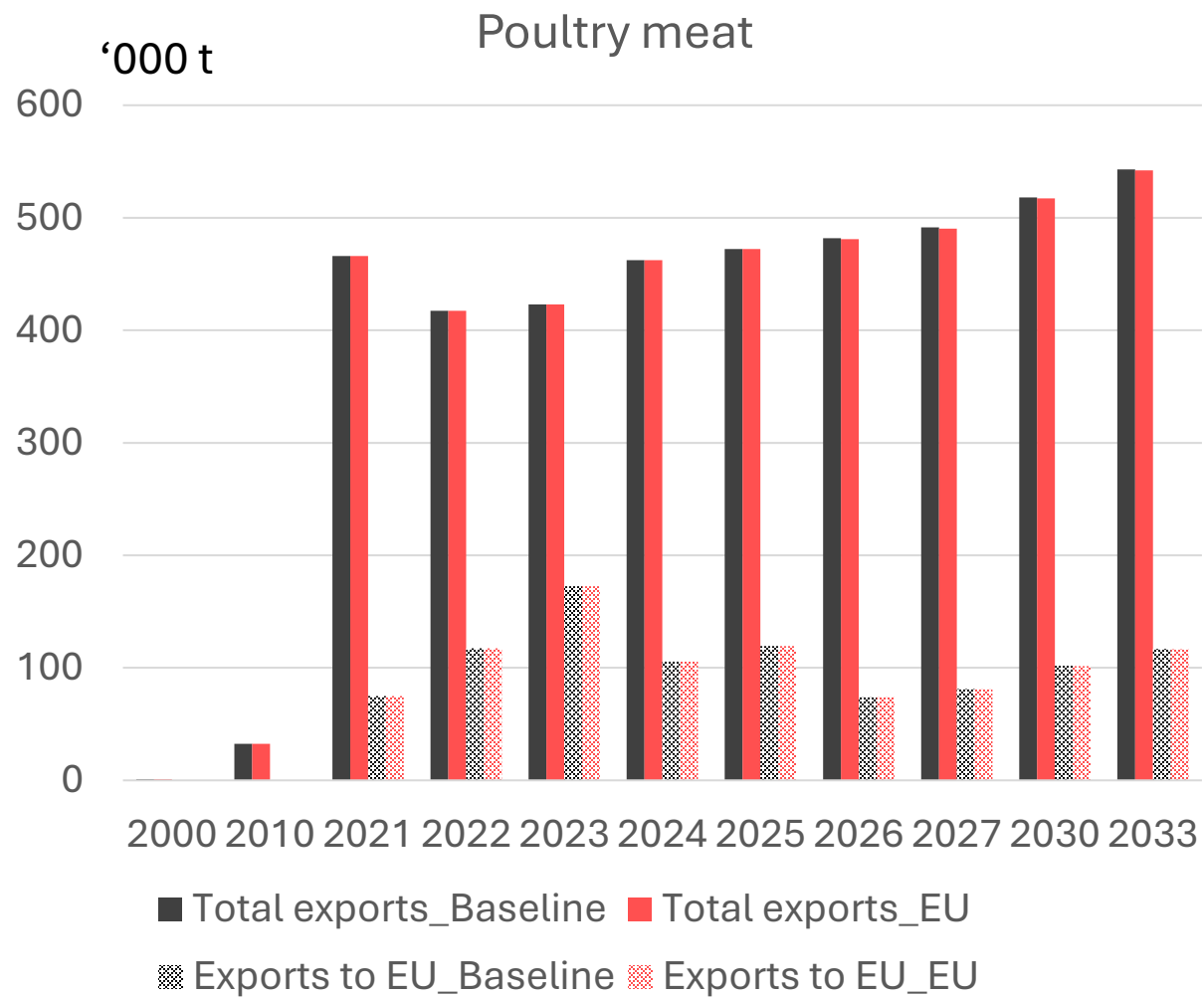
# Trade modelling results: sunflower seed



