

Ukrainian cereals: solidarity or dumping?

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Introduction

On September 15, the European Commission announced that the restrictive measures on Ukrainian exports of grain and other foodstuff to the EU Member states would not be reconducted¹. Poland, Hungary, Slovakia, Romania, and Bulgaria previously obtained a six-month ban on imports of wheat, maize, rapeseed, and sunflower seeds to their territories, while allowing those products to transit through land-based "solidarity corridors" established by the Commission on 12 May 2022² to mitigate the

restrictions of maritime exports posed by the war in Ukraine. The lifting of this ban has been questioned by the above-mentioned EU member states and triggered its share of friction between those countries and the Ukrainian government. What are the reasons behind the objection of these countries? Is it really about allowing Ukrainian grain to transit to third countries or is it about selling it in the EU? In other words, is it an issue of solidarity or dumping?

1) Solidarity corridors and end of restrictions

For the past decades, Ukraine has been a major exporter of cereals for the global market. With export values of around 150 million dollars for the last few years,³ **Ukraine has provided about one fifth of the global production of some agricultural products**, especially sunflower products which accounts for nearly 40

percent of the global exports.⁴ Ukraine's grain exports have grown steadily for the past years and most of its products were shipped to several least developed countries (Figure 1).

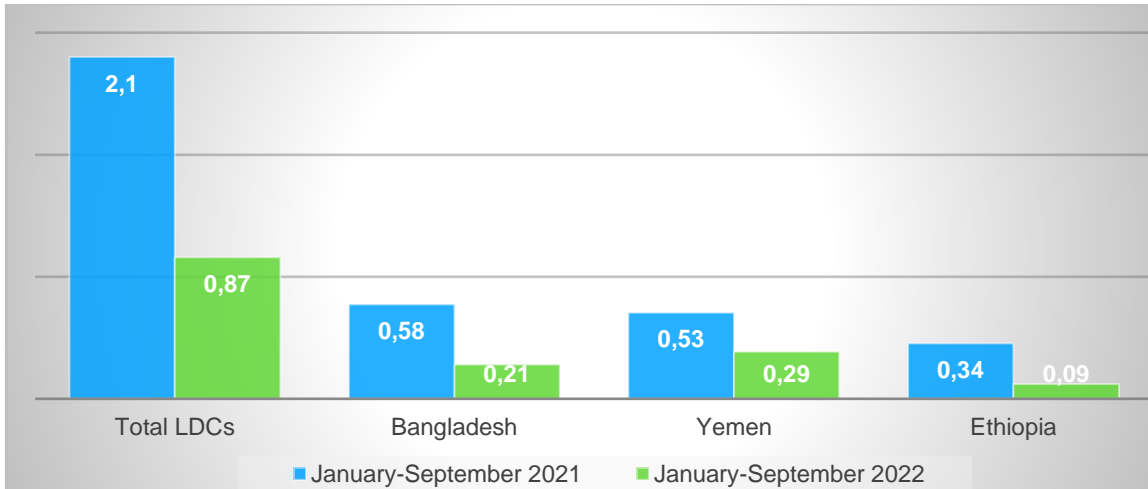
¹ https://ec.europa.eu/commission/presscorner/detail/en/ip_23_4497

² https://transport.ec.europa.eu/news-events/news/european-commission-establish-solidarity-lanes-help-ukraine-export-agricultural-goods-2022-05-12_en

³ [https://trendeconomy.com/data/h2/Ukraine/10#:~:text=Top%20export%20destinations%20of%20%22Cereals,10.7%25%20\(983%20million%20US%24\)](https://trendeconomy.com/data/h2/Ukraine/10#:~:text=Top%20export%20destinations%20of%20%22Cereals,10.7%25%20(983%20million%20US%24))

⁴ <https://www.statista.com/study/135437/grain-market-in-ukraine/>

Figure 1: Volume of wheat exports from Ukraine to selected least developed countries (LDCs) from January 2021 to September 2022 (in million metric tons)



