



USAID | **AgroInvest Project**
FROM THE AMERICAN PEOPLE

Analysis of the Impact of the Russian Federation's Potential Trade Restrictions on the Export of Ukrainian Dairy Products

November 2013

This publication was produced for review by the United States Agency for International Development. It was prepared by Volodymyr Lapa, Senior Agriculture and Trade Expert to Chemonics International Inc. The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

Analysis of the Impact of the Russian Federation's Potential Trade Restrictions on the Export of Ukrainian Dairy Products

Contract No. AID-121-C-110001

CONTENTS

Executive Summary.....	4
1. Analysis of the Ukrainian dairy market and its export dependence	8
2. Structure of dairy exports to Russian Federation markets over the last 5 years	11
3. History and impact of trade restrictions on dairy product exports previously imposed by the Russian Federation.	15
4. Potential impact of Russian trade restrictions on the dairy sector of Ukraine	17
5. Potential consequences of trade restrictions by the Russian Federation if Ukraine signs the Deep and Comprehensive Free Trade Zone Agreement (DCFTA) with the EU	20
6. Recommendations for diversifying the export of Ukrainian dairy products	23

Annexes:

Annex 1: Import duty rates provided for Russian Federation commitments to WTO.....	27
Annex 2: Recommendations given by DG SANCO in report 2010-8520-MR for a possibility of further export of Ukrainian dairy products to European markets	31

Executive Summary

Preparation of this report was preconditioned by the expectation of signing the European Union Association Agreement, including the Deep and Comprehensive Free Trade Area Agreement (DCFTA) between the EU and Ukraine. It was widely believed that the signing of this agreement would prompt the imposing of restrictions on the export of Ukrainian dairy products by the Russian Federation specifically and other Customs Union member countries in general. Despite the current uncertainty with signing of the Association Agreement, numerous aspects of the dairy industry's development are, and will continue to be, of paramount importance for Ukraine. The most systemic problems must be solved immediately regardless of whatever further steps Ukraine may take toward international economic integration.

The milk market in Ukraine plays a significant role in developing agricultural production, providing employment in rural areas, and generating income for agricultural enterprises and rural citizens as well as enabling the rural population to sustain itself with food products. According to official statistics, milk production in Ukraine is valued at UAH 33 billion per year. As a significant level of this production takes place in households, the milk industry is critically important for securing production performance and the stability of socio-economic conditions in rural areas.

Milk production and processing in Ukraine are characterized by the following trends:

- During the last two years the milk production volumes have stabilized at approximately 11.5 million tons due to two key factors: (1) the state provided subsidies to preserve heifers; (2) productivity of milk production has steadily increased and is expected to approach 5,000 tons per cow per year in 2013.
- Up to 5.7 million tons is consumed in households or sold by households through available marketing channels (i.e. directly from households or through open markets, etc.). As a higher selling price can be obtained through these marketing channels, self-consumption is encouraged over selling the milk to industrial processors who offer a lower price.
- Dairy exports have reached 1 million tons but have demonstrated a downward trend that has been particularly visible after the introduction of trade restrictions by key trade partners of Ukraine.

The percentage of exported produce in the total milk production output is significant and ranges between 7% and 9%. At the same time, the exported produce accounts for 16% to 21% of the total volume of industrial processing. Therefore, it is the processing industry that is highly dependent on the trade regime of export markets. This influence poses a large challenge due to the following:

- In the event of a decrease in export demand, processing enterprises prefer to reduce the volume of milk purchased from households rather than agricultural enterprises. Price reductions for milk from households results in both economic and social consequences.
- Processing enterprises export their products with value added and any potential restriction have significant negative effect on foreign trade balance.
- As a result of the special regime of taxation for milk processing enterprises, VAT from the sales of products by such enterprises is not paid to the budget. It is instead used for subsidies to milk suppliers (50% of VAT amount in 2014) and forming a special fund of the State budget (the remaining 50% of VAT amount). A potential decrease in the volume of milk exported and its industrial processing therefore carries the risk of reducing the volume of cash earnings of the special fund of the State budget, and as a result, contracting the possibilities of the government to finance the development of milk cattle breeding.

In terms of value, the largest share of dairy products exported is cheese. In 2009, the total value of dairy product exports was equal to \$285.6 million USD, of which 76% was cheese. Milk and condensed cream accounted for 18% of the export revenues and other types of dairy products

accounted for one to three percent in the export structure. Over the five years analyzed, while the volumes of exports of dairy products and their prices have changed, the export cost structure has changed as well. For the first eight months of 2013, \$308.1 million USD worth of dairy products was exported. The amount of cheese accounted for in this period has already decreased to 73%. In the last five years, the share of the cost of whey increased from 2% to 9%, and the share of milk and condensed cream decreased to 14%.

Cheese is the most important export product for Ukrainian dairy sector, and the largest share of Ukrainian cheese is delivered to Russia. In 2009, Ukraine exported cheese of all types in the amount of \$301 million USD. UAH 250 million of cheese was sold to Russia and accounted for 83% of the cost of all exported cheeses. For the first eight months of 2013, the cost of exported cheese amounted to \$195 million USD, which was lower than the indicators of the previous year by 12%, and shows the income obtained from foreign trade in cheese has been declining steadily. In 2013, the share of export of cheese to Russia was equal to 86%; yet dependence on the Russian sales market has increased. This testifies to the limited opportunities for diversification of sales markets.

Russia imposed restrictions on Ukrainian dairy products many times during the recent years. Russia substantiates its restrictions based on its perceived use of palm oil by Ukrainian milk processors (which allegedly export milk containing products under the guise of dairy products), accusations of poor quality Ukrainian cheeses, and criticisms of the Ukrainian food quality and safety system. It should be noted in this connection that Ukraine seeks to harmonize its food safety and quality assurance system with that of the EU whereas Russia insists on harmonization of this system with the Customs Union rules.

The effect of partial restrictions on the export to the Russian Federation can be estimated based on historical experience. The comparison used in this report was based on the assumption that Ukrainian produce competes with Polish produce at the Russian market. During the last 4 years, prices for milk on the Ukrainian market were higher compared to milk prices on the Polish market. Therefore, when imposing trade restrictions on the export of Ukrainian dairy products to Russia, the difference between the prices for Ukrainian milk in comparison to Polish milk should narrow.

The calculation of this effect allows us to make the following conclusions:

- (1) The discount in procurement prices for milk during the period when Russia applied trade restrictions (from January 2009 through October 2012) is 27 kopecks per kg. This discount has a form of a reduced difference in the price for Ukrainian milk as compared to the price for Polish milk.
- (2) The effect from reduced premium is less tangible in the period of January 2009 through September 2013. In this case, the premium discount is as small as 11 kopecks per kg. The reduction of cheese exports to levels below the monthly average between October 2012 and September 2013 was due to lower competitiveness of Ukrainian products in the Russian market compared to other countries' products rather than due to export restrictions under high procurement prices for milk in Ukraine.

Lower competitiveness of Ukrainian products at the Russian markets (inter alia, because prices for milk in Ukraine are higher compared to milk prices in Poland) means that one should not expect milk prices to increase. Another risk factor is a potential increase in dairy product imports to Ukraine. Under such conditions, it is particularly important to improve the performance of milk producers and ensure that they can and do utilize government support measures properly.