# Trade modelling results: sunflower oil



# Trade modelling results: poultry meat



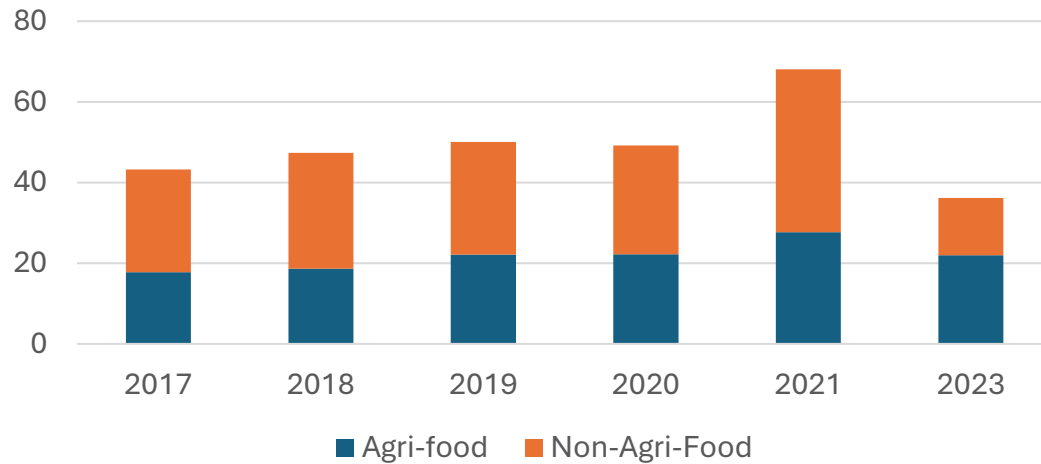
# Setting the Framework: Competitiveness

- $\% \Delta \text{Competitiveness} = \% \Delta \text{Productivity} + \% \Delta \alpha * P_{\text{output}} - \% \Delta \beta * P_{\text{input}}$   
(Nivievskyi et al, 2010)
- $P_{\text{output}}$  – output prices
- $P_{\text{input}}$  – input prices
- How the EU membership will affect agricultural competitiveness of Ukraine?
- 3 dimensions:
  - Impact of the trade regime
  - Impact of the EU acquis in agriculture and related areas
  - Impact of the agricultural support (Common Agricultural Policy of the EU)

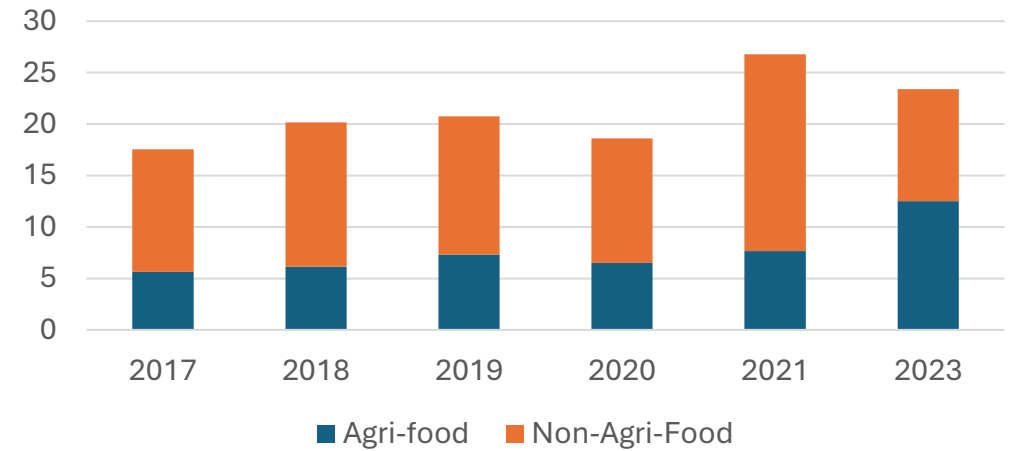
### 3. Issues beyond trade scenarios: competitiveness

