

International Trade and National Agricultural Policy-making in Ukraine

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Comparative advantage (1)

Basic story is well-known

Trade/international division of labour:

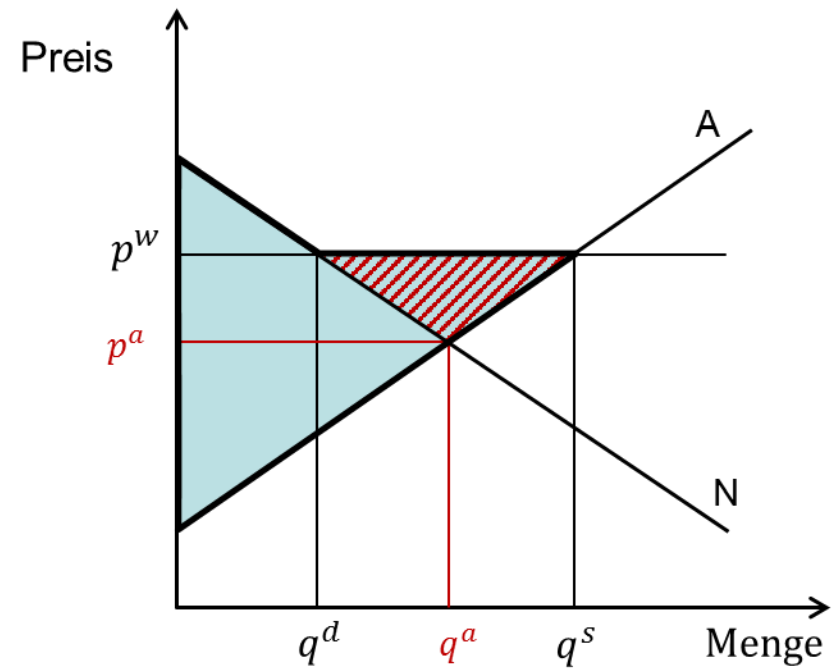
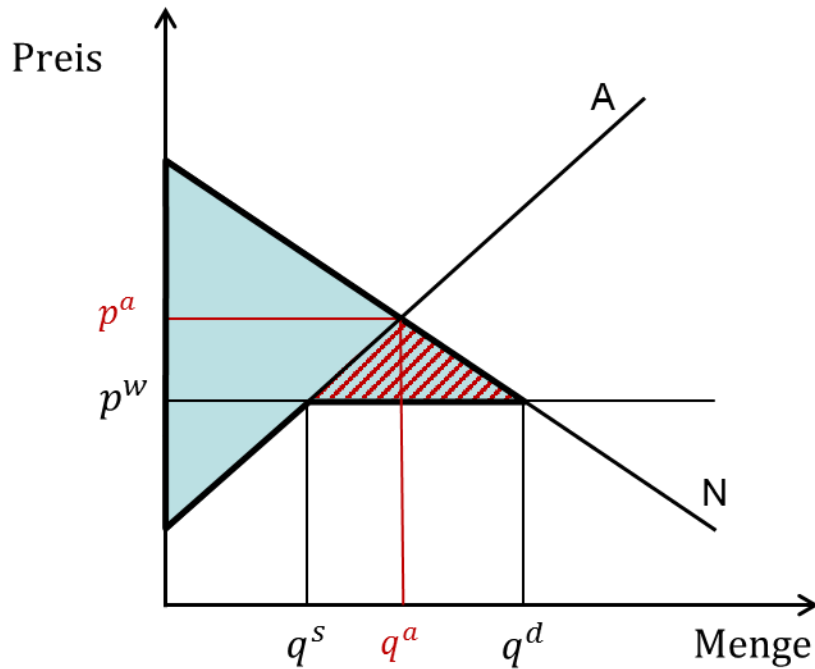
- > Best use of scarce resources
- > Enhances the income potential of a country, welfare

Protection has been justified to support domestic producers (EU story, the story on agricultural protection in DCs).

Prevailing opinion today:

Agricultural protection is a policy of the past!

Comparative advantage (2)



- Price, welfare, and distributional effects
- World market prices determine domestic prices

Comparative advantage (3)

The protection debate seems to come back with new arguments

Popular proposition:

Trade may have a negative impact on sustainability.

I would like to fundamentally challenge this proposition!

Much evidence that sustainable agricultural development can benefit from appropriate and smart trade

Trade can contribute:

Saving and making the best use of natural resources,
Both from a global and a national point of view

Illustration: The discussion on the so-called EU protein gap!