Introduction of import duties envisaged by Russia's commitments to WTO in case of signing the DCFTA remains the main scenario for the Russian Federation. Therefore, if Russian imposes import duties on the entire Ukrainian dairy industry at the level of WTO obligations rather than

restrictions on selected enterprises, Ukrainian cheese exporters will have to pay the 20% import duty in Russia in 2014 which will be gradually reduced to 15% in 2016. As Ukrainian milk processors have no other ways to optimize production costs they will have to reduce procurement prices for milk by 20%, thus reducing the average profitability of milk production to zero. In this situation, the milk production sector will no longer be attractive for those who invest or wish to invest in the Ukrainian agricultural sector.

Steps towards neutralizing the negative impact of Russia's imposition of restrictive measures on Ukrainian dairy products should be subdivided into several key areas.

1. ***Negotiations with Russia (the Customs Union) on rationalizing restrictive steps.*** Possible areas for compromise are (a) using tariff barriers only in the case of *actual* growth in the volume of product exports to the Customs Union market (e.g., in the form of special duties) and (b) improved collaboration in adopting product certificates of origin in order to block the export of products with Ukrainian origin.
2. ***Prerequisites for possible compensation to economic agents for their losses from the drop in milk prices.*** One of the key elements of such a policy could involve continuation of the existing (through January 01, 2015) special taxation regime for dairy plants, which would allow dairy companies to (a) set the level of procurement milk prices incorporating a 50% payment of VAT amount to milk suppliers, and (b) receive the remaining 50% of VAT amount for implementing the activities of direct budget support to milk producers at the expense of a special fund in the State budget.
3. ***Preconditions for self-organization of small players on the milk market, mainly, households.*** The most common international approach to address this matter is using the tool of association of small producers into cooperatives. In Ukraine, unfortunately, the process of setting proper economic preconditions for this, primarily, at the level of taxation, have not been finalized.
4. ***Diversification of export destinations for dairy produce.*** Attempts of dairy plants to diversify their markets by entering the promising markets of Asia are met with some specific requirements of this region, in particular, different tastes and consumer traditions. Therefore, expanding the markets is primarily possible through Ukraine's gaining opportunities of exporting dairy produce to the European Union market. This opportunity is extremely important in the context of the DCFTA with the EU, which would give the Ukrainian producers opportunities for unlimited export of some types of produce to the EU market (e.g., export of cheeses without quotas and import duty).
5. ***Attracting foreign investors in dairy production who are interested in exporting Ukrainian dairy products to countries of the investors' origins is a potential means of expanding the existing trade market.*** A number of investors from Arab countries are ready to develop commercial dairy farms in Ukraine. In so doing, they are also willing to lease agriculture land for fodder production purposes. They, however, face uncertainty with land lease agreements in Ukraine and expect the government to create more favorable conditions by, e.g., signing long-term lease agreements for state- and communally-owned agricultural land. Existing enterprises in Ukraine face similar problems with investment attraction and the execution of long-term state-owned land leases under investment obligations and/or long-term communal-owned land leases under obligations to preserve jobs could be solutions to these problems.
6. ***Developing a proper enabling regulatory environment.*** In a situation where the Government has limited capacities for providing financial support to milk producers, development of a proper enabling regulatory environment becomes particularly important. For instance, producers complain on an inappropriate procedure for setting waste disposal

standards leading to imposition of financial sanctions by Ukraine's environmental inspection authorities, delays with issuance of water intake permits, etc. Resolution of these and other similar issues does not require any funding and could improve the business environment in the industry significantly.

7. ***Developing qualified personnel.*** Dairy producers face a shortage of qualified staff and, consequently, find it difficult to implement modern production technologies and improve their economic performance. The Government should promote internship programs for faculties from educational and training institutions. There needs to be support of private professional training initiatives at existing enterprises, likely with the engagement of donors and international organizations. Attention should be paid to OECD recommendations on implementing student internship programs similar to those existing in other countries whereby students are enabled to work in enterprises during several months (initially – on a voluntary basis).
8. ***Focus on public/private development of the dairy sector.*** The available experience shows that projects in cooperative development and/or development of small holdings up to the medium-sized business level are most successful when they are funded by private investors and/or donors. The synergy from combining funding and consulting will ensure successful implementation of such projects. From the government policy perspective, it is a matter of priority to finance projects where alternative sources of funding exist (processing enterprise, cooperative's or producer's own funds, donor's funds, etc.)

Although most of the above are difficult to implement and take time, they are absolutely essential, even outside the context of possible trade barriers to Ukrainian dairy products on the part of the Russian Federation and the Customs Union. The said risks must become a catalyst for positive changes in both the legislation and dairy business practices in order to bring the industry's performance to a new level.

1. Analysis of the Ukrainian dairy market and its export dependence

The milk market in Ukraine plays a significant role in developing agricultural production, providing employment in rural areas, and generating income for agricultural enterprises, rural citizens, as well as enabling the rural population to sustain itself with food products. Milk production in Ukraine is valued at UAH 33 billion¹ per year. As a significant level of this production takes place in households, the milk industry is critically important for securing production performance and the stability of socio-economic conditions in rural areas.

The milk market balance in Ukraine for 2008-2012 is outlined in Table 1.1 below.

Table 1.1. Milk market balance in Ukraine, million tons

Year	2008	2009	2010	2011	2012
Initial stock	0.3	0.2	0.2	0.2	0.3
Milk production in all categories of farms	11.8	11.6	11.3	11.1	11.4
Import of dairy products, calculated in in terms of milk equivalent	0.2	0.2	0.3	0.3	0.4
Aggregate supply	12.3	12.0	11.8	11.6	12.1
Not delivered for milk processing	6.4	6.9	6.6	6.4	6.8
- Including: feeding, losses and other milk consumptions	1.1	1.1	1.1	1.0	1.1
- Including: milk consumption in households and its sale on the market	5.3	5.7	5.5	5.3	5.7
Milk volume supplied for processing from all categories of producers	5.4	4.7	4.8	4.7	4.8
Export of dairy products, calculated in terms of milk equivalent	1.1	0.9	1.0	1.0	0.8
Consumption of milk and dairy products (calculated in terms of milk equivalent)	9.4	9.3	9.1	8.7	9.5
Aggregate utilization	12.1	11.8	11.6	11.3	11.9
Final stock	0.2	0.2	0.2	0.3	0.2

Note: All balance sheet items are provided in terms of raw milk

Source: Derzhstat data (State Service of Statistics of Ukraine), own calculations

The above balance sheet demonstrates the following:

- The milk production volumes have stabilized at approximately 11.5 million tons² due to two key factors: (1) the state provided subsidies to preserve heifers; (2) milk production has steadily increased, and is expected to approach 5,000 tons per cow per year in 2013.
- Up to 5.7 million tons is consumed in households and sold on the market. When sold, common marketing channels are used (i.e. directly to households or through open markets, etc.). As a higher selling price can be obtained through these methods/channels, self-

¹ This calculation is based on annual volume of milk production at the level of 11.4 million tons at an average sales price of 2.9 UAH/kg (statistical form 1-13 zar; price data for 9 months of 2013). In fact, the milk sales income can be even higher as the above statistical form takes into account only the price of milk sold to processing enterprises whereas the milk sales price on markets is higher and can be equal to 6-8 UAH/kg.

