

## Ukraine-Israel FTA: new trade opportunities<sup>1</sup>

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In January 2019, Ukraine and Israel signed a free trade agreement (FTA), concluding more than five years of negotiations. Unlike the DCFTA with the EU covering a broad range of issues in trade in goods, services, capital flows and legal harmonisation, the agreement with Israel is a classic FTA. The cornerstone of the agreement is tariff liberalization in trade in goods.

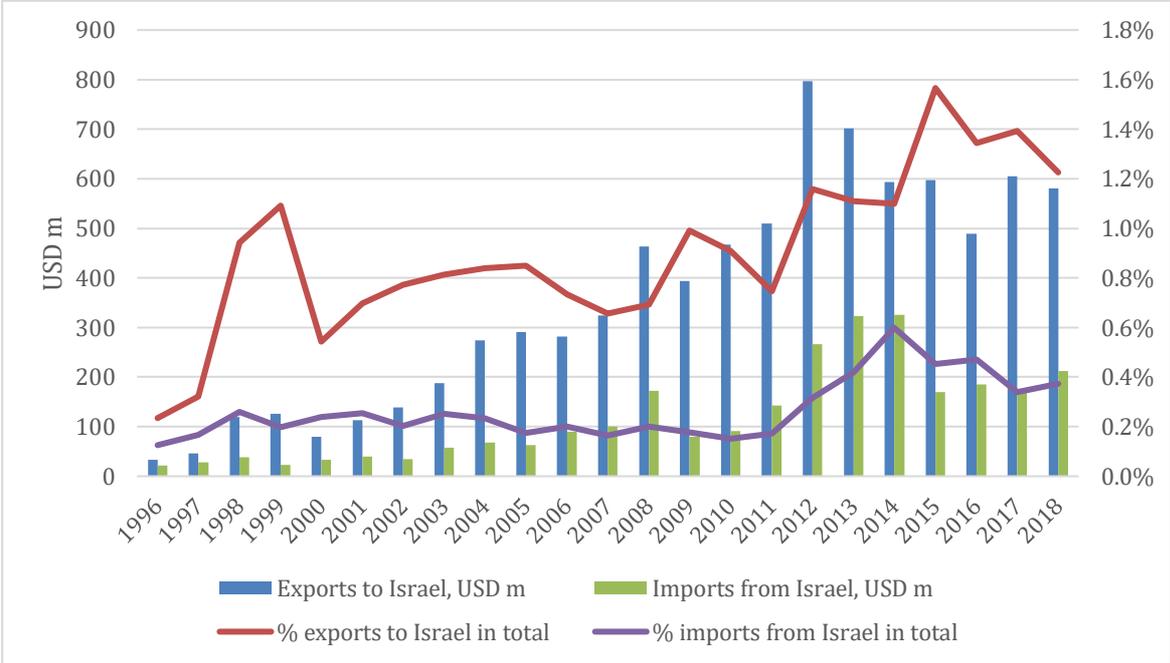
Israel is an important although not large trade partner of Ukraine. If we treat the EU as a single partner, Israel will be in top-10 key export destinations for the Ukrainian products. Recently the share of Israel in Ukraine's trade in goods (exports + imports) has stayed slightly above one per cent. In 2018, the value of trade in goods between Ukraine and Israel was USD 793 m, including USD 580 m of Ukraine's exports.

<sup>1</sup> The Ukrainian version of the op-ed was published by online media European Pravda: <https://www.eurointegration.com.ua/articles/2019/01/24/7091965/>

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The Ukrainian exports to Israel is concentrated on several key commodities including grains (40% of total exports in 2018) and ferrous metals (36%). Imports is much more diversified including various chemical products (37%), mineral fuels, machines and equipment, pharmaceuticals and other products.

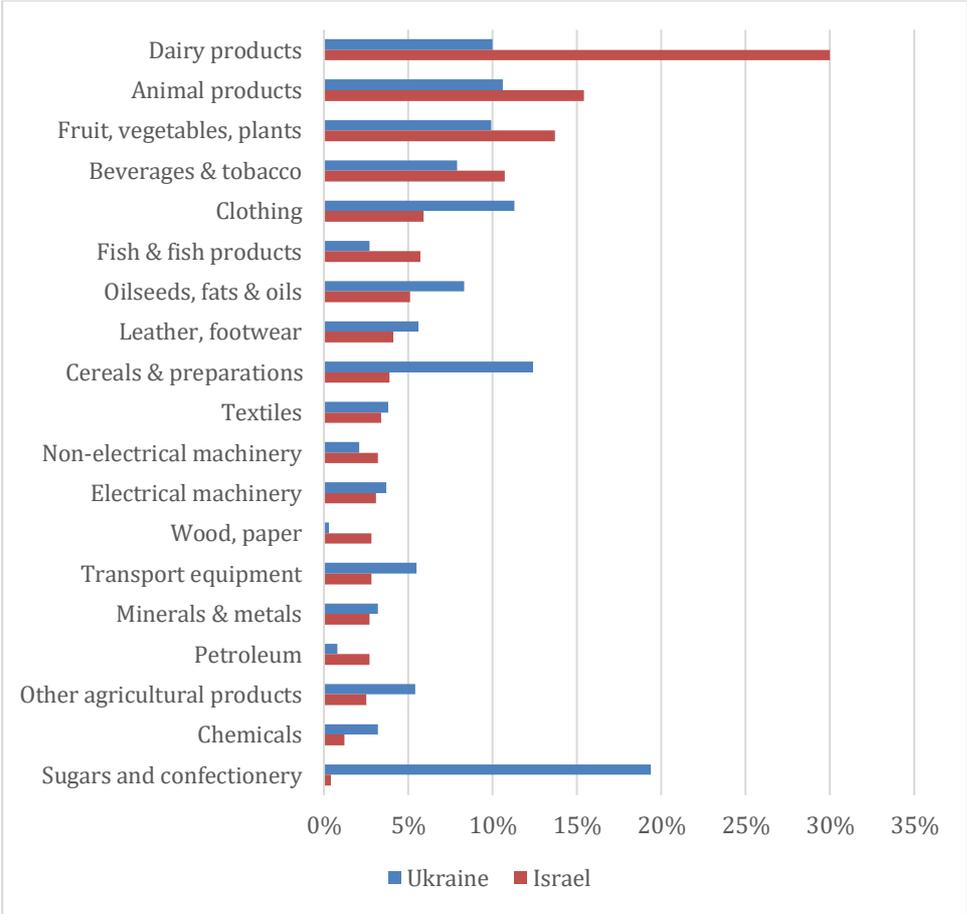
**Figure 1: Ukraine-Israel trade in goods**



