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THE ROMANIAN AGRI-FOOD TRADE WITH UKRAINE AND REPUBLIC OF MOLDOVA – A FIRST IMPACT ASSESSMENT AFTER THE IMPLEMENTATION OF DCFTA

ABSTRACT

The present paper investigates the main evolutions of the Romanian agri-food trade with Ukraine and Republic of Moldova in terms of volume and values, as well as the structure of the trade flows by main commodity groups. The analysis shows that both partner countries intensified their agri-food trade with Romania after the implementation of the Deep and Comprehensive Free Trade Area (DCFTA). Both countries are net winners (in value terms) in their agri-food trade with Romania.

Key words: agri-food trade, association agreements, DCFTA, Republic of Moldova, Ukraine

JEL Classification: F14, Q17.

1. INTRODUCTION

The European Union started in 2010 negotiations with the Republic of Moldova and Ukraine for a new Association Agreement, intended to replace the previous Partnership and Cooperation Agreement. The overall objective was to develop the political and economic cooperation, and negotiations for a Deep and Comprehensive Free Trade Area (DCFTA) started in 2012 as part of the Association Agreement.

These free trade areas aim at a significant liberalization of both trade and investment climate and are based on the idea of developing the acquis communautaire and increasing the convergence of the respective countries with the European trade legislation.

Since a better integration with the Single Market means wider commercial access, Ukraine and Moldova are in the process of harmonizing agricultural and industrial norms and standards. For example, in the first two years of the DCFTA enforcement, more than 10,000 European or international standards have been adopted in Moldova.

The Deep and Comprehensive Free Trade Area (DCFTA) agreement mainly aims at the mutual opening of markets for goods and services, based on well-defined and applicable trade rules. The provisional implementation of the DCFTA started since September 1st, 2014, between the EU and the Republic of Moldova, respectively since January 1st, 2016, between the EU and Ukraine. An important aspect of the DCFTA is the future gradual reduction of non-tariff barriers (sanitary and phytosanitary barriers, technical barriers to trade, barriers related to intellectual property, customs procedures, etc.).

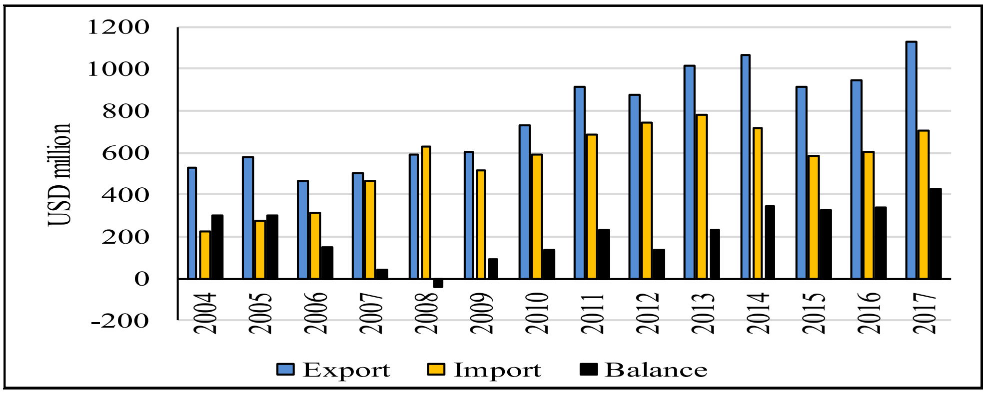
The agricultural and food trade flows are monitored quantitatively through tariff quotas, which correspond to the production and export capacities of Moldova and Ukraine (cereals, sugar, fruits, vegetables, dairy products, animal products) and comply with the sanitary, phytosanitary requirements and EU quality.

2. MATERIAL AND METHOD

The study is based on research, quantitative analysis and interpretation of statistical data extracted from Eurostat, Comtrade, State Statistical Service of Ukraine and National Bureau of Statistics of the Republic of Moldova. The calculations were made using the Combined Nomenclature (2-digit aggregation level – HS chapters 01-24). The analysis included the values and directions of the exchanges, as well as the product composition of the trade flows.

3. RESULTS AND DISCUSSIONS

In the last decade and a half, the Moldovan agri-food trade has grown almost constantly, both in terms of quantity and value (Gavrilescu, 2013). Exports increased 2.1 times between 2004 and 2017; they have already exceeded the USD 1 billion threshold (Figure 1) in 2013 and represented between 38-54% of total Moldovan general exports.