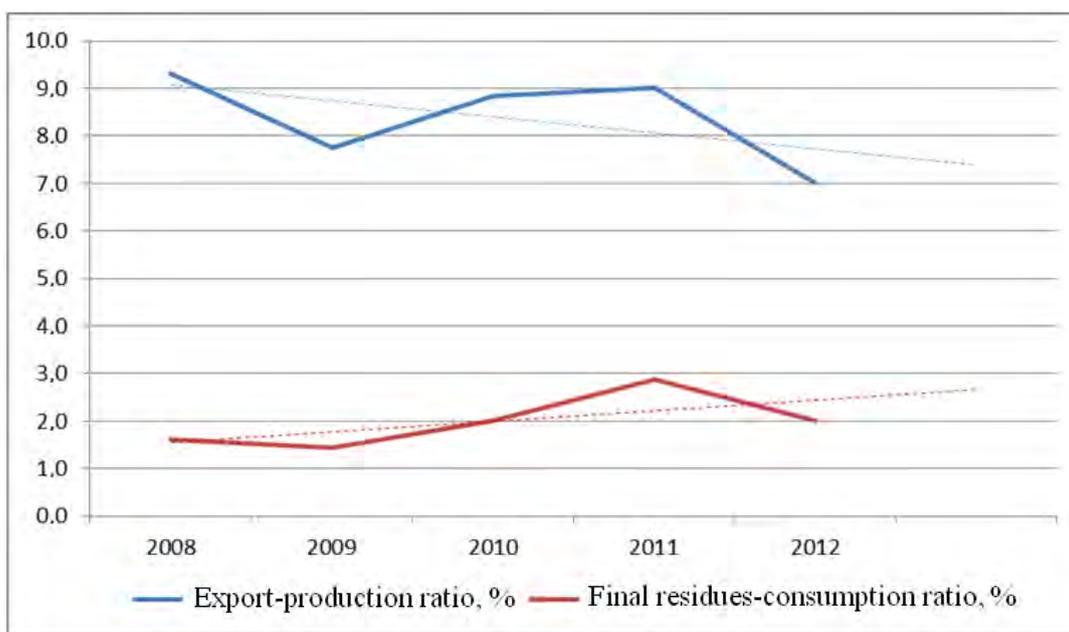
² Some market operators cast doubt on the quoted figure referring, specifically, to the overrated data on the total amount of cattle, especially, in households. However, at the moment there are no alternate studies which prove the incorrectness of official statistical information.

consumption is encouraged over selling the milk to industrial processors who offer a lower price.

Dairy exports have reached 1 million tons and have demonstrated a downward trend that has been particularly visible after the introduction of restrictions by key trade partners of Ukraine.

Ukraine's dependence of the internal market on export is illustrated in Figure 1.1.

Figure 1.1. Export-production ratio and final residues-consumed milk ratio in Ukraine



The gross share of milk exports is 7-9%. The renewal of this share in 2010-2011 was caused not only by an increase in the volume of exports after its decline in 2008-2009, but also by an increase in milk production. Below is an illustration of the effect export sales and market accessibility has on the milk production industry. At the same time, dependence on exports is substantially higher if we analyze the share of export volumes in milk for processing (Table 1.2).

Table 1.2. Dependence of the processing industry on dairy product export, million tons

Year	2008	2009	2010	2011	2012
Milk volume delivered for processing from all categories of producers	5.4	4.7	4.8	4.7	4.8
Milk exports	1.1	0.9	1	1	0.8
The share of exports in the volumes of milk delivered for processing, %	20.4%	19.1%	20.8%	21.3%	16.7%

Source: Derzhstat data, own calculations

With export volumes at 16-21% of industrial processing, we see the extreme dependence the processing industry has on the trading regime of export markets. This impact is a substantial challenge when considering the following:

- In the event of a decrease in export demand, processing enterprises prefer to reduce the volume of milk procurement from households rather than agricultural enterprises. Price reductions for milk from households results in both economic and social consequences.
- Processing enterprises export their products with value added.
- As a result of the special regime of taxation for milk processing enterprises³, VAT from the sales of products by such enterprises is not paid to the budget. It is instead used for subsidies to milk suppliers (50% of VAT amount in 2014) and forming a special fund of the State budget (the remaining 50% of VAT amount). A potential decrease in the volumes of milk export and its industrial processing therefore carries the risk of reducing the volumes of cash earnings of the special fund of the State budget, and as a result, contracting the possibilities of the State to finance the development of milk cattle breeding⁴.

Table. 1.3. The structure of production and delivery of milk for processing, millions tons

Year	2008	2009	2010	2011	2012
The total number of cows (as of the beginning of the year), thousand heads	3095.9	2856.3	2757.5	2631.2	2588.8
• In agricultural enterprises	668.8	624.3	604.4	589.1	582.9
• In households	2427.1	2232.0	2153.1	2042.1	2005.9
The share of households in the total number of cattle, %	78.4	78.1	78.1	77.6	77.5
Milk production, millions tons	11.8	11.6	11.3	11.1	11.4
• In agricultural enterprises	2.1	2.2	2.2	2.2	2.5
• In households	9.7	9.4	9.0	8.8	8.8
The share of households in the overall production, %	82.2	80.8	80.0	79.6	77.6
Delivery of milk for processing, millions tons	5.4	4.7	4.7	4.5	4.7
• From agricultural enterprises	1.7	1.9	1.9	2.0	2.3
• From households	3.3	2.6	2.5	2.2	2.0
• From other economic structures	0.3	0.3	0.3	0.4	0.4
The share of households in the overall delivery of milk to processing enterprises, %	61.9	54.6	53.7	47.4	42.8

Source: Derzhstat data

As the data in Table 1.3. shows, household dependence on processing enterprises has reduced significantly from 2008 to 2012. In 2008 households sold 3.3 million tons of milk for processing, whereas in 2012 it was only 2 million tons. Despite this decreasing trend, dependence remains

³ Point 1 of Subsection 2 of Section XX “Transitional provisions” of the Tax Code.

⁴ The procedure for the use of VAT proceeds accumulated by processing enterprises from a special fund of the State budget is regulated by resolution of Cabinet of Ministers of Ukraine of March 2, 2011, No. 246 “On approval of the Procedure for the use of VAT proceeds paid by processing enterprises to a special fund of the State budget”.

extremely high. The processing industry also depends on milk production in households, since 43% of raw milk is delivered for processing from the households. Thus, hypothetical export restrictions can carry a risk for both processing enterprises and milk producers, including households.

We can conclude that the internal milk market has significant dependence on the availability of the export sales markets and, correspondingly, the necessity of their retention and/or diversification to avoid any potential negative consequences in case of imposition of trade restrictions by key importers of Ukrainian dairy products.

2. Structure of dairy exports to Russian Federation markets over the last 5 years

Ukraine has remained a net exporter of dairy products over the past five years. However, the reduction of cows and decrease in milk production has resulted in a reduction of export volumes of dairy products. Imports on the other hand, have shown a tendency towards growth.

In analyzing Ukraine's export structure over the last five years, we see a tendency towards reducing cheese, milk, and condensed and uncondensed cream exports. In contrast, we have observed a tendency towards increasing exports of the products with low milk content, such as whey. In 2012, as a result of trade restrictions of Ukrainian products on the Russian market, the exports of all types of cheese amounted to only 66.7 thousands tons; 16% lower than in 2011. In 2012, butter exports were reduced three times more than the previous year – down to 0.7 thousand tons. Milk and uncondensed cream exports, without any sugaring substances added, reduced by almost 50% and were equal to 5.9 thousands tons. An increase in export was observed only in “milk and condensed cream” – up 53% as compared to 2011. In 2013 cheese exports continued to decline, as did the volume of milk and condensed cream exports. In January-August 2013, 39 thousand tons of all types of cheeses were exported from Ukraine. This is 8% less than the same period in 2012. This year, the export of milk and condensed cream has decreased by 60% - down to 18.5 thousands tons. However, the export of other dairy products has increased in comparison to 2012. For example, butter exports have increased by 2.5 times over the first nine months of 2013. However, it should be noted that butter exports in 2012 were rather low. The growth of this indicator this year should therefore be regarded as returning to the previous volumes of supplies. This year, export of whey has increased by almost twice the amount of last year, and deliveries of buttermilk, yogurts, kefir and other fermented products abroad have remained at the level of the similar 2012 period.