Comparative advantage (4)

Is there a protein gap in the EU?

EU is a big importer of protein for feeding animals

-> Ca 15 mio tons/year

-> Mostly soybeans and their meal from South America
(also North America, Ukraine)

A lot of soybean production area is needed outside Europe to provide European consumers with meat and milk.

Some people suggest:

-> Cut down high soybean imports

-> Enhance domestic protein production

Comparative advantage (4')

What would such a policy mean?

Domestic protein plant at choice in the EU:

- > Broad bean (or field or horse bean)
- > Protein yields/hectare ca. 30% lower than for soybeans at the Rio de la Plata

No comparative advantage producing protein for feeding animals in the EU!

Total replacement of soybean imports:

- > More than 20 mio ha of broad beans cultivated in the EU
- > Almost the total wheat cultivation area
- > Switch from a marked exporter of wheat & cereals to a drastic importer

Comparative advantage (4'')

Worldwide consequences

EU wheat & cereals production loss to be covered by production somewhere else in the world:

- > Wheat & cereals yields outside the EU amount to only about 50%
- > Protein import substitution of the EU
would free land for soybean production outside the EU,
- > but require almost three times as much land
for wheat & cereals production.

Economically speaking:

- > **Drastic violation of comparative advantage**
- > **Heavy distortion of national and global production and trade
and reduction of welfare**

Can we seriously expect that such a disrespect of economics and trade is good for sustainable agricultural development?

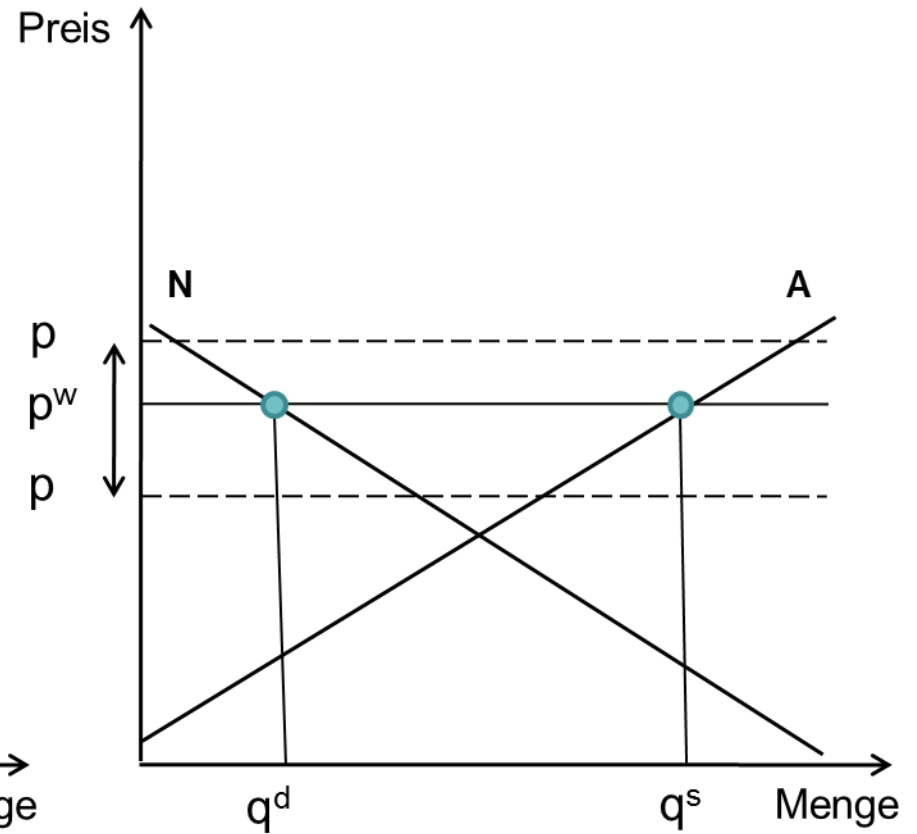
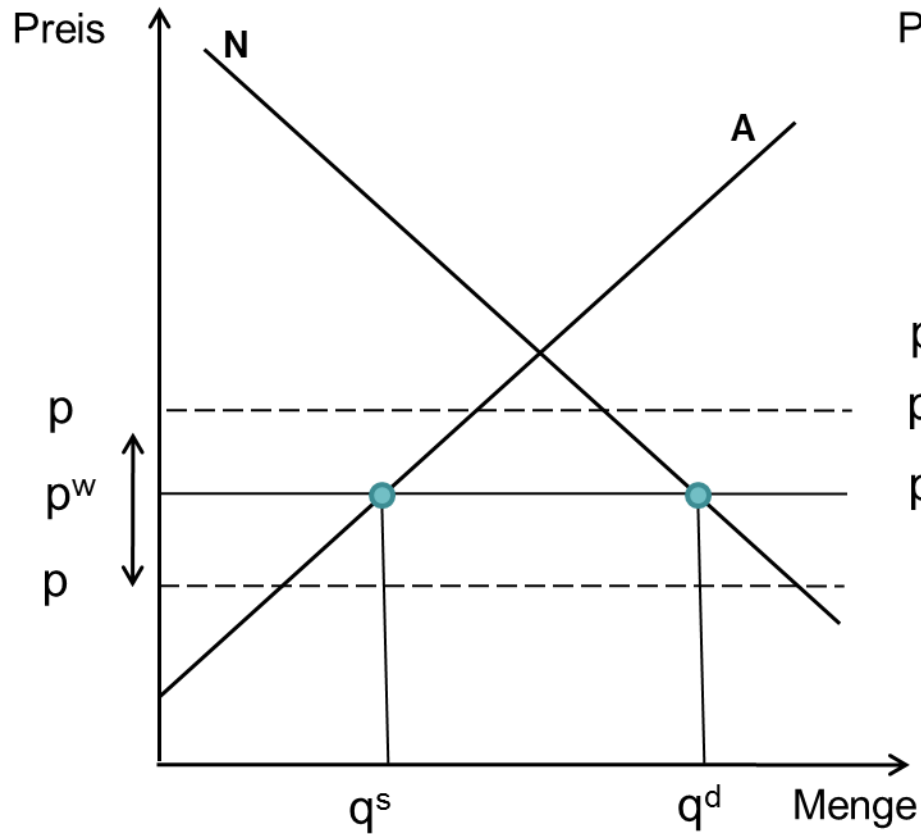
Policy framework (1)

