

Reactions to the EU's lifting of restrictions on grain imports from Ukraine

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On 15 September, the European Commission decided not to extend the restrictions on imports of wheat, maize, rapeseed and sunflower from Ukraine which have been in place since May. On the same day, Poland, Slovakia and Hungary unilaterally introduced the same/similar bans as of 16 September. Hungary reacted most severely, extending the import restrictions indefinitely to cover up to 25 categories of product. Poland extended the list of banned Ukrainian products to include wheat flour, bran and oilseed cake, while Slovakia introduced restrictions until the end of this year, albeit only on products which were already restricted, and stressed that it would continue to seek a solution at EU level.

Of the coalition of five countries formed in April to demand a ban on some Ukrainian agricultural imports, two decided not to continue with such restrictions. Although Romania appealed to the European Commission to extend the ban, it did not decide to introduce it unilaterally and is counting on working out a joint solution with the EC and Ukraine. Bulgaria, on the other hand, changed its position even before the EC's communiqué, and stopped supporting the extension of the ban on Ukrainian cereal imports.

Ukraine welcomed the EC's decision. At the same time, it expressed its disapproval of the unilateral actions taken by Poland, Slovakia and Hungary, and announced that it would retaliate by filing a case at the WTO and, in the case of Poland, imposing restrictions on Polish vegetable and fruit exports.

Brussels' decision

The European Commission justified its decision on the grounds that the temporary ban on importing selected agricultural products from Ukraine, which had been in force since 2 May, had already achieved its objective. The EC press release said that after analysing data on imports of wheat, maize & sunflower seeds and rapeseed from Ukraine, it appeared that the disruption to the markets in five countries bordering it had ceased. According to the EC, Ukraine has agreed to put remedial measures in place (including an export licence system) within 30 days to avoid a renewed surge in grain exports. Kyiv is also supposed to implement (unspecified) 'effective export control measures' for the four commodities as of 16 September to avoid disrupting the markets in neighbouring countries, and is to submit an Action Plan to the participants of the Coordination Platform (comprising Poland, Slovakia, Hungary, Romania, Bulgaria, Ukraine and the EC) by midnight on 18 September. The EC said it will monitor the situation on the markets and refrain from imposing further trade

restrictions as long as the measures proposed by Ukraine prove effective.

Reactions from countries in the region

The toughest action in response to the EC decision was taken by **Hungary**, which unilaterally maintained its ban not only on the four cereals subject to temporary EU restrictions, but also on 25 other categories of agricultural products (including meat, eggs, honey, flour, bread, vegetables and wine). No end date for the ban has been specified, although the restrictions applied do not relate to transit. The Hungarian agriculture ministry argues that if cheap Ukrainian imports “flood the markets of the member states neighbouring Ukraine again”, the storage capacity will not be sufficient to store the harvest of the autumn crop. Hungary has stressed the convergence of its position with that of Poland, and has sought (unsuccessfully) to maintain a regional coalition on the issue, as evidenced by the visits by representatives of its agriculture ministry on 12 September to Bucharest and Sofia. The ban also covered agricultural products that Hungary has so far not imported from Ukraine, or which it has previously imported on a small scale. This harsh stance is in line with Budapest’s policy to date. It allows the government to portray itself as firmly defending national interests, and to reproach the passivity and ineffectiveness of the EC. Although the government has emphasised that the ban is not aimed at Ukraine, an assertive policy towards Kyiv can count on public support, which is largely negative towards the country, an attitude which has consistently been fuelled by the ruling Fidesz party.

Slovakia decided to maintain the embargo on those products which had previously been subject to EU restrictions, albeit for a limited period of time (until 31 December this year). The government stressed that it has been ‘forced’ into this position by the lack of a systemic pan-European solution and the actions taken by neighbouring Poland and Hungary. Reluctant to antagonise EU institutions, the government in Bratislava also notes that it is ready to withdraw the ban as soon as a solution is reached at EU level, and has stressed that it will continue to allow the transit of products from Ukraine through its territory. The Slovak government’s decision was crucially influenced by systematic pressure from the agricultural industry, whose representatives have pointed out the unequal conditions for competing with Ukrainian producers; the latter are subject to lower phytosanitary standards, among other factors. Regarding cereal production in particular, domestic producers are able to meet domestic demand in full; moreover, a significant proportion of it (around 40%) is regularly exported. The context of the parliamentary elections scheduled for 30 September is also relevant. Although Slovakia is presently governed by a caretaker government, whose members are not running in the elections, and the issue of Ukrainian grain is not the main topic of the campaign, some parties (including the left-wing nationalist Smer – the favourite to win – the pro-social We are Family and the Slovak National Party) have raised the issue in the debate and effectively put pressure on the government.