Table 2.1. Export of dairy products from Ukraine

	2009	2010	2011	2012	Jan-Aug 2013
Milk and cream, uncondensed (,000 tons)	18.2	16.3	11.5	5.9	5.0
Including to the Russian Federation (tons)	0.4	2.2	3.1	0.007	4.6
Milk and cream, condensed (,000 tons)	45.8	33.2	36.9	45.0	18.5
Including to the Russian Federation (,000 tons)	0.4	4.8	5.9	11.6	2.7
Buttermilk, yoghurt, kefir and other fermented or soared milk and cream (,000 tons)	3.0	4.6	5.8	3.1	2.2

	2009	2010	2011	2012	Jan-Aug 2013
Including to the Russian Federation (tons)	0.3	1.2	1331.8	2.7	3.03
Whey (,000 tons)	12.2	19.0	26.4	24.6	27.4
Including to the Russian Federation (,000 tons)	0.0	0.0	3.3	3.5	8.3
Butter and other fats (,000 tons)	0.9	1.2	2.1	0.7	1.0
Including to the Russian Federation (,000 tons)	0.001	0.002	1.105	0.1	0.4
Cheeses of all types (,000 tons)	76.6	79.3	80.3	67.7	39.0
Including to the Russian Federation (,000 tons)	62.1	66.0	68.6	56.6	33.0

Source: Customs statistics of Ukraine

In 2013, the amount of cheese exported to Russia in January- August was 2.5 thousand tons less than over the same period in 2012 because of periodic bans on some Ukrainian enterprises. This year the sale of milk and condensed cream to Russia has decreased by 70%, while milk and uncondensed cream exports to Russia have decreased by 30%. Supplies of butter to Russia have increased almost twice as much as last year. Whey exports to Russia have increased dramatically. In 2012, over an eight month period, only 1300 tons of whey was exported to Russia; this year the indicator has amounted to 8300 tons, which is equal to 30% of the total export of whey. The increasing export of low cost dairy products does not however, compensate for the reduction in the balance of foreign trade of dairy products.

In terms of value, the largest share of exports is for cheese. In 2009, the total cost of dairy product exports was equal to \$285,600,000 USD, of which 76% accounted just for cheese. Milk and condensed cream accounted for 18% of the export cost. Other types of dairy products accounted for one to three percent in the export structure. Over the five years analyzed, while the volumes of exports of dairy products and their prices have changed, the export cost structure has changed as well. For the first eight months of 2013, \$308,100,000 USD worth of dairy products was exported. The amount of cheese accounted for in this period has already decreased to 73%. In the last five years, the share of the cost of whey increased from 2% to 9%, and the share of milk and condensed cream decreased to 14 % (Figure. 2.1.-2.2.).

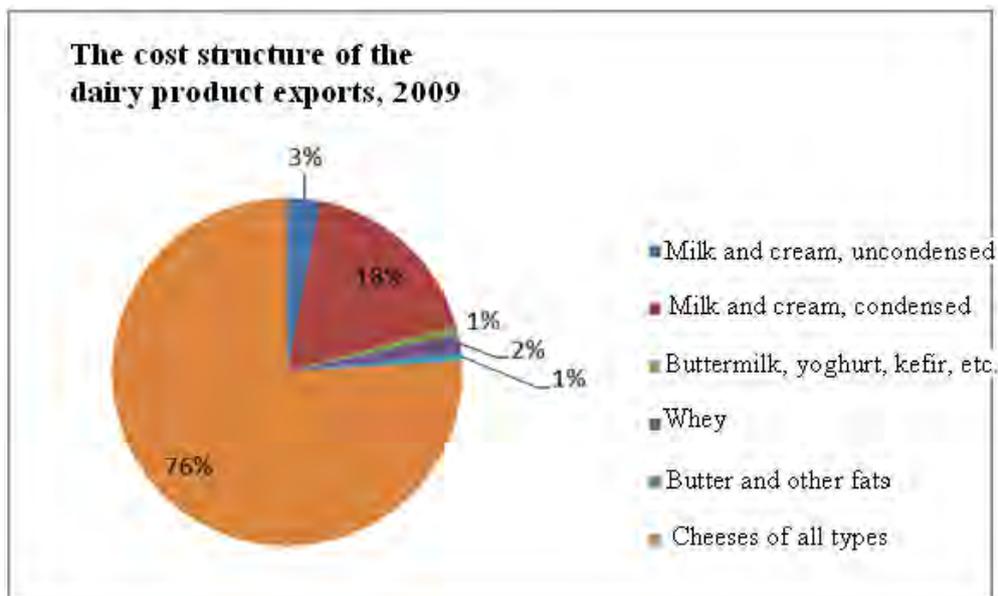


Figure 2.1. The cost structure of the dairy product exports in 2009, %

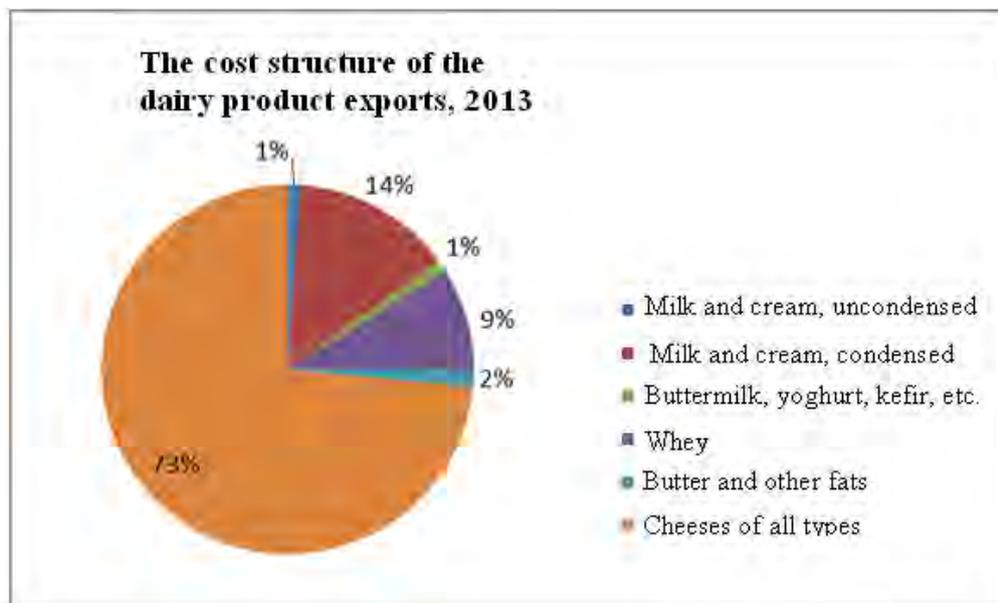


Figure 2.2. The cost structure of the dairy product exports in 2013, %

Source: Customs statistics of Ukraine

As described above, cheese is the most important export product for Ukraine, and the largest share of Ukrainian cheese is delivered to Russia. In 2009, Ukraine exported cheese of all types in the amount of \$301 million USD. Cheese for the total cost of UAH 250 million was sold to Russia and accounted for 83% of the cost of all exported cheeses. For eight months of 2013, the cost of exported cheese amounted to \$195 million USD, which is lower than the indicators of the previous year by 12%, and shows the income obtained from foreign trade in cheese has been declining steadily. This year the share of export of cheese to Russia was equal to 86%; yet dependence on the Russian sales market has increased. This testifies to the limited opportunities for diversification of sales markets.