What follows for national agricultural policy-making?

Three propositions:

- **Agricultural policy-making must start from a clear understanding of comparative advantage and trade opportunities.**
- **Trade interventions should not be misused as a replacement for proper policy-making at home.**
- **National policy-making should be based on the idea of free trade and not counteract it.**

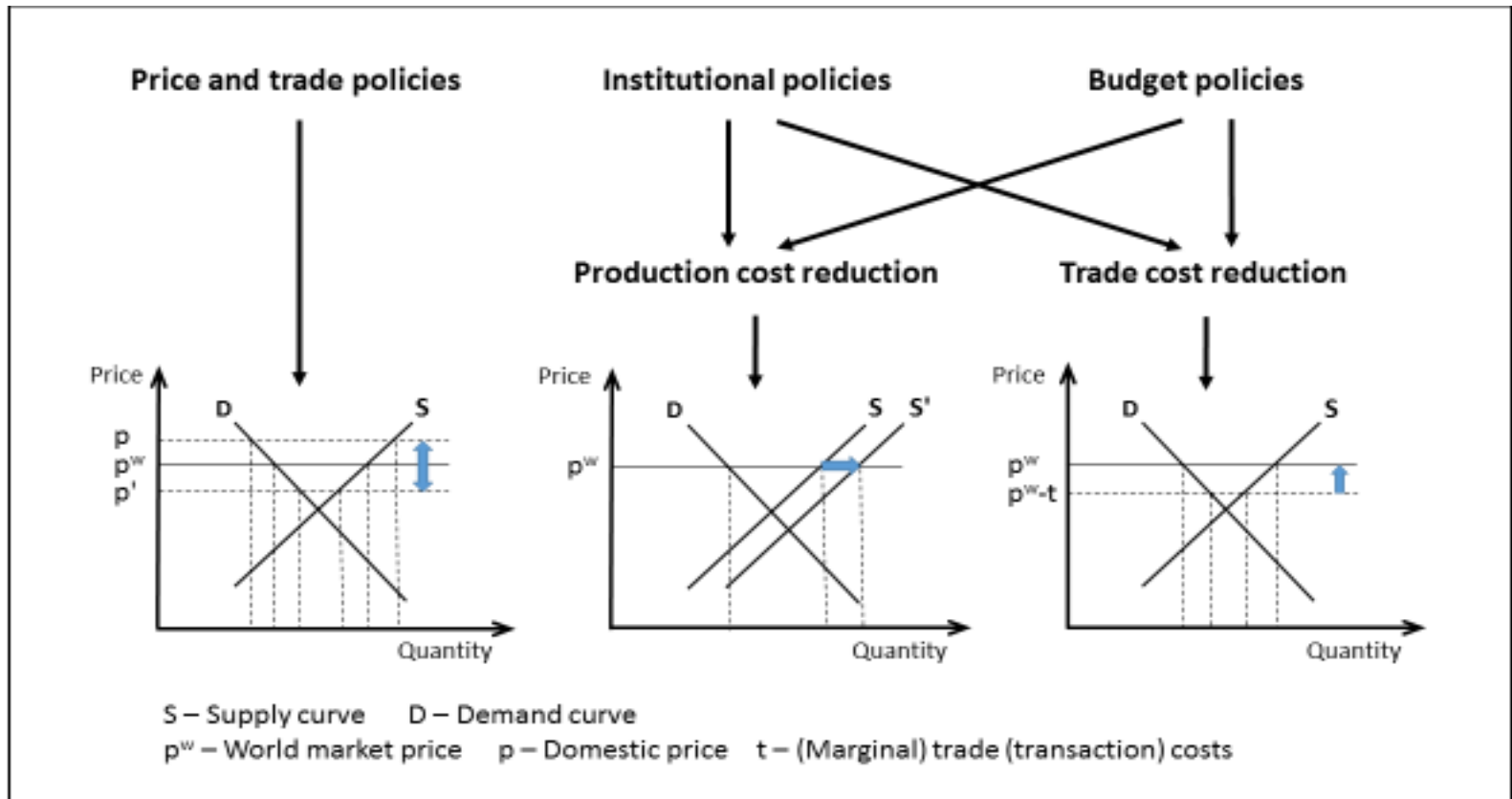
Policy framework (2)