# Trade policy regime is beneficial for Ukraine's agricultural competitiveness

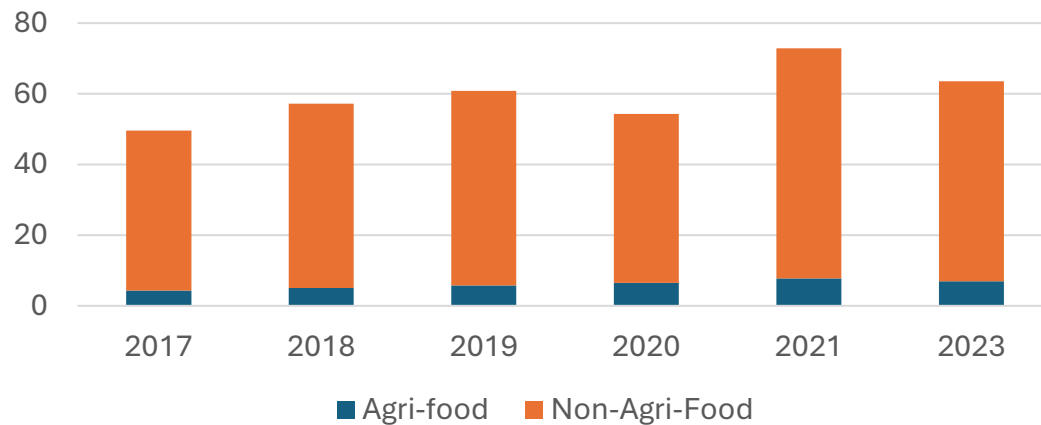
*Total export from Ukraine, bn USD*



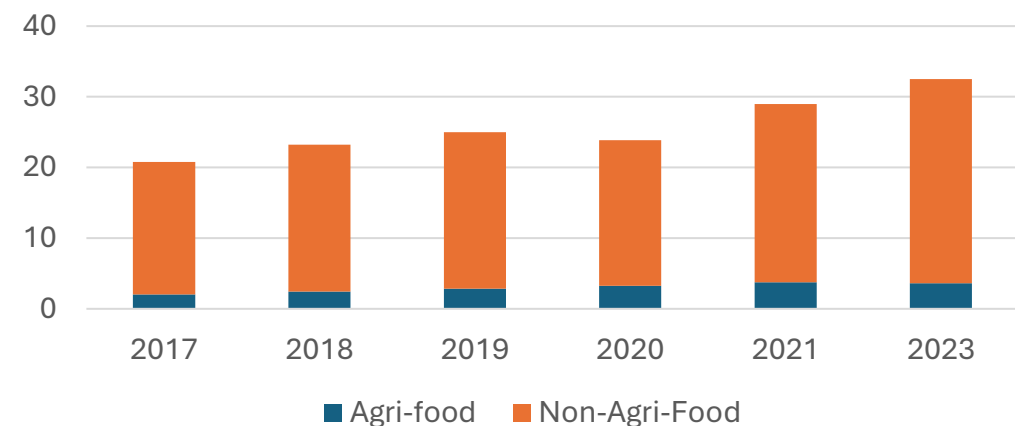
*Export from Ukraine to the EU, bn USD*



*Total import to Ukraine, bn USD*



*Import in Ukraine from the EU, bn USD*



## State institutions lack capacity might hinder agricultural competitiveness

- Ukraine must be able to implement the extensive EU ‘agricultural acquis’ which, together with the CAP, includes regulation of markets and standards in the areas of farming practices, animal and plant health, food safety, and environmental and animal welfare.
- Current bottleneck – technical and financial capacity of state institutions in Ukraine (Nivievskyi, 2024)
- If they work efficiently, they can crowd in private investments 1 to 4
- If not – additional burden for the business and drag on competitiveness