Source: Statista

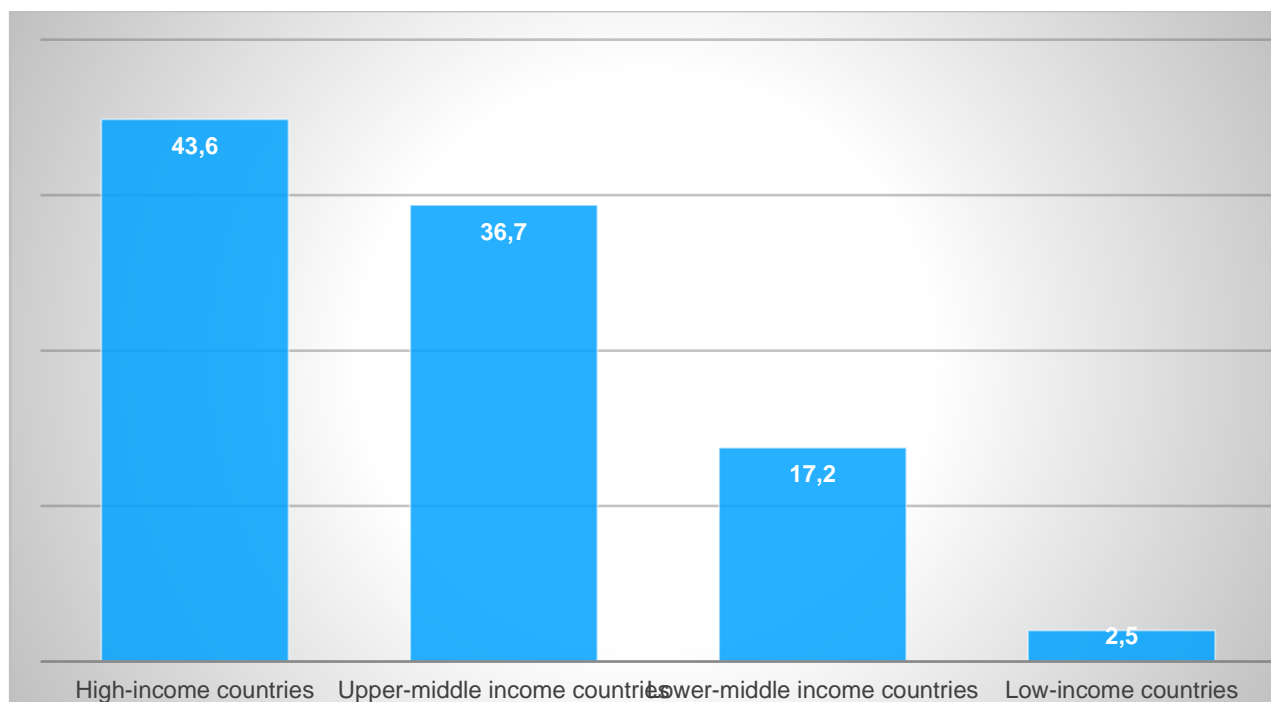
With the outbreak of war in Ukraine, these exports were severely disrupted, which is why the European Commission decided to establish solidarity corridors officially to tackle the risk of famine in developing countries, while also helping the Ukrainian economy. If Ukrainian cereals could not be transported to these countries, it would create a cascade of food crises, hence the need to facilitate their transit through Europe, in particular to Africa and the Middle East⁵.

Nonetheless, it soon became apparent that these “solidarity corridors” were not watertight, and Ukrainian cereals ended up being sold in the transit countries. As Figure 2 shows, starting August 2022, the majority of cereal exports from Ukraine ended up in high and upper-middle income countries and only 2.5 per cent reached low-income countries.

⁵ This was also the rationale behind the Black Sea Grain Initiative, signed on 22 July by Russia, Ukraine, Turkey and the United Nations to allow Ukrainian grain exports

despite the war. On 17 July 2023, after the agreement expired, Russia decided to suspend its participation.