Romania has so far decided not to maintain the ban. In a communiqué issued on 15 September, the authorities said only that they expected Kyiv to present an action plan on effective export control measures to prevent disruption to the Romanian cereal market by 18 September. At the same time, the government expressed regret that the EC had not extended the ban, despite appeals from the countries bordering Ukraine. The Romanian government’s failure to react more strongly was criticised by agricultural organisations and sections of the opposition (including the leader of the Alliance for the Union of Romanians,

who praised the position taken by Poland, Slovakia and Hungary on the issue). On 18 September this year, Prime Minister Marcel Ciolacu reassured farmers, convincing them that not a single kilogram of Ukrainian agricultural produce had been imported into Romania since the restrictions were lifted, as a result of a 'gentlemen's agreement' between him and the Ukrainian prime minister. At the same time, however, he stressed that if Kyiv makes export requests to Romanian customs, it will request a restriction on the import of this category of products from Ukraine for a period of 30 days, that is, 'until the matter is clarified'. It seems that Bucharest will try to abide by the EC's decision and will most likely decide not to ban Ukrainian grain imports, although this will ultimately depend on what attitude Kyiv adopts. Romania's current stance is in line with its previous policy of avoiding open disputes with EU institutions, especially as it tries to join the Schengen area.

Bulgaria has left the coalition of countries seeking EU restrictions on Ukrainian grain imports and, just days before the EC's decision, announced a change in the position it had been adopting since the spring. Sofia cites the need for pan-European solidarity with Kyiv on the issue of duty-free grain imports and the facilitation of grain transit in the Black Sea region following Russia's termination of the grain agreement. Bulgaria also stresses that it wants to play a greater role in the transport of Ukrainian grain through the ports of Varna and Burgas. The solicitations of sunflower oil producers played an important role in changing Sofia's position: this industry has been particularly severely affected by the ban on imports from Ukraine. The finance ministry also presented estimates indicating significant budget losses related to the ban (around €74 million in potential VAT receipts), and argued that the reinstatement of grain imports from Ukraine would contribute to lowering inflation by stimulating competition in the domestic market. At the same time, the authorities' decision was criticised by cereal producers, who announced mass protests and blockades of roads & border crossings from 18 September.

Ukraine's reaction

Late in the evening of 15 September, Ukrainian President Volodymyr Zelensky had a telephone conversation with EC President Ursula von der Leyen, in which he thanked her for keeping her word to lift the restrictions, and stressed the importance of upholding the principles of the free market. He further said that "it is important that European unity also operates on a bilateral level". He pointed out that if the actions of Ukraine's neighbours violate EU law, Kyiv will respond "in a civilised manner". On the same day, Zelensky also held a meeting with members of the government and the President's Office, during which it was decided to "develop a series of effective measures in the near future to prevent similar crises from occurring". Zelensky expressed the hope that unilateral restrictions by "some member states of the EU" would find "an appropriate response from Ukraine". Prime Minister Denys Shmyhal commented briefly on the EC's decision on social networks, calling it "fair" (he had previously claimed several times that Polish efforts to extend the ban were due to "political populism"). The decision by the EC, followed by Poland and the other countries applying the import ban, did not generate particular comment in the Ukrainian media.

The harshest reaction from Kyiv so far came in a statement by deputy economy minister Taras Kachka to the *Politico* website on 18 September. He announced that if Poland did not drop additional restrictions on imports from Ukraine (wheat flour, bran and two groups of

oilseed cake), Ukraine would respond by banning imports of Polish vegetables and fruit. It is worth noting that the DCFTA has already provided for customs quotas in the cases of bran and wheat flour; after these were met, duties of €172 and €89 per tonne respectively were imposed. The quotas for both commodities have already been exceeded this year. Kachka also announced that he would turn to arbitration at the WTO (rather than the mechanism for resolving disputes within the Ukraine-EU Deep Free Trade Area Agreement, DCFTA); he also criticised Poland, Slovakia and Hungary for systematically undermining the EU's common trade policy.

Prospects

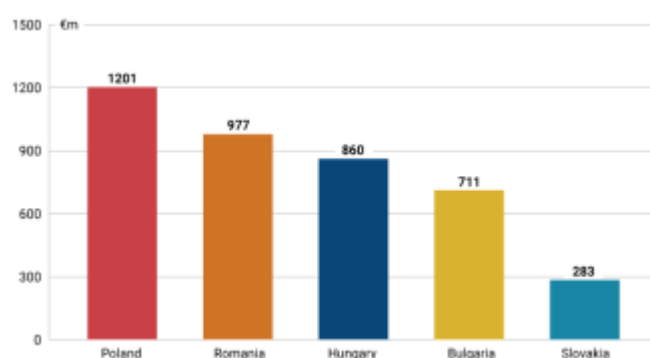
At present, there is no clarity on the provisions of the Action Plan to be presented by Kyiv, or how it will prevent disruption to the markets of neighbouring countries, especially as three of them have announced that they will unilaterally maintain the ban on imports from Ukraine, and Poland and Hungary have even expanded the number of prohibited categories beyond the initial four types of cereals and oilseeds. Kyiv considers the EC's decision a success, as the ban has been lifted at EU level. It is also important that Bulgaria and Romania broke away from this group of five countries resisting imports; the latter in particular is now not only the main transit export gateway for Ukrainian food, but (until the restrictions were introduced) it was also an important buyer of Ukraine's agricultural produce.

