

IMPORTANCE OF THE FUTURE UKRAINE-EU TRADE ARRANGEMENTS: FIGURES AND FACTS

SUMMARY

Ukraine's agri-food sector is the foundation of the country's economic sustainability

- In 2024, the agri-food sector generated 15.7% of Ukraine's GDP.
- The agricultural sector accounted for 59.3% (\$24.7 bln) of foreign exchange earnings from Ukraine's exports of goods in 2024 (40.7% or \$27.7 bln in 2021).
- Ukraine's agri-food sector is one of the largest taxpayers in the country. In 2024, Ukrainian agri-food companies paid a significant share of local budgets: UAH 49.4 bln (€1.14 bln; 11% of total tax revenues) compared to UAH 40.6 bln (€1.03 bln; 9.4% of total tax revenues) in 2023. Tax revenues to the consolidated budget of Ukraine in 2024 amounted to UAH 129 bln (€3 bln; 7.5% of total tax revenues) compared to almost UAH 104 bln (€2.6 bln; 7.8% of total tax revenues) in 2023.

The unprecedented impact of the war on Ukraine's agri-food sector:

- The Ukrainian agri-food sector suffered more than \$80 bln in direct losses and damages due to the full-scale invasion: the total value of destroyed assets is \$10.3 bln; other losses (lost income, increased production costs, etc.) amounted to \$69.8 bln.
- The UA National Mine Action Center estimates that as of January 2024, about 26% of Ukraine's territory (156 thous. km²) is potentially contaminated by mines and other explosive hazards. About 14.2 mln ha of Ukrainian land and 14 thous. km² of water areas of all types are currently at risk of contamination.
- In 2024, about 181 thous. units of agricultural machinery and equipment were partially damaged or destroyed because of the invasion.

Ukraine's agri-food sector is critically dependent on the European market despite efforts to regain access to traditional export markets

- In 2024, the EU's share in Ukraine's total exports of agri-food products amounted to a critical 51.8% (\$12.77 bln).
- European producers are the leading suppliers of agricultural inputs to Ukraine. In 2024, Ukraine imported agri inputs (pesticides, seeds, machinery, etc.) and fuel worth more than \$10 bln; the share of EU suppliers is more than 60%.
- Ukraine has regained access to sea export routes from the ports of Big Odesa. However, this route is only for bulk products. Finished or packaged products that require containerised transportation are still exported via the Solidarity Lanes to the nearest ports, which incurs additional costs and significantly affects the competitiveness of Ukrainian goods in traditional markets.

Deviation from the current terms of trade within the framework of the ATM 2024-2025 will be an economic shock for Ukraine

- The return of tariff quotas and import duties for Ukrainian agri-food products based on the 2021 Association Agreement (AA) will result in a loss of foreign exchange earnings of up to €3.3 bln, a 2.52% drop in Ukraine's GDP (the NBU forecasts real GDP growth to 3.6% in 2025), and a 7.7% decline in agricultural production.

Vision for the Way Forward

As a business of a candidate country negotiating accession to the EU, the Ukrainian agribusiness shares the EU view that free trade with Ukraine through the DCFTA “has proven to be an effective instrument to create the conditions for improved economic and trade relations to further stimulate convergence” with EU standards.¹

- The Ukrainian agricultural sector does not oppose the European Commission's proposals to replace the annual extension of the ATM with a bilateral trade arrangement on further trade liberalisation based on Article 29 of the AA, given the following advantages:
 - the long-term nature of the agreement;
 - bilateral, reciprocal format incentivising the buy-in of the European industries
 - a dynamic format for the gradual liberalisation of trade terms while maintaining mechanisms for reasonable safeguard.

- Key elements of trade arrangements based on Article 29 of the AA:
 - ✓ **Full liberalisation of trade in non-sensitive agri-food products;**
 - ✓ **Controlled and predictable trade liberalisation in sensitive agri-food products, with safeguard mechanisms within the EU's 2024 ATMs serving as a starting point;**
 - ✓ **Controlled and predictable liberalisation of imports of European agri-food products to the Ukrainian market.**

- **Negotiations on a future agreement must be accelerated to avoid the worst-case scenario of no agreement after the 2024 ATM expires on June 5, 2025. This would mean an automatic return to the trade restrictions in the form of duty-free tariff quotas and import duties on Ukrainian imports to the EU under the Association Agreement, which were in effect until 2022, and large-scale losses for the Ukrainian economy: such a return could cause Ukraine an economic shock, as potential losses of foreign exchange earnings could reach about €3.3 bln and 2.52% drop in GDP (with the main adverse effects on the food industry – -3.99% and agriculture – -7.74%) in 2025.**

- **If the parties realise that an Article 29–based trade arrangement is not within reach by the time of ATMs expiry, the European Commission must take urgent measures to submit a legislative proposal to the European Parliament and the Council of the EU on the exceptional extension of the current ATMs regime for the additional period necessary for the completion of the negotiations.** This will allow Ukrainian economic operators, primarily in the agricultural sector, to avoid the sharp deterioration of EU market access conditions caused by automatic regression to the pre-ATM trade conditions.

