

28 February 2024

**To: Ms. Ursula von der Leyen
President of the European Commission
Brussels, Belgium**

*Subject: regarding the extension of the preferential
trade between Ukraine and the EU*

Dear President Ursula von der Leyen,

On behalf of the Ukrainian people, I thank you for everything the European Union has done for Ukraine since Russia first launched its unprovoked attack against our country.

We are immensely grateful for all the assistance, financial or otherwise, that has been provided to date. News of the EU's approval of a EUR 50 billion Ukraine Facility was received with great acclaim: this funding will promote our country's financial stability and enable us to deliver essential public services. It will also help our country as it continues to introduce European rules and regulations, each bringing us one step closer to EU membership.

We also highly appreciate the EU's swift introduction from June 2022 of autonomous trade preferences with Ukraine that lifted all restrictions on imports to the EU, as well as its extension in May 2023. These measures have made it possible to sustain the Ukrainian economy and provide urgently needed jobs.

Notwithstanding the above, I write to you today to express my grave concerns over the European Commission's proposal of 31 January 2024 to bring in automatic "safeguards" – without a safeguard investigation or proof of harm to European markets – as part of the renewal of those autonomous trade preferences (**Proposal**). These would snap back pre-2022 tariff-rate quotas (**TRQs**) on Ukrainian exports, undermining these advances in

market access since the Russian full-scale invasion. We ask that you consider alternative routes and/or less stringent restrictions.

We understand EU officials currently face undue pressure from Member States' respective national agricultural industries, with farmers descending on the European Parliament. However, we believe that the adverse consequences of the Proposal will significantly outweigh any perceived potential benefits. We also believe that there are other avenues the EU could consider to assuage the frustrations of the Union's agricultural community.

Imposing these restrictions on Ukrainian agricultural exports to the EU (notably poultry, sugar and eggs) could have devastating and far-reaching consequences – for both Ukraine and the EU

For Ukraine:

Despite their effectiveness, the Ukrainian Fund and other forms of financial assistance are not sufficient to maintain economic stability. Waging war has depleted the country's fiscal reserves, and our public deficit continues to grow. According to government estimates, the budget deficit for 2024 will be around USD 41 billion - 20.6% of annual GDP. But despite this, more and more Ukrainians are living below the poverty line: in 2022 alone, according to the World Bank, this figure increased from 5.5% to 24.2%, and according to current forecasts, if the war continues, it could rise to 70%. Financial assistance will help to partially overcome these problems, but our country is not able to invest in measures that stimulate the economy.

Indeed, our economy is already on the verge of collapse: in 2022, it shrank by about 30%, wiping out the development gains made since the beginning of the 21st century. Our industry and infrastructure have been severely damaged, and the prospects for our ability to recover in the foreseeable future remain dim. Once a major exporter of metals and raw materials, we now rely almost entirely on our agricultural sector, which accounts for almost two-thirds (61%) of all exports. These exports employ about 2 million people - or 13% of the country's working population, not including those working in other related industries such as transportation and processing.

Inside the country, a significant portion of local communities' revenues are directly linked to agricultural production, and a large number of them depend almost entirely on budget-forming agricultural enterprises. Any restriction will increase the already heavy economic burden on Ukraine's budget and lead to an increase in the deficit. We are already heavily dependent on external financing - half of our annual budget depends on foreign aid. At the same time, military expenditures, which are planned to reach \$43.5 billion in 2024, are financed by our own revenues, which are planned to reach \$ 45.6 billion in 2024 and will obviously decrease if restrictions are imposed on agricultural enterprises.

The quotas were abolished in 2022 as part of a package of trade liberalization measures introduced by the EU to help Ukraine maintain sufficient economic activity to fund its army, provide food and protect its population. In the face of a deteriorating economic situation in the country, these measures have provided significant relief. Now, in its current form, the Proposal could effectively neutralize this impact.

Ultimately, such measures will stifle Ukrainian exports, and make us more reliant on foreign aid. Worse, the decrease in demand will lead to the destruction of countless jobs. As the country's leveraged position grows, the lack of industry will engender a real risk of sovereign bankruptcy. This poses a significant risk to other nations with vested interests in Ukraine's freedom and independence.

In addition to economic concerns, the reintroduction of TRQs raises concerns about Ukraine's continued ability to feed its people and a heightened potential for civil unrest.

For the EU:

The EU market has not suffered any demonstrable harm from Ukrainian exports. Despite initial concerns that prices would drop following the increased inflow of Ukrainian products in March 2022, market prices increased and have now stabilized according to the European Commission's own analysis, published and regularly updated by DG ESTAT and DG AGRI. This is the case for all products concerned: poultry, eggs and sugar.

Part of the reason that the market was able to absorb and react positively to the increase in Ukrainian exports to the EU stems from the consistent and stable pattern with which these exports have entered the market. This stability reduces the risk of future price spikes and provides market stability. To further promote stability in trade flows and mutual trust, the Ukrainian government has instituted export licensing in a number of agricultural products that EU Member States deemed sensitive.

Ukraine is a nearby, stable and predictable importer of goods to EU market. By contrast, one of the main exporters of poultry and sugar to the EU (Brazil) and other key players for poultry (Thailand and China) are over all over 5000 km away. This means that their inclusion in supply chains increases the overall fragility of the economy as those supply chains have a greater number of vulnerabilities. Ukrainian imports have emerged as a crucial stabilizing factor. This is particularly the case for sugar, where the average market price within the Community has not experienced the same levels of volatility seen in other markets.

In addition, the EU has taken on a leading role in the fight against climate change. Yet, intercontinental trade accounts for 55.4% of all poultry trade and over 60% of sugar trade. Brazil alone represents over 30% of all poultry trade and 24% of all sugar trade. The World Health Organization estimates that international trade accounts for 20 to 30% of total carbon emissions. In this respect, Ukrainian imports are to be preferred. In

addition, many Ukrainian products can be imported fresh and undergo further transformation in the EU, creating jobs.

Ukrainian agricultural imports also conform to stringent health and sanitary measures mandated by the EU. Both Ukraine as a state and Ukrainian manufacturers comply with EU legislation for animal products and product safety requirements. Ukraine has a vested interest in holding itself to high EU standards, as it is currently undergoing the application process to the EU.

Finally, the Commission may also wish to note that acquiescing to the demands of people who have effectively taken others hostage does not set a good precedent for democracy. We do not endorse the forceful, sometimes criminal, actions of the militants calling for restrictions on Ukraine: blockading borders, preventing the flow of humanitarian, military and other urgent cargo from and to Ukraine. We hope that each such offence will be properly investigated and the guilty will be punished in accordance with national legislation.

Should the Proposal nevertheless be adopted, it is essential that the Commission retain its right of initiative. It cannot be right that the Commission be forced to bring in safeguards without any investigation or determination of harm to the EU single market. As outlined above, the reintroduction of TRQs would clearly be damaging to Ukraine, and there is no demonstrable harm caused by Ukrainian exports to the EU market. It is essential, in the application of these measures, that the Commission retain its ability to determine whether it is right to adopt safeguards at the time of considering them, and taking into account (i) whether Ukrainian exports do in fact harm to the Single Market, (ii) whether it is in the EU's interest overall to impose safeguards at that stage; and (iii) the harm that reimposing the pre-2022 TRQs would wreak in the EU and in Ukraine.

We are open to dialogue and hope that our letter will be helpful when considering what is at stake.

Sincerely Yours,



Dmytro Oliinyk
Chair of the Board
Federation of Employers of Ukraine