In the light of these unilateral import bans, primarily Poland's, representatives of the government in Kyiv have already repeatedly signalled their readiness to initiate WTO arbitration and/or to use the dispute settlement mechanism provided for by the DCFTA. If Kyiv does indeed decide to take such a step, though, it will be of no practical significance in *ad hoc* terms. WTO arbitration is a process that takes several years at least, and the WTO Appellate Body has been effectively paralysed since 2019, with no clear date for its resumption. In the case of the DCFTA, there has been one case of arbitration with Ukraine so far, over the Ukrainian embargo on the export of unprocessed timber; this lasted a year and a half and ended in Kyiv's defeat.

Initially, Kyiv did not unequivocally signal its readiness to introduce retaliatory steps against Polish exports to Ukraine, either of agricultural produce or any other sector (unless one considers as such the "tough defence of rights" as previously expressed by some officials, or the "appropriate response" by Zelensky). Nevertheless, Warsaw's expansion of the banned categories (exports of these goods to Poland yielded €11.7 million in 2023) has led to the announcement of retaliatory measures targeting Polish exports of vegetables and fruit. Poland was the main supplier of agri-food products to Ukraine both in 2022 and between January and August 2023. The possible introduction of such a ban will not affect the Polish economy, although it may be felt by some Polish producers who specifically target the Ukrainian market. The value of Poland's exports of vegetables and fruit to Ukraine in 2022 amounted to €158 million (total Polish exports of these goods were worth €2.85 billion in this period). Meanwhile, during the first seven months of 2023 sales of vegetables and fruit from Poland to Ukraine amounted to €111 million (whereas total Polish exports of these goods reached €1.5 billion in that period). However, if Kyiv decides to ban imports of these categories of goods from Poland, such a decision could escalate the two countries' *de facto* trade war.

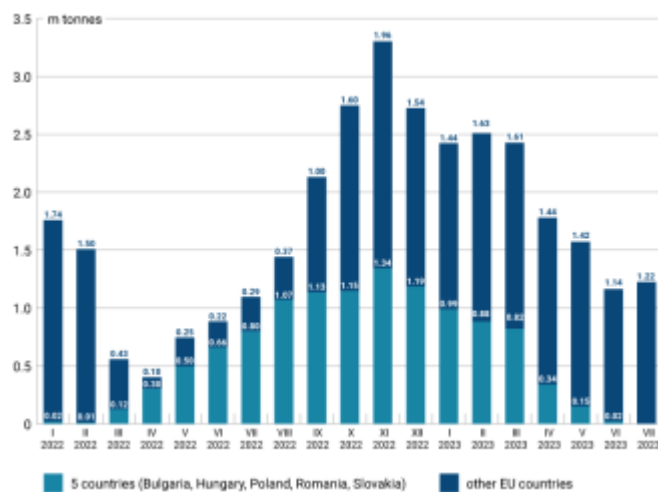
In the first half of 2023, exports of wheat, maize and sunflower and rapeseed accounted for nearly 30% of Ukraine's total foreign sales. The main challenge for Kyiv in this regard is its limited capacity to physically export Ukrainian production. Before the outbreak of the war, exports of these products to EU neighbouring countries were marginal, but from March 2022 they started to grow dynamically as they formed an alternative to supplies by sea. Between September 2022 and February 2023, these countries imported an average of about 1 million tonnes of grain and oilseeds per month, accounting for more than 85% of Ukrainian exports of this production to the EU by land (the key route was the so-called grain corridor through the ports on the Black Sea and the Danube) and about 15% of Ukrainian agricultural production exports in 2022 overall (according to the Customs Service of Ukraine). The situation with Ukrainian food exports was significantly exacerbated by Russia's withdrawal in mid-July this year from the grain corridor agreement, through which at its peak Ukraine exported more than half of its food from Black Sea ports. Currently, Ukraine has two ways to export goods – either through the Danube ports or overland to the EU – but these routes cannot handle all the products exported. This is why unblocking market access to the EU's neighbouring countries is so important for Kyiv.

Chart 1. Ukrainian maize, rapeseed, wheat and sunflower exports to Central European countries between February 2022 and May 2023



Source: Eurostat.

Chart 2. Monthly exports of wheat, maize & sunflower seed and rapeseed to the EU



Source: Eurostat.