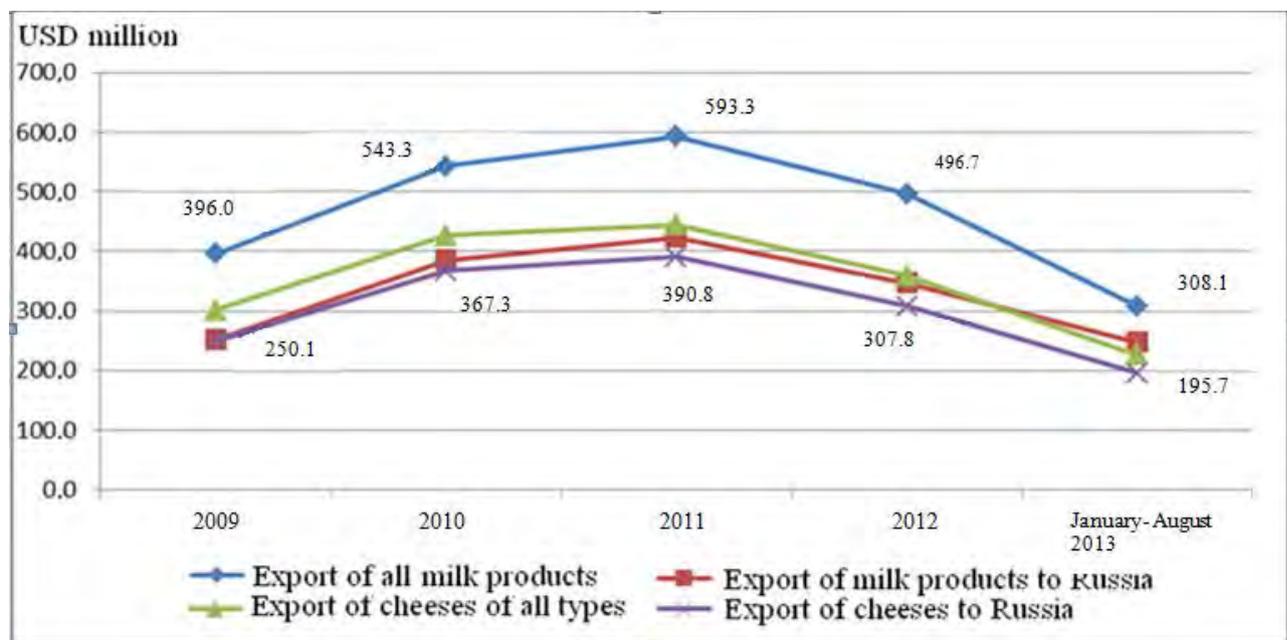


Figure 2.3. Monetary value of dairy product export

Source: Customs statistics of Ukraine

Table. 2.2. The foreign trade balance of Ukraine in trading in dairy products

Year	2009	2010	2011	2012	January-August, 2013
Export, USD million	396.0	543.3	593.3	496.7	308.1
Import, USD million	110.4	110.9	133.4	178.4	134.5
Balance of foreign trade, USD million	285.6	432.4	459.9	318.4	173.6
Exports to the Russian Federation, USD million	252.1	385.3	423.5	347.3	247.4
The share of exports to the Russian Federation in the overall export structure, %	63.7	70.9	71.4	69.9	80.3

Source: Customs statistics of Ukraine, own calculations

For the first eight months of 2013, the total value of dairy products exported to the Russian Federation amounted to \$247.4 million USD. This is a 13% increase in value over the same period of the previous year. This year, the total export of Ukrainian dairy products to all countries in monetary terms has decreased by 2%. This demonstrates that dependence on the Russian market is increasing. In 2013, the cost of export of dairy products to Russia has made up the largest share of the last five years – 80.3%. Thus, even minor problems arising in trade relations between Ukraine and Russia profoundly influence the balance of foreign trade of Ukraine. In 2012, the positive balance of foreign trade in dairy products decreased by 31% and amounted to \$318.4 million USD. Between January and September of this year, this positive trade balance decreased by another 19%. Thus, over the last years the balance of foreign trade of Ukraine has been deteriorating: on the one hand, the value of exported dairy products has been reducing and the share of Russia in the monetary value of dairy exports has been increasing, and on the other hand, the import of dairy products has been growing.

3. History and impact of trade restrictions on dairy product exports previously imposed by the Russian Federation

The history of confrontation

In 2006, the Russian Federation imposed an export ban on 78 Ukrainian dairy enterprises. Only six enterprises managed to renew export abilities and only after allowing the Russian Service of Veterinary and Phytosanitary Control to inspect the Ukrainian enterprises.

Exports to Russia have been allowed since 2010 but at the same time the dairy products of Ukrainian producers (as well as poultry meat, confectionery, and vegetables) were subjected to inspections and bans by Russia with renewed vigor.

In June 2011, the National Union of Milk Producers of the Russian Federation asked the government of Russia to impose a ban and to increase duties on the import of Ukrainian cheese. The ban was introduced for some enterprises, but on December 22, 2011 it was lifted.

In February 2012, another round of bans on the export of Ukrainian products was imposed by the Russian Federation. With this round of bans, at first four, then seven and finally 19 enterprises in the meat and dairy industry were banned. Undoubtedly, the cheese-making industry was harmed by these bans most of all.

The arguments of the Russian Federation

Palm oil. Russian officials stated that Ukraine's increases in the amount of imported palm oil led to direct use for cheese production. However, if in 2008 Ukraine imported 410 thousand tons of palm oil, in 2011 - only 190 thousand tons (i.e., almost 50% less).

Another argument advanced by the Russian party is that milk production in Ukraine is declining, but cheese production is increasing. They claim that this would not be possible without using palm oil. However, we saw that while in 2011 milk production in Ukraine decreased by only 2%, cheese production decreased by 7%.

Quality control. Accusations of bad quality of cheese have resounded with criticism of the Ukrainian quality control system. Yet, in Ukraine, this system is being brought to the level European Union practices and in compliance with DG SANCO recommendations: quality control will be exercised by only one controlling authority – the State Veterinary and Phytosanitary Service of Ukraine. Thus, the claims relate not to the efficiency of the Ukrainian system of quality and safety of products, but to its transformation in a way that is not in compliance with the Russian Federation's and Customs' Union practices.

Possible reasons for trade restrictions

In addition to subjective motives of the bans, there are also trade and economic factors.

In June 2012, claims to Ukrainian enterprises were put forward not by Rospotrebnadzop (the Russian Federal Service for Supervision of Consumer Rights Protection and Human Welfare), but Rosselkhoz nadzor (the Russian Federal Service for Veterinary and Phytosanitary Surveillance), which exercises control over agricultural product markets. 2012 saw a collapse of procurement prices for raw dairy products in Russia, from the peak prices of 17 rubles/liter in the winter, to 10 rubles/liter in June – a 42% drop in prices. This is even more than in the average 25% drop in Ukraine. Despite the fact that at the end of May 2012, an embargo on deliveries of cheeses from

Ukraine was formally lifted, Rosselkhoznadzor began inspecting Ukrainian enterprises in July. It is clear that the collapse of procurement prices could continue if Russia continues to import volumes of products, which is the reason for encouraging Rosselkhoznadzor to intensify its activity.