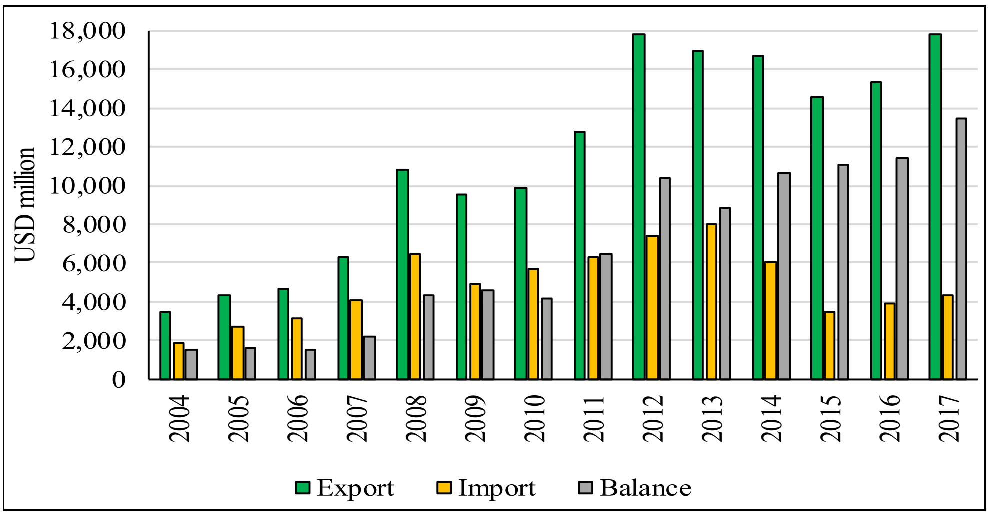


Source: calculations using data from the National Bureau of Statistics of the Republic of Moldova

Figure 2. Moldovan agri-food trade (2004-2017).

Although food imports increased 3.1 times over the same period, they have always remained below export value (with the only exception in the 2008 crisis year). Their share in total general imports of Moldova varied between 12-16%. As a result, except for the above-mentioned year 2008, the Moldovan agro-food trade balance was permanently on surplus, with a coverage of imports by exports ranging from 109 to 234%. The year 2017 recorded not only the highest value of agri-food exports (USD 1.13 billion), but also the largest agro-food trade surplus (USD +426 million).

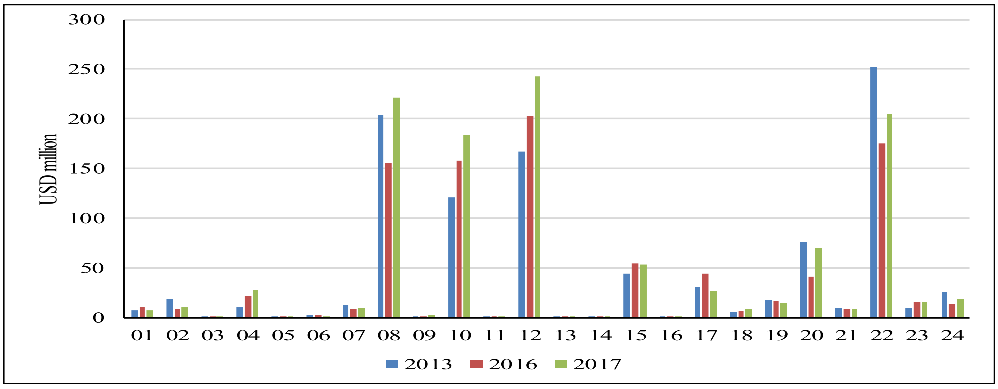
Data available for Ukraine show a 5.1-fold increase in the value of agri-food exports in the period 2004-2017 (when they reached USD 17.8 billion) (Figure 2). Imports had a relatively similar trend, with an import peak in 2013 ($ 8 billion), followed by a steeper decline of more than half (USD 3.5 billion in 2015), and a very slight increase until 2017. As a result, Ukraine's agro-food trade surplus has been steadily rising, with the degree of exports coverage by imports varying from 149 to 418%.



Source: calculations using data from the State Statistical Service of Ukraine

Figure 2. Ukrainian agri-food trade (2004-2017).

When analysing Moldova's agro-food export model in 2016 and 2017, as compared to 2013 (the year before DCFTA implementation), one can notice that the structure by commodity groups (chapters 01-24 of the Combined Nomenclature) shows a modest diversification of Moldova's exports: fruits, oilseeds, wines, cereals, vegetable and fruit preparations, these 5 groups concentrating 78-82% of the value of total agri-food exports (Figure 3).