Policy framework (3)

- **No serious doubts about agricultural trade and trade orientation**
- **Protection and taxation**
- **Welfare and distributional effects**
- **Friedman: „There is no such thing as a free meal“**
- **To be discussed: Export constraints in Ukraine**

Policy framework (4)



Policy challenges (1)

Should and, if yes, how should Ukraine react to rising and/or fluctuating world market prices?

With free trade, domestic prices follow world market price changes.

In the past, Ukraine has taxed or cut down exports to lower domestic prices and to keep up domestic consumption.

This has been criticised and the pros and cons of this trade intervention are known.

But what should be the proper stabilisation policy for the future?

Policy challenges (2)

Cutting down the transaction costs in production and trade remains a key policy field.

As a former transition country the Ukraine still has to struggle with high transaction costs in production and trade, with bureaucratic burdens and logistic problems, and this is still restricting the gains from trade.

“Setting institutions right” and supporting market activities still are major claims.

This is a continuous and high-priority construction site for policy-making.

Policy challenges (3)

How can the Ukraine make the best use of the FTA with the EU?

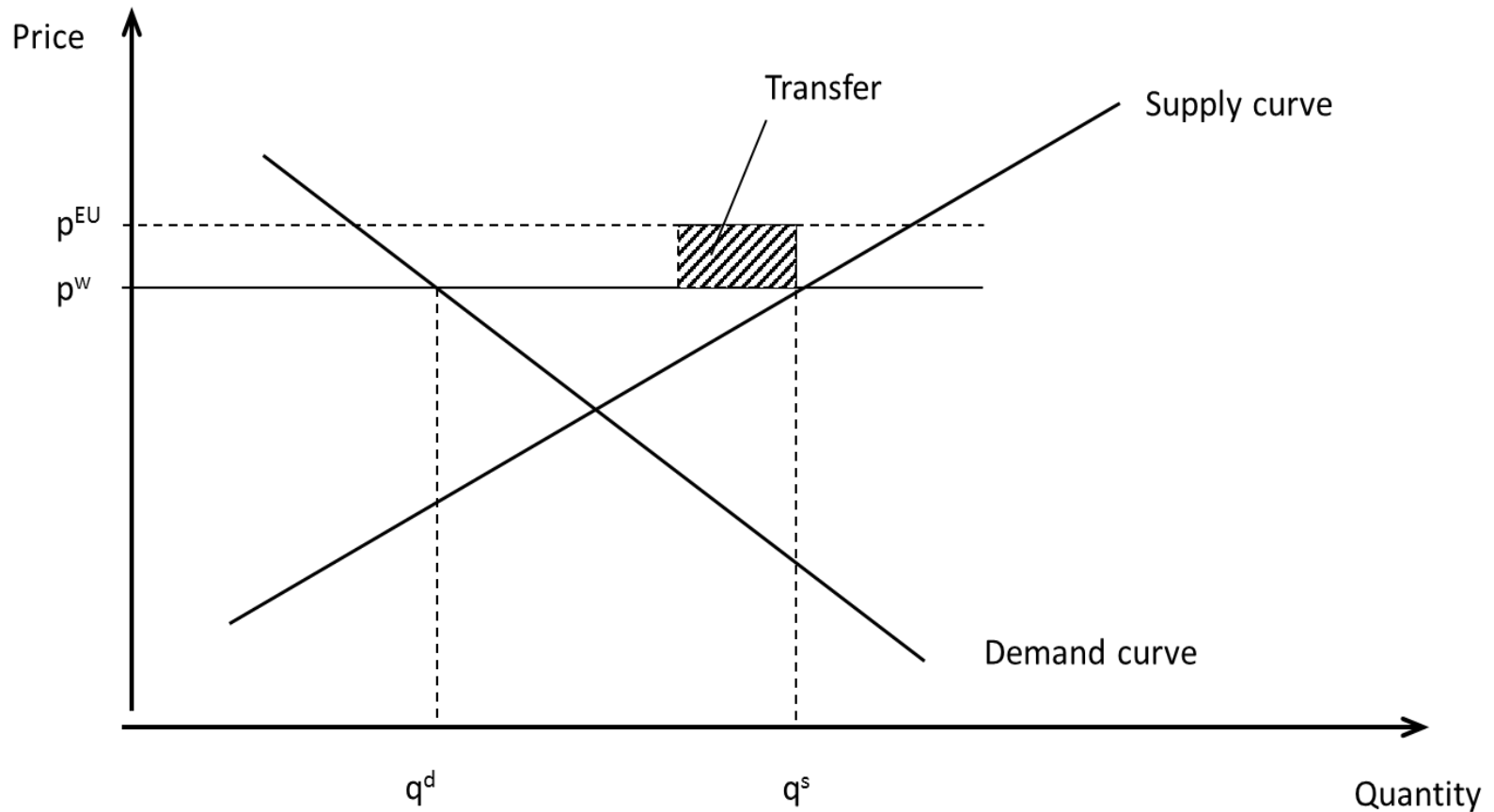
Basic advantage of the agreement is the adjustment to international and EU standards, and the support of the EU to do this.

Adjustment of the regulatory framework is a key to cut down transaction costs of trade.

Income transfer through the TRQ system applied:

- > Higher quotas seem to be obvious
- > But how can and should the transfer be used to support adjustment in the sector?

Policy challenges (3')



Policy challenges (4)

A specific point in case is the VAT system for agricultural commodities.

A VAT typically is a consumer tax.

But with no export refunds it is transformed into a producer tax.

There is a continuous discussion on how the system should be changed.

How are tax burdens for consumers and producers and budget incomes affected by different policy options?

Policy challenges (5)

Should the structure of agricultural production and trade be changed?