2. Figure: Distribution of Ukrainian agricultural exports secured by the Black Sea Grain Initiative as of July 17th, 2023, by country income group



Source: *Statista*

Moreover, the abolition of customs duties and quotas on agricultural products from Ukraine has only increased this phenomenon⁶. The massive arrival of Ukrainian cereals created a bottleneck in silos and warehouses in several EU Member States. Figure 3 shows the incommensurate growth of these new cereals in a few countries neighboring Ukraine. In 2022, the value of European imports of Ukrainian agricultural products jumped by 88% year-on-year

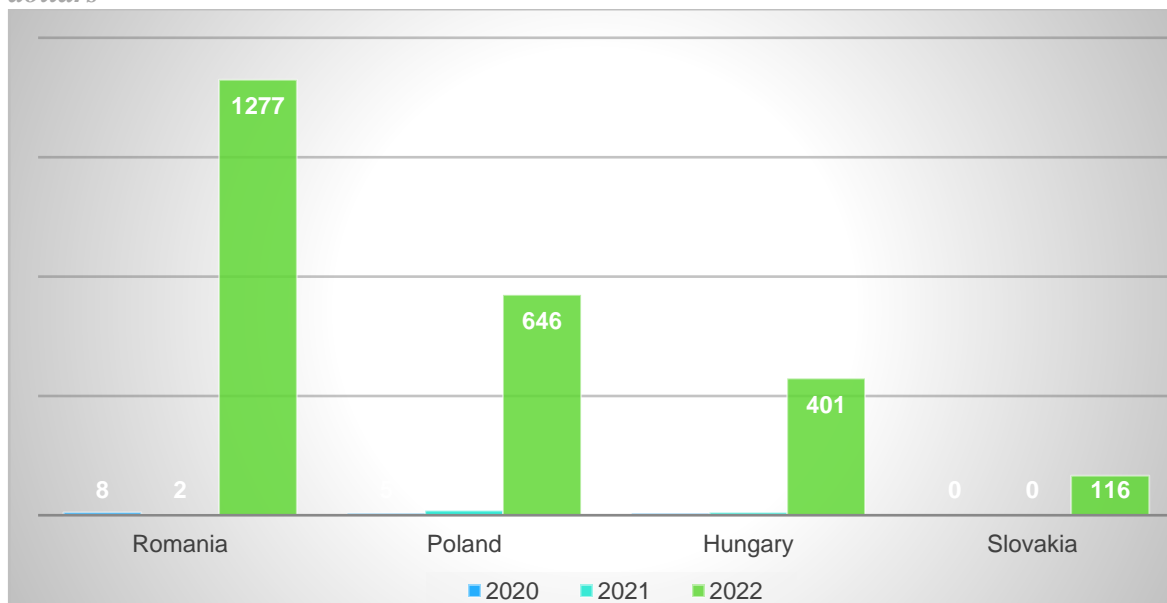
(to €13 billion), driven in particular by cereals, with a tenfold increase (in volume) in imports of Ukrainian wheat⁷. The surplus drove down the price of local producers' harvests⁸ and this situation, largely perceived as dumping, led farmers from Hungary, Poland, Slovakia, and Romania to demonstrate in Brussels on 23 May 2023.

⁶ <https://www.europarl.europa.eu/news/fr/press-room/20230424IPR82043/suspension-des-droits-de-douane-sur-les-exportations-ukrainiennes-renouvelee>

⁷ <https://www.latribune.fr/economie/union-europeenne/cereales-ukrainiennes-l-ue-fustige-les-interdictions-d-importations-de-la-pologne-et-de-la-hongrie-959062.html>

⁸ *Des céréales ukrainiennes au goût amer*, Corentin Léotard, Le Monde diplomatique, September 2023

Figure 3: Ukrainian cereal exports to selected neighbouring countries, expressed in millions of dollars



Source: *Statista*

In short, the creation of solidarity lanes and the abolition of customs duties and quotas to prevent a food crisis in developing countries did

not achieve its objective, instead, these measures created major difficulties to cereal farmers in some EU Member States.

2) Reactions from reluctant Member States

April 2023 marks the beginning of an open conflict between the European Commission and a number of Member States. Despite the Commission's determination to continue allowing Ukrainian cereals to enter the EU without restrictions, these states - first Poland, then Hungary, Slovakia, Romania and Bulgaria - succeeded in obtaining six months of import bans on wheat, rapeseed, maize and sunflower seeds.