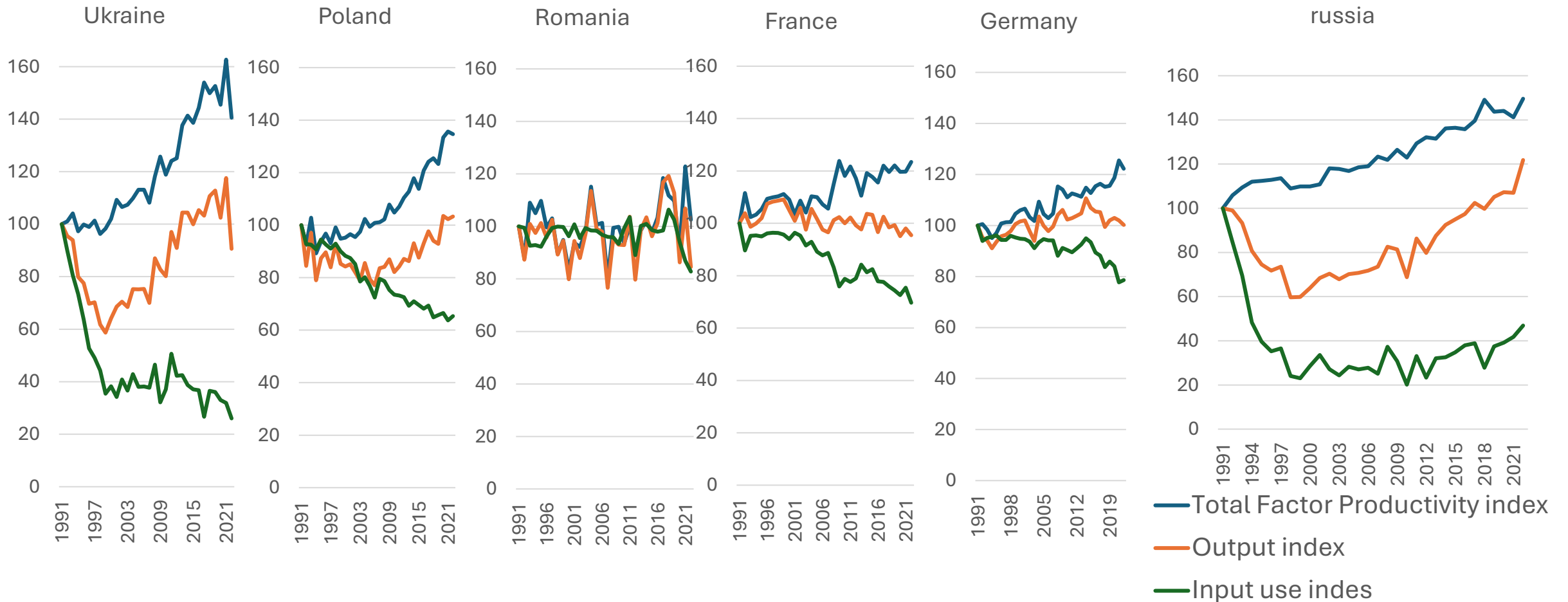


# EU agricultural acquis compliance costs might hinder agricultural competitiveness

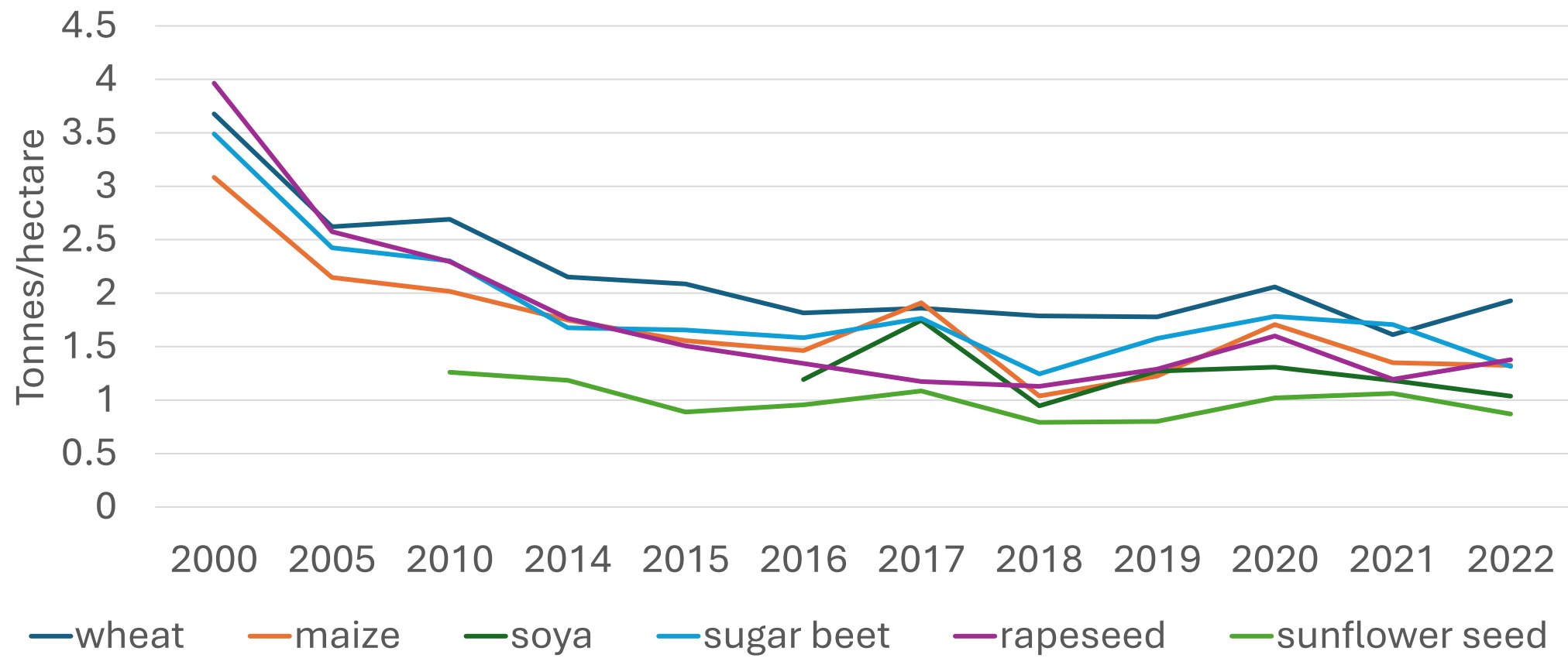
- EU agricultural acquis+ CAP is very demanding
- Require additional private investments to comply with:
  - Expect up to 10% of the total costs (EU Commission 2014)
- Not critical to agricultural competitiveness of Ukraine
- Moreover, there are studies (Halytsia et al, 2024) demonstrating that Ukrainian farms have a capacity to increase their output by almost 20% and simultaneously contract harmful environmental impact by 16%

# CAP subsidies might hinder agricultural competitiveness

TFP trends



# CAP subsidies might hinder agricultural competitiveness



# CAP subsidies might hinder agricultural competitiveness

- Expected amount of CAP subsidies is 10-14 bn euros
- Politics:
  - CAP budget has been politically set to decrease
  - If there no changes to CAP – other EU countries will get less
  - This will not fly politically
- Economics of subsidies: bad for efficiency and productivity
- Conclusion: Ukraine has to suggest an option to the EU

# Conclusions

- EU-Ukraine trade scenarios look favorable for Ukraine, while the EU membership is expected to decrease to some extent production and exports
- Further pressure is possible (if not properly addressed)
  - Institutional and private capacity to comply with the demanding EU agricultural acquis
  - EU agricultural support (might delay the accession and is negative for productivity)