In addition, a ban on cheese imports from Ukraine makes it possible to release warehoused cheese stocks by Russian producers in the event of a seasonal decline in demand on the Russian Federation cheese market. This practice is actively used by other exporting countries – Belarus, Germany, Poland and Lithuania. Today their products are not much more expensive than those of Ukrainian origin because of relatively higher prices for milk in Ukraine. Ukrainian cheese accounts for 12.5% of imported cheese to the Russian Federation. The total consumption of cheese in Russia is 767 thousand tons; 440 thousand tons are of its own production and the rest are imports.

Another possible reason for the ban is an attempt to downturn competitiveness of Ukrainian cheese on the Russian market. Each time an embargo takes place, it is accompanied by statements by the Russian Rospotrebnadzor regarding an entire lack of a quality control system in Ukraine. Logically, a bad reference to the quality of Ukrainian products can contribute to deteriorating consumer demand for these products in Russia.

Results

As a result of the ban on the export of cheeses to Russia in 2012, Ukraine suffered considerable losses, first, by Ukrainian enterprises that were losing about \$10 million USD monthly. Overall, Ukraine lost about \$34 million USD in foreign currency earnings during this period. It was widely believed that the losses could have been compensated by dry milk exports, but, eventually, between January 2012 to April 2012 (the embargo period) dry milk exports (in value terms) were precisely half than the similar period of 2011.

In the first quarter of 2012, fatty cheese production decreased by 2% compared to the first quarter of 2011, while rennet cheese production decreased by 7%.

In January-May 2012, the export of cheeses was 25% less than the same period in 2011. Within four months in 2012, 17.2 thousand tons of hard cheese was shipped to foreign markets – 5.5 thousand tons less than the January-April period of 2011. In the first quarter of 2012, \$99.4 million USD was sold in cheese exports. This was \$34.2 million USD less than in the first quarter of 2011.

Despite the above focusing on cheese export, the consequences caused by the ban were negative for the entire dairy industry. Milk processing enterprises began to optimize their expenses which resulted in reduced procurement prices for primary products. The average price for raw milk countrywide for agricultural enterprises in April was 3 UAH/kg as compared to 3.5 UAH/kg in February, for households – 1.8 UAH/kg in April against 2.5 UAH/kg in February⁵. For many market players, milk production became unprofitable; the cost of production varied in the range of 2.3-2.5 UAH/kg.

⁵ The price reduction may be also explained by a seasonal prevalence of production, but only partially.

Table. 3.1. Reduction of currency receipts as a result of reduction of the export of key types of dairy products from Ukraine, 2011-2012.

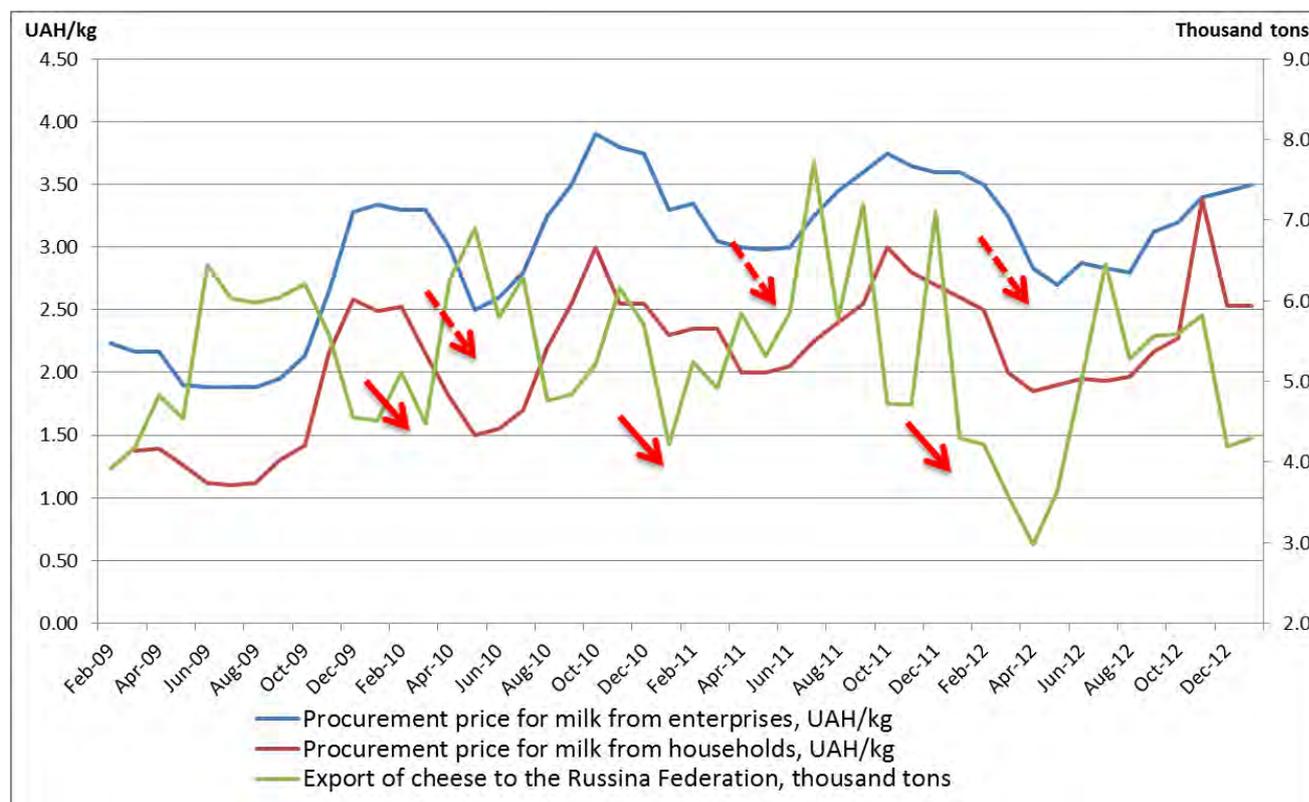
Export		2011	2012	2012 against 2011, %
Dry milk	Volume, tons	21,087	20,262	96.1
	Cost, USD thousand	65,509	55,416	84.6
Whole milk products	Volume, tons	4,474	2,205	49.3
	Cost, USD thousand	6,519	3,203	49.1
Butter	Volume, tons	1,842	399	21.7
	Cost, USD thousand	8,344	1,724	20.7
Hard cheeses	Volume, tons	50,218	39,717	79.1
	Cost, USD thousand	279,344	214,202	76.7
Total cost, USD thousand tons		359,716	274,546	-85,170

Source: Customs statistics of Ukraine, own calculations

4. Potential impact of Russian trade restrictions on the dairy sector of Ukraine

As already mentioned, a reduction in the volume of dairy product exports (mainly cheese) to the Russian Federation leads to a reduction of procurement prices and the number of cows in households in Ukraine. The impact of reduced cheese exports on the procurement price of milk is illustrated in Figure 4.1.

Figure 4.1. The lag between the reduction of cheese export and the decline in procurement prices for milk



As the above graph shows, a reduction of the volume of cheese exports to the Russian Federation results invariably in a reduction in procurement prices for milk in Ukraine.

In the spring of 2010 and 2011, it was possible to explain a price reduction by the effect of a production seasonal prevalence (in the spring, volumes of production increases, which exerts pressure on prices), but in winter of 2011-2012, instead of a traditional seasonal price increase on the Ukrainian market, their reduction coincided with a significant drop in the volume of cheese exports to the Russian Federation.