Sources: UN Comtrade (1996-2017); Ukrstat (2018)

The average MFN import duties applied by Ukraine and Israel, i.e. as applied before introduction of the FTA, are comparable (Ukraine: 4.5%, Israel: 3.8%). However, there are important differences. First, about 25% of Israel import duties are unbound, i.e. the country has no commitments regarding their upper bounds within the WTO, while all Ukrainian duties are bound. Second, in Israel, about 16% of MFN applied duties on agricultural products are non-ad-valorem and thus sensitive to import value, while the respective share in Ukraine’s tariff schedule is 0.9%. These two factors make the Israeli tariff schedule much less predictable. Third, the countries tend to protect different segments of agriculture and food. Israel applies especially high duties (30% average) on dairy products and also features higher than Ukrainian duties on animal products, fruits and vegetables, beverages and tobacco. In Ukraine, sugar is the most protected, followed by cereals and preparations. The tariff protection of industrial products is lower in both countries, although on average Ukraine shields its market with higher duties than Israel.

**Figure 2: Simple average MFN duties applied by Ukraine and Israel (i.e. before introduction of the FTA)**



Source: WTO

Israel has only few FTAs. As of end-2018, the country notified the WTO about six agreements, with the EU, USA, EFTA, Turkey, Canada and Mexico. Now Ukraine will join this list.

According to the Ministry of Economic Development and Trade of Ukraine, the Ukraine-Israel FTA envisages almost complete elimination of import duties on industrial goods, except for jewellery. The vast majority of these duties – 80% for Israel and 70% for Ukraine – will be abolished immediately after the FTA enters into force.

Tariff liberalisation for agricultural and food products will be much more gradual and not as broad. After transition periods lasting from three to seven years, Israel will apply zero duty on imports of about 60% of agro-food tariff lines, while Ukraine – on 34%. At the same time, 25% of the Israeli agro-food import duties and 64% of the Ukrainian will remain unbound.

Import duties applied to the rest of agro-food products (15% in the case of Israel, 2% in the case of Ukraine) will be partially liberalized. Israel will apply tariff rate quotas (TRQs) within which there are zero duties on imports of such important for Ukrainian

exports commodities as poultry, selected dairy products, eggs, honey, wheat, sunflower oil and wine. Israel will also make the 10-50% reduction in import duty on other types of dairy, vegetables, wines and tobacco products. Moreover, the FTA will bind some of Israeli import duties that are currently unbound with the WTO.

The parties explicitly refer to the Pan-Euro-Mediterranean Convention on Rules of Origin (PEM) in the agreement. The PEM allows using so called diagonal cumulation among countries that (a) are members of the convention, and (b) have free trade agreements among them that (c) refer to the convention in their FTAs. The diagonal cumulation allows wider choice of suppliers without risking the originating status of products needed for the preferential trade, thereby reducing trade costs and stimulating trade flows.

Ukraine joined the PEM in 2018, and since January 2019, the Convention is applied in trade with the EU (DCFTA). The reference to the PEM in Ukraine-Israel FTA means that Ukraine, Israel and the EU can mutually use materials and components of each other, process them and sell within this "triangle" based on free trade agreements without much ado about rules of origin. It is expected to facilitate the development of value chains and trade.

The Ukraine-Israel FTA also agreed to cooperate in the spheres of food (SPS) and industrial products (TBT) safety. In the latter case, the FTA contains the provision allowing eventual mutual recognition of conformity assessment procedures, thereby reducing the costs of TBT compliance for business.

Summing up, the FTA creates new stimulus for trade, especially for industrial products. In addition to direct benefits associated with tariff liberalization, the agreement also opens new opportunities to trade and built into global value chains through the PEM Convention and eventual mutual recognition of conformity assessment procedures for industrial products.

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