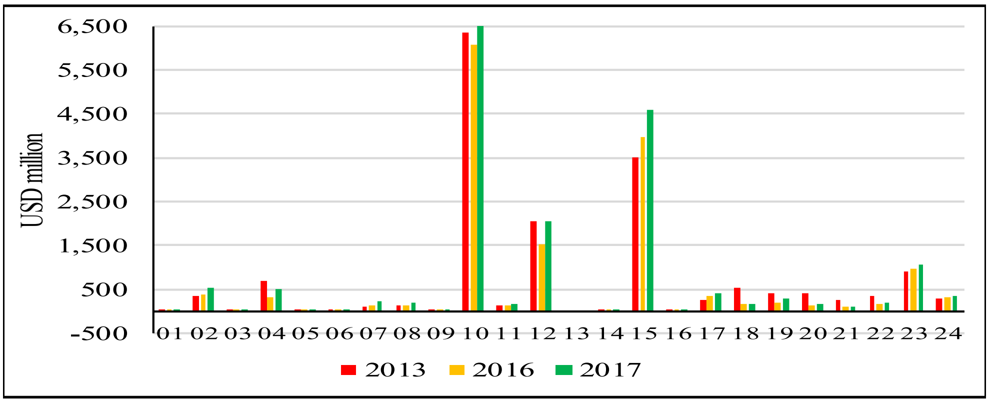


Notes: chapters HS (Harmonized System) 01-24, covering all agri-food products: 01-live animals; 02-meat; 03-fish and seafood; 04-dairy products, eggs and honey; 05-other animal products; 06-live plants; 07-vegetables; 08-fruit; 09-coffee, tea and spices; 10-cereals; 11-products of the milling industry; 12-oilseeds; 13-lacs, gums and resins; 14-other vegetable products; 15-oils and fats; 16-meat and fish preparations; 17-sugar and confectionery; 18-cocoa and cocoa products; 19-cereal baking and pastry products; 20-vegetable and fruit preparations; 21-miscellaneous edible preparations; 22-beverages; 23-animal feed; 24-tobacco and tobacco products.

Source: calculations using data from the National Bureau of Statistics of the Republic of Moldova

Figure 3. Moldovan agri-food trade pattern.

Ukraine's agri-food export pattern is less diversified as compared to the Moldovan one: only grains represent about 38% of the total value of agri-food exports, followed by fats & oils (23%) and oilseeds (10%) (Figure 4). The first three groups of products thus concentrate about 75% of the value of exports. This agro-food export pattern is vulnerable to unfavourable weather conditions and to the volatility of international grain and oilseed prices.



Notes: the same as for Figure 3.
Source: calculations using data from the State Statistical Service of Ukraine

Figure 4. Ukrainian agri-food trade pattern.

Since the implementation of the DCFTA, important changes occurred in the trade flows between Romania and R. Moldova, respectively Ukraine. The DCFTA has established a free trade area for trade in goods since the start of the provisional application of the EU–Moldova Association Agreement (September 01, 2014), and respectively EU-Ukraine Association Agreement (January 01, 2016). As a result, imports from both Moldova and Ukraine increased in rank, share and value in the Romanian extra-EU imports (Table 1).

Table 1

Position of R. Moldova and Ukraine in the Romanian extra-EU agri-food trade

		2004	2007	2013	2015	2016	2017
R. Moldova	rank	2	2	17	10	10	7
	share in RO extra-EU exports (%)	10.77	7.38	1.72	2.72	2.85	4.06
	value (EUR mil.)	15.9	21.8	36.5	55.4	66.8	87.7
Ukraine	rank	23	17	9	13	14	14
	share in RO extra-EU exports (%)	0.53	1.31	3.82	2.09	2.21	2.86
	value (EUR mil.)	0.8	3.9	81.0	42.5	51.7	61.8
R. Moldova	rank	8	8	5	3	3	3
	share in RO extra-EU imports (%)	3.07	4.77	6.46	9.22	12.46	13.14
	value (EUR mil.)	24.2	42.1	58.9	104.2	135.0	160.3
Ukraine	rank	6	9	8	5	4	6
	share in RO extra-EU imports (%)	3.96	2.45	2.45	5.59	6.14	5.52
	value (EUR mil.)	31.2	21.7	22.4	63.1	66.5	67.3

Source: calculations using data from Eurostat

For agricultural products, the trade will not be fully liberalised. Although the EU liberalised immediately the access to its market for most Moldovan agricultural imports, it still imposed tariff rate quotas (TRQs) on a limited number of sensitive products (40,000 tonnes for fresh apples; 10,000 tonnes for table grapes and plums; 2,000 tonnes fresh and chilled tomatoes) (Emmerson and Cenusa, 2018).