These countries, which may have different relations with Kiev, put up a united front against the Commission for months, but, in the end, did not see their interests taken into account on 15 September either, when the restrictions were finally lifted. This alliance was then dissolved, with some choosing to stick to their

position while others try to reach an agreement.

Bulgaria⁹ and Romania quickly opted to reach an agreement instead of unilaterally continuing the embargo on Ukrainian cereals. Bratislava is likely to take the same approach, as it has no plans to keep the restrictions in place and has reportedly reached an agreement with Kiev to control the flow of incoming products (wheat, maize, rapeseed and sunflower seeds). Nonetheless, Poland and Hungary refused to enforce the Commission decision and maintained the embargo of Ukrainian grain on their territories, which in turn triggered Kiev's decision to bring the case in front of the World Trade Organisation¹⁰.

⁹ Since then, Bulgarian farmers have been holding a series of demonstrations, with the government's response simply being to explain that if they were unhappy with

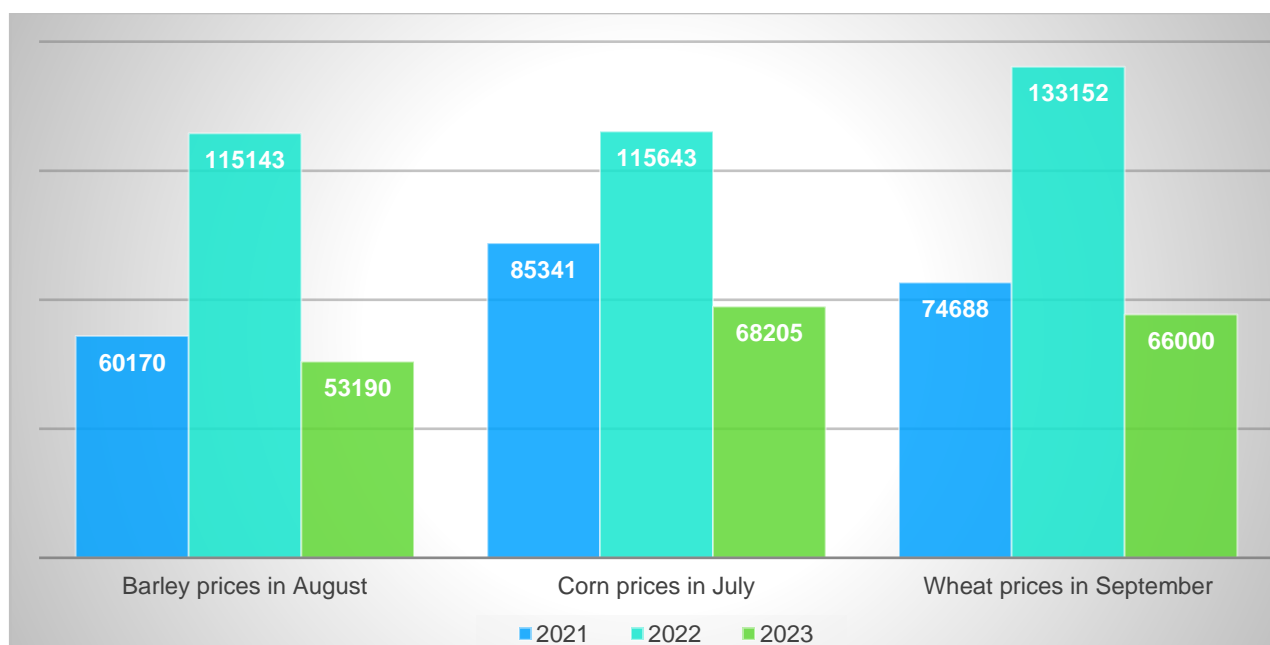
the arrival of Ukrainian cereals, they would also have to refuse EU aid.

¹⁰ A move that Kiev has since nonetheless suspended.

Indeed, Poland and Hungary seem determined to protect their national markets and actually decided to extend the embargo to other products. Figure 4 shows the drop in the average prices of selected cereals as recorded by Budapest Stock Exchange. The data from 2023

shows that the average prices of the selected cereals have dropped significantly when compared to prices before the Ukrainian-Russian war.