It is extremely difficult to estimate the level of influence the Russian factor has on pricing when considering the presence of other pricing factors, such as the already mentioned seasonal production levels, level of world prices, competitiveness of imports, availability and volume of budget support to milk producers, meat prices (as an incentive to cattle slaughter), as well as the time lag between the imposition of trade restriction and pricing. At the same time, the graph in figure 4.1 demonstrates the influence of the Russian factor on price reduction at 20-30 kopecks/kg, and which shows that only a partial ban on cheese exports to the Russian Federation can cause a decline in milk production profitability by approximately 10%.

The dependence between milk pricing and the number of cows in agricultural enterprises and households is shown in figures 4.2 and 4.3 below. Similar to the previous case, it is difficult to “neutralize” the influence of the seasonal factor from the livestock dynamics. Seasonal prevalence can be taken as one of the preconditions for imposing restrictions by the Russian party – an increase in milk yields and a drop in prices on the Russian market is a condition for imposing restrictions that only strengthens the tendency towards reduced prices in the Ukrainian market.

Figure 4.2. Interconnection between procurement prices for milk and the total number of cows in households (agricultural enterprises)

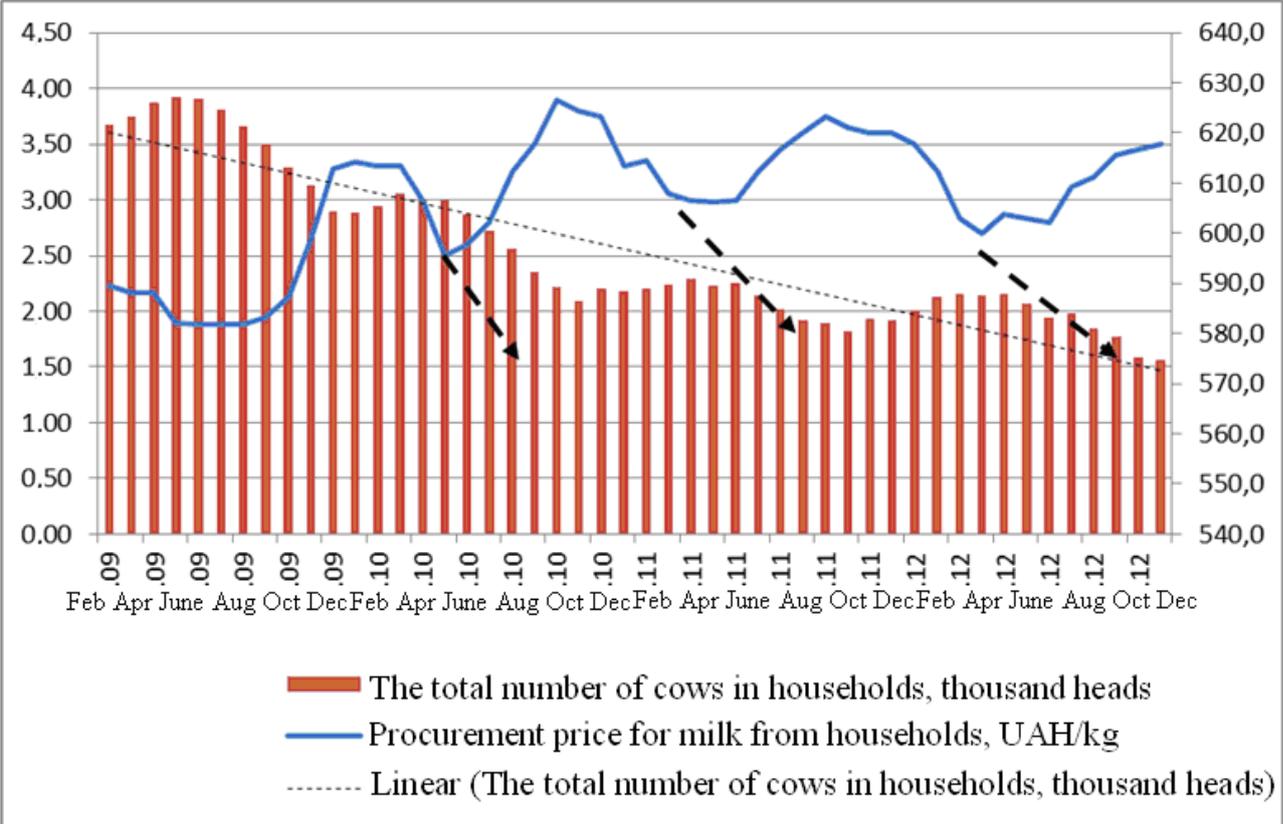
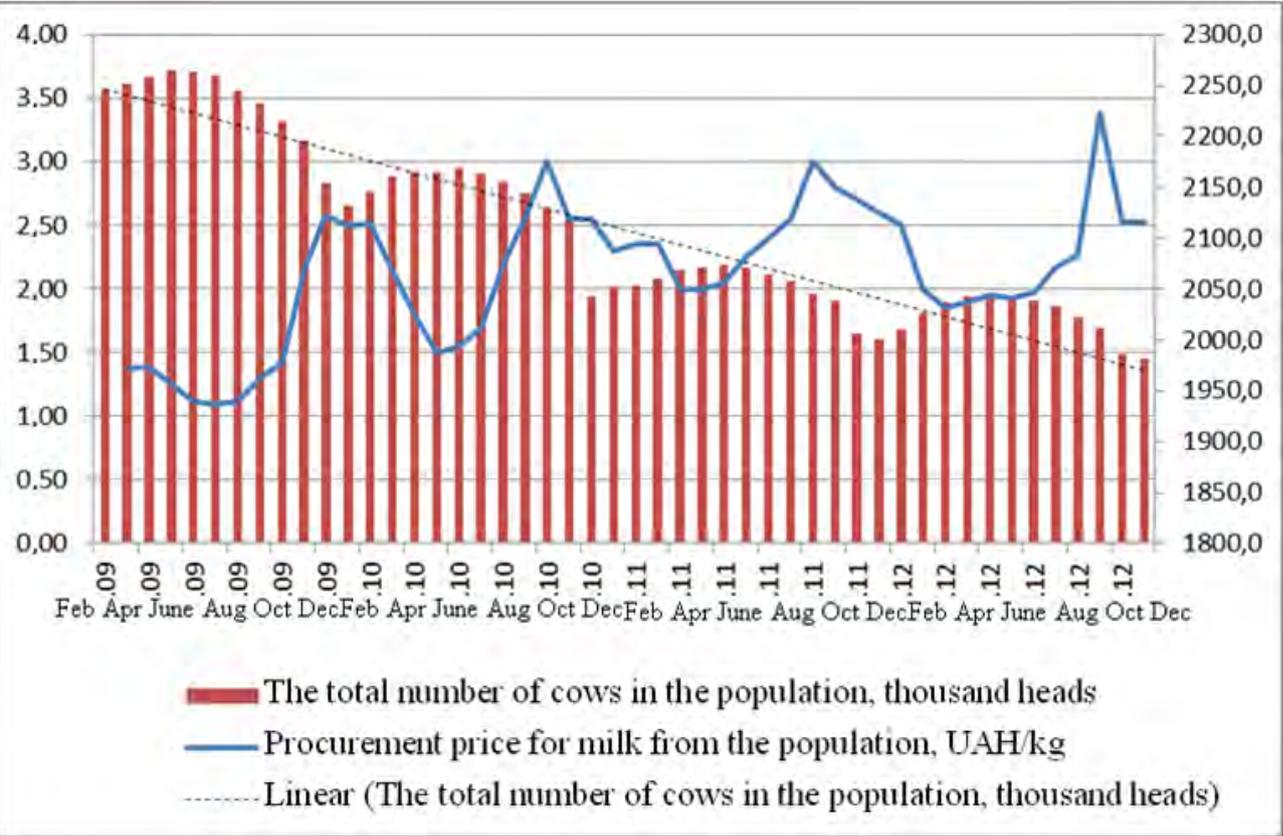


Figure 4.3. Interconnection between procurement prices for milk and the total number of cows owned by the population



5. Potential consequences of trade restrictions by the Russian Federation if Ukraine signs the Deep and Comprehensive Free Trade Zone (DCFTA) with the EU

High level representatives of the Russian Federation have stated that if Ukraine signs the DCFTA, Russia will have to apply protective measures on the import of Ukrainian products. The following assumptions are the reasons for the following possible steps:

- Ukrainian products will become less competitive on the domestic market due to reducing import duties on products of European suppliers. This will force Ukrainian producers to look for additional markets, including those of Russia and other countries of the Customs Union (CU) with which the regime of free trade within the CIS framework is in force.
- Ukrainian producers will use primary materials of European origin that will condition the supplying of “practically European products” to the CU countries in the guise of Ukrainian ones.