¹ Commission Communication on 2024 Enlargement Policy, COM(2024) 690 final, p.13.

WHY THE UKRAINIAN AGRICULTURAL SECTOR IS IMPORTANT FOR THE UKRAINIAN ECONOMY

The Ukrainian economy is going through perhaps the most difficult period in its modern history. In 2022, external aggression and occupation of territories, loss of a significant part of resources and production potential, disruption of logistics and production chains led to a sharp drop in Ukraine's GDP by 28.8%, emigration of more than 6 mln Ukrainians (incl. more than [4 mln in the EU](#)) and internal displacement of about 10 mln Ukrainians.

The continuation of high-intensity hostilities makes the prospects for a sustainable economic recovery uncertain, preserving the need for continued support from Ukraine's allies, at least in the medium term.

Given the high export orientation of the Ukrainian economy (28.9% of GDP in 2023), the dependence of macro-financial stability on export earnings, and Ukraine's growing integration into the Western community, the most effective support for the country will be in the form of preferential trade relations with key partners.

Ukraine's agricultural sector is critical to Ukraine's macro-financial stability and remains one of the few sectors of the economy that generates the majority of export earnings.

Key figures and facts on results of the agri-food sector in 2024:

- **15.7% of Ukraine's GDP.**
- **59.3% or \$24.7 bln of foreign exchange earnings** from Ukraine's exported goods (40.7%/ \$27.7 bln in 2022).
- Exports of agri-food products to the EU – 51.8% of total exports of agri-food products (\$12.77 bln).
- The agricultural sector is **one of the largest aggregate taxpayers**: according to the State Tax Service of Ukraine, in 2024, Ukrainian agri-food companies paid:
 - **to local budgets**: UAH 49.4 bln (€1.14 bln; 11% of total tax revenues) compared to UAH 40.6 bln (€1.03 bln; 9.4% of total tax revenues) in 2023, which indicates the growing dependence of Ukrainian communities on the agriculture sector;
 - **to the State budget of Ukraine**: UAH 129 bln (€3 bln; 7.5% of total tax revenues) compared to almost UAH 104 bln in 2023 (€2.6 bln; 7.8% of total tax revenues).
- **The Ukrainian agri-food sector has a meagre level of state support**: in 2023, the agricultural sector of Ukraine received less than UAH 1 bln (€25.3 mln) of support during the war;
- Ukraine's agricultural sector suffered **more than \$80 bln in direct losses and other damages** due to the full-scale invasion: the total value of destroyed assets is \$10.3 bln; losses, including lost income of agricultural producers and increased production costs, amounted to \$69.8 bln.

During the 3 years of full-scale invasion, the Ukrainian agricultural sector has adapted to the challenges of blocked export routes, unstable energy supply, shelling of logistics and port infrastructure, mobilisation, destruction of agricultural machinery, and pollution and mining of fields. At the same time, **adapting to the challenges is costing the Ukrainian agricultural sector significant funds**, drastically weakening the competitiveness of Ukrainian goods in third markets:

- Since the beginning of the war, **the national currency has lost almost 50% of its value**, raising the cost of production materials purchased abroad. Since 2022, Ukraine has imported more than \$10 bln worth of agricultural inputs (pesticides, fertilisers, machinery, etc.) and fuel annually; the EU-27 is the leading supplier of inputs, accounting for more than 60% of the total.
- Restricting the categories of cargo exported **by alternative export routes from the ports of Big Odesa** to bulk products only. Finished or packaged products that require containerised transportation are still exported via the Solidarity Lanes to the nearest ports, which costs an additional \$20-50 per ton and significantly affects the competitiveness of Ukrainian goods in traditional markets.
- **Social security expenditures account for the lion's share of agricultural producers' expenses**: increased training and labour costs due to a decrease in the number of qualified personnel due to the mobilisation of many agricultural workers; support for local communities in restoring infrastructure; support for the families of mobilised and fallen heroes; and humanitarian support for internally displaced people and residents of de-occupied and/or frontline areas.
- About 160 000 ha of Ukraine's agricultural land is still actually or potentially mined. **The costs of surveying, demining and returning the land to a usable condition are often borne by the farmers themselves.**