Figure 4: Change of prices on selected cereals. Prices are expressed in HUF per tonnes.



Source: [Budapest Stock Exchange](#)

On 3 October, Poland reached an agreement with Ukraine and Lithuania to inspect and ship Ukrainian cereals via the Baltic Sea (a clear reminder that the embargo only covers the trade, but not the transit of Ukrainian grain), while

Hungary announced on 16 September that it maintains the ban and extends it to flour, edible oils, honey, certain meats and eggs¹¹. Nonetheless, transit of 15 days is still authorised in Hungary.

3) Ukrainian guarantees?

Just 72 hours after the European Commission's decision not to extend the restrictions, Kiev announced the introduction of an export control

mechanism¹² under which it will only be possible to export cereals to non-compliant countries by obtaining government authorisation,

¹¹ A total of 24 products are now affected by the import ban.

¹² <https://agroportal.ua/news/ukraina/u-minagropolitiki-roz-yasnili-mehanizm-kontrolyu-za-eksportom-zernado-yes>

and only in quantities likely to be absorbed by the market in question.

"According to our action plan, Ukraine will monitor and regulate exports as follows. We agree with the European Commission and the importing countries concerned the necessary volume of agricultural products from four products, and they in turn determine whether they are prepared to accept these products, when and in what quantities. Only then do we issue our companies with authorisations to export this or that product. In other words, Ukraine controls its exports and coordinates them with the recipient countries", reads the press release from the Ukrainian Ministry of Agrarian Policy and Food.

It was the refusal of Poland, Slovakia and Hungary to take part in this agreement that prompted Kiev to turn to the WTO, a move that has since been suspended. This indicates a

drop in intensity in this trade dispute, with Bratislava announcing that it has reached an agreement with Kiev, but certainly not a final solution that meets the colossal interests at stake.

Financial compensation for adversely affected Member States?

€100 million will be allocated to help farmers in the five countries which have been destabilized by massive grain imports from Ukraine (€39.33 million to Poland, €29.73 million to Romania, €15.93 million to Hungary, €9.77 million to Bulgaria and €5.24 million to Slovakia). These amounts are still subject to debate and clarification. In March 2023, Brussels had already offered Poland, Romania, and Bulgaria €56.3 million in aid. In reality, the other 22 Member States will also receive aid under the "agricultural crisis reserve" of the common agricultural policy (CAP): the amount of the latter had been revised upwards to 530 million euros for the year, compared with the previous 450 million euros. The 22 Member States will therefore be able to share 330 million euros between them. Spain will receive around 81.08 million euros, Italy 60.55 million euros and France 53.1 million euros. Germany will receive €35.77 million. Each country will be able to triple the aid granted by Europe using national funds. This reserve was activated by the Commission on July 14.

4) New outlets for Ukrainian grain before an integration to the interior market?

In reality, Ukrainian cereals are much more of an issue for Ukraine's European integration than a problem to be tackled from the point of view of food shortages in developing countries - data showing that the arrival of these products on the European market reduces the share destined for developing countries¹³. The 2014 association agreement signed by Ukraine and the European Union did not include agricultural products, which continued to be subject to customs duties at the EU's borders. The war brought major changes to this situation, with

Ukrainian cereals now able to enter the EU without restrictions from May 2022.

Although the aim was to help Ukrainian cereal reach its usual markets outside the EU, the overwhelming majority of shipments remained in Europe. Only 2% to 3%¹⁴ of Ukrainian cereals end up outside Europe, according to the European Commissioner for Agriculture, as transport costs are too high to send them to more distant destinations.

¹³ <https://global.unitednations.entermediadb.net/assets/mediadb/services/module/as-set/downloads/preset/Libraries/Graphics/Library/Final+Grain+Deal+Graphic+-1.png/image3000x3000.jpg>

¹⁴ <https://www.euronews.com/my-europe/2023/08/31/temporary-bans-on-ukrainian-grain-should-run-until-end-of-year-says-eu-commissioner-for-ag>

However, the sudden and massive arrival of these products on the European market is causing a great deal of disruption, particularly on the markets of Central European countries neighbouring Ukraine. While Ukrainian farmers are not the main beneficiaries of these new

sales opportunities. So, who benefits from this lifting of the ban?