Agricultural exports are heavily driven by primary commodities.

There are claims to enhance production and trade of processed commodities to keep value added at home.

There are also claims to reduce remaining agricultural imports to push the balance of payments.

But economic theory tells us:

-> Today's imports and exports do not tell us anything on where to invest and how to change production and trade

In fact, this is an investment problem:

-> Investment and cost-benefit analysis is required!

Policy challenges (6)

Does macro-economic adjustment of the country require supplementary agricultural and rural policies?

There is no doubt that the enormous devaluation of the hryvnia:

- > Favours producers and burdens consumers
- > Pushes production and the balance of trade
- > This is what the so-called exchange rate mechanism is about!

How can and should the adjustment process be accompanied by appropriate policies?

Is there a case for a more social orientation of agricultural policy and rural policies in Ukraine?

Policy challenges (7)

What about sustainable agricultural development?

There is much left for policy-making beyond trade, and this is, certainly, true for sustainable agricultural development.

The perspective is to reduce external costs for the environment:

- > Requiring a careful adjustment of production systems
- > And, possibly, the integration of external costs into the pricing system

A lot of analysis and reflection is necessary to deal with sustainable agricultural development properly.

But this is not a matter for trade intervention, or turning away from trade, or even a fall-back into autarchic thinking.

Final remark

The focus of the presentation is on policy challenges from a national, Ukrainian point of view.

Certainly, in these Trump days, it would be worthwhile to look at trade policy-making from an international perspective.

But this is another story.

They are celebrating these days in Geneva the 10th anniversary of Ukraine's WTO membership.

Congratulations from my side, too!

I think the role of this organisation cannot be underestimated, taking care that international trade is governed by law and not by power.

Thank you very much for your attention!

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