Table 2 shows the changes in the main commodity groups traded between Romania and R. Moldova. Nevertheless, the total trade increased significantly, 2.4 times for exports and 2.7 times for imports in 2017 as compared to 2013 (year before DCFTA).

Table 2

Change in the main commodity groups traded between Romania and Republic of Moldova

Export RO-MD					Import RO-MD				
HS code	Commodity group	2013 Value (EUR million)	% change 2016/2013	% change 2017/2013	HS code	Commodity group	2013 Value (EUR million)	% change 2016/2013	% change 2017/2013
01-24	Total	36.50	83	140	01-24	Total	58.91	129	172

23	Animal feed	4.41	59	107	17	Sugar	16.17	35	-22
21	Miscellaneous edible preparations	3.90	33	48	12	Oilseeds	16.11	261	402
04	Dairy products	3.74	83	187	19	Cereal baking & pastry products	9.12	-10	-15
19	Cereal baking and pastry products	3.03	1	8	15	Oils and fats	4.24	-55	-64
10	Cereals	2.98	131	213	22	Beverages	3.85	139	243
12	Oilseeds	2.94	268	511	10	Cereals	2.58	366	421
22	Beverages	2.84	104	114	08	Fruit	2.05	506	784
20	Vegetable and fruit preparations	2.30	23	45	11	Products of the milling industry	1.38	-30	-65

Source: calculations using data from Eurostat

The DCFTA has almost completely liberalised trade in goods between the EU and Ukraine, but with a significant asymmetry in that the EU has liberalised totally and immediately trade for most products, whereas Ukraine should liberalise trade for many products, but not all, over three to seven years. Ukraine has committed to fully eliminate tariffs for 88.5% of the tariff lines on agricultural products. Around half of its agricultural products were liberalised immediately. For the other products, a transitional period of up to seven years is envisaged (Emerson and Movchan, 2018).

Table 3 shows the changes in the main commodity groups traded between Romania and Ukraine. The total trade changed significantly, decreasing for exports (-24%) with a significant increase of imports from Ukraine (3 times for imports in 2017 as compared to 2013 (year before DCFTA).

Table 3

Change in the main commodity groups traded between Romania and Ukraine

Export RO-UKR					**Import RO-UKR**				
HS code	Commodity group	2013 Value (EUR million)	% change 2016/2013	% change 2017/2013	HS code	Commodity group	2013 Value (EUR million)	% change 2016/2013	% change 2017/2013
01-24	Total	80.98	-36	-24	01-24	Total	22.35	198	201
10	Cereals	64.62	-52	-40	12	Oilseeds	9.78	30	-27
12	Oilseeds	8.24	84	124	08	Fruit	5.65	-68	-45
21	Miscellaneous edible preparations	3.49	-48	-57	19	Cereal baking and pastry products	2.43	290	377
15	Oils and fats	2.54	-22	-72	15	Oils and fats	1.15	328	479
04	Dairy products	0.87	-100	-98	10	Cereals	1.09	114	222
19	Cereal baking and pastry products	0.50	-15	2	21	Miscella-neous edible preparations	1.09	273	230

Source: calculations using data from Eurostat

Romania decreased its main exports to Ukraine (cereals, edible preparations, oils and fats, and dairy products), and increased oilseed exports, while significantly increasing imports of oilseeds, cereals and edible preparations.

4. CONCLUSIONS

DCFTA implementation for R. Moldova and Ukraine established a free trade area for trade in goods, a good opportunity for producers to boost their exports under the condition of complying with the EU quality and sanitary requirements. Even if the tariff liberalisation is asymmetrical (EU liberalisation is faster than in Moldova and Ukraine), it is good opportunity for the two countries to enter the Single Market more easily and with a larger range of products.

In the trade with Romania (the closest neighbour from the EU), both Ukraine and R. Moldova were winners, since they both increased significantly their exports on the Romanian agri-food markets.

Romania has still competitivity problems for several agri-food products (cereals, edible preparations, oils and fats, and dairy products), since its exports decreased on the Ukrainian markets. It performed better on the Moldovan markets, by doubling its exports after DCFTA implementation and increasing significantly its oilseeds, cereals and beverages exports.

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