5) Huge benefits for trading agents

The European Commission's position is based on two ideas that are contradicted by reality. Firstly, Ukrainian grain shipped overland does not end up in developing countries but finds new outlets in Europe. Secondly, this new situation on the grain market does not benefit Ukrainian farmers but rather foreign investors and traders. Behind the good intentions of wanting to help Ukraine and other countries in difficulty lies the implacable logic of the market.

For Marie-Claude Maurel, director of studies at the EHESS: "These are the operators, the shippers, all the big traders who belong to international agribusiness [...] Since the decade 2010-2020, they have set up powerful facilities in Ukraine to process the wheat produced by the agri-food groups. The very large farms, the distant heirs of the state farms, have been transformed by foreign, European and American investors, who have taken control of these

large-scale cereal crops, which they operate under extremely favourable conditions, thanks to a high level of mechanisation. This could be tantamount to unfair competition, because in principle the European domestic market is protected".¹⁵

The global grain trade is dominated by four trading giants, which have been making exceptional net profits since 2021 as a result of strong market shocks. According to Jennifer Clapp, an economist specialising in food security at the University of Waterloo in Canada, Archer Daniels Midland (ADM), Bunge, Cargill and Louis-Dreyfus - whose initials form "ABCD" - control "70 to 90% of the world cereals trade"¹⁶. This situation of oligopoly somehow distorts the effect of the Commission ban and diverts its alleged benefits from the Ukrainian producers.

6) Possible issues regarding health and environmental standards

In addition to the above mentioned economic problems, there are serious concerns about the Ukrainian goods' compliance with current food safety standards in the European Union as in many cases, they fail to comply with these standards. Slovakia has seized 1,500 tonnes of

wheat containing pesticides banned in the EU, and Hungary has destroyed more than 29 tonnes of Ukrainian maize containing toxins and GMOs¹⁷.

¹⁵ Quoted by Corentin Léotard in Le Monde diplomatique in September 2023

¹⁶ <https://www.terre-net.fr/prix-des-cereales/article/224678/les-geants-du-negoce-agricole-gagnants-discrets-de-l-explosion-des-prix-aliment>

¹⁷ https://www.lepoint.fr/politique/emmanuel-berretta/le-ble-ukrainien-ruine-les-paysans-d-europe-de-1-est-17-04-2023-2516647_1897.php

On October 16, Olha Shevchenko, acting head of Ukraine's food safety body, recognized that « there are rules inside the European Union that we need to fulfil when we export – for us,

this is totally understandable », but she also mentioned that SPS [sanitary and phytosanitary measures] cannot be part of politics because it is about human health. »¹⁸ Shevchenko also stressed that existing agriculture and food

trade with the EU means Ukraine does not start from scratch when it comes to getting its regulations and procedures ready for accession. Thus, she confirms that agriculture is one of the key issues in the process of Ukraine's accession to the European market. The hidden dumping under the discourse of solidarity with Ukraine and developing countries could be one of the major issues for Europe in the years to come

¹⁸ <https://www.euractiv.com/section/agriculture-food/interview/food-safety-standards-cannot-be-part-of-politics-top-ukraine-official-says/>

Conclusions

- The Commission's argument saying that the arrival and transit of Ukrainian cereals on the European market would help poor and developing countries and Ukrainian farmers does not stand up to the test of facts: the majority of these cereals remain on the European market, mainly benefiting major cereals traders.
- This massive influx of Ukrainian cereals is creating distortions on the European market, putting Central European cereal producers in difficulty. At this stage, there are no solutions at European level to resolve this new agricultural and commercial situation. If Ukrainian cereals continue to flow onto the European market in the future, new solidarity mechanisms will be required to help farmers in difficulty.
- The issue of Ukrainian cereals also raises environmental and health concerns, as these products do not comply with a number of regulations in force within the EU.
- The outbreak of war between Ukraine and Russia has considerably accelerated the process of Ukrainian economic integration, even though the European economic and legal framework is not prepared for it. This has inevitably led to economic dumping to the detriment of farmers mainly located in Central and Eastern Europe.