Despite the fact that such concerns to some extent are grounded, application of trade restrictions towards Ukraine can be only an extreme step when taking into account alternative possibilities for leveling risks for CU countries.

- Introducing tariff barriers should be the result not of “a threat of growing imports”, but of an actual import growth. Specifically, any WTO country has the right to introduce special protective measures (such as an increased import duty) in case of a substantial increase in imports of products from any other WTO country, having conducted an adequate investigation.
- When using a large quantity of raw materials of European origin for production and further export of Ukrainian products to Customs Union countries, the point again is not additional tariff barriers for import, but cooperation of countries in determining a procedure of issuing a certificate of origin.

Since introducing import duty rates on Ukrainian products through the Russian Federation’s commitments with the WTO remains the main scenario for Russia, an evaluation of the potential effects of such a scenario on the Ukrainian dairy industry will be explored below (Russian Federation commitments regarding tariff shelter of the cheese market are presented in Annex 1).

The calculation of a possible rate of import duties on Ukrainian products in this case is given in Table 5.1 below. For evaluating an actual import duty rate, recalculation of an ad valorem import duty rate in its specific equivalent for two commodity items was made, which makes up the majority share of the Ukrainian exports that is based on the customs statistics for seven months of 2013. The calculations show that proceeding from the price of exported cheeses to the Russian Federation, an ad valorem import duty rate, but not a specific one, can be applied.

Table. 5.1. Calculation of possible rates of import duty on Ukrainian cheeses in case of an introduction of import duties in RF in compliance with its commitments to the WTO

FEACN Code	Quantity, tons	Cost, thousand tons	Average price USD/kg	Import duty rate in RF, 2014	Import duty rate in RF, 2016	Recalculation ad valorem rate in specific one, 2014, USD/kg	Recalculation ad valorem rate in specific one, 2016, USD/kg	Actual rate, 2014	Actual rate, 2016
406908700	10921	61744	5.65	20, but not less than 0.35 € per kg	15, but not less than 0.3 € per kg	1.13	0.85	20%	15%
406909990	21864	133010	6.08	20, but not less than 0.32 € per kg	15, but not less than 0.3 € per kg	1.22	0.91	20%	15%

Source: own calculations based on Derzhstat data, protocol on RF joining WTO

Thus, it is possible to conclude that if Russia introduces WTO import duty rates on Ukrainian dairy products, an additional tariff loading on the import of cheeses from Ukraine will be equal to 20% in 2014 and 15% starting in 2016.

Taking into consideration that cheese export exceeds 80% in the export structure and the share of export in the structure of processing is about 17%, we can assume that processing enterprises will have to reduce procurement prices for milk by the abovementioned 20-15% due to a lack of other options for prime cost optimization. In this case, proceeding from the experience of previous trade restrictions, prices are reduced, first by cheese producing enterprises that release overall milk supplies on the market which in turn results in a reduction of procurement prices for milk on the part of whole milk product producers under the conditions of low elasticity of their internal consumption. The calculation of possible consequences of such a scenario for milk producers is presented in Table 5.2.

Table. 5.2. Calculation of potential influence of tariff shelter of the Russian market for Ukrainian milk production

Indicator	Magnitude
Profitability of milk production in 2012	2.3%
Increase in prices for milk in 2013 ⁶	23.6%
Index of prices for material and technical resources in 2013 ⁷	4.6%
Expected profitability of milk production in 2013 ⁸	21.3%
Expected reduction of prices if Russia introduces an import duty in 2014	20%
Calculated profitability of milk production with due regard for trade barriers on the RF market in 2014	1.3%

⁶ According to the data for 9 months of 2013

⁷ According to Derzhstat data for 6 months of 2013 as compared to a relevant period of 2012

⁸ It is calculated as the 2012 profitability plus the 2013 milk price increase index minus the 2013 price increase index for material and technical resources of agrarian production.

Source: own calculations based on Derzhstat data

A potential introduction of import duties on dairy products by the Customs Union therefore cannot affect an increase in prices on Ukraine’s market, nor can it bring milk production profitability to almost a break-even level. The situation can additionally become more complex if the prices for dairy products on the world market start to decline⁹. In this case milk production profitability might become negative. As already noted, the effect of a price reduction can affect households since they are not a priority category of suppliers for milk processors taking into consideration comparatively low milk quality and logistic complications of its collection.

The effect of partial restrictions on the export to the Russian Federation can be estimated based on historical experience. The present comparison was based on the assumption that Ukrainian produce competes with Polish produce at the Russian market. Therefore, when imposing trade restrictions on the export of Ukrainian dairy products to Russia, the discount in the price for Ukrainian milk in comparison to Polish milk should grow (or the premium in the price should be decreased). Figure 5.3 illustrates the comparison of milk prices in Ukraine and Poland with allowance for the volume of cheese export to Russia.

Fig. 5.3: Interrelationship between procurements prices for milk in Ukraine and Poland depending on the volume of cheese export to Russia



Source: own calculations, data of the State Statistics Service

The average monthly cheese export to Russia between January 2009 and September 2013 was 5,130 tons. The periods were then analyzed in which the export was above and below the monthly average. As a reduction in export affects market prices with some lag, our analysis allows for a four month delay between an increase (reduction) in the export and the period for which the price relationship is analyzed. The comparative analysis data is shown in Table 5.4.

⁹ Experts forecast a possibility of a gradual reduction of prices for dairy products on the world market as a response to cheapening of a fodder component that has already taken place. Though, it is expected that this process will be restrained in time as compared to low world stock of milk products.

Table 5.4: Relationships between prices for milk in Ukraine and Poland depending on cheese export

Period under review	Assumptions	Average price for milk (UAH/kg)			Effect from restrictions on export (UAH/kg)
		Ukraine	Poland	Difference	
Jan 2009 through Oct 2012	Export is above average	3.13	2.52	0.61	0.27
	Export is below average	2.77	2.42	0.35	
Jan 2009 through Sep 2013	Export is above average	3.22	2.46	0.76	0.11
	Export is below average	3.03	2.39	0.64	

Source: own calculations based on the official statistics; <http://www.milkua.info/>

The above calculations enable us to make the following conclusions:

- The discount in procurement prices for milk during the period when Russia applied trade restrictions (from January 2009 through October 2012) is 27 kopecks per kg. This discount has a form of a reduced premium in the price for Ukrainian milk as compared to the price for Polish milk.
- The effect from reduced premium is less tangible in the period of January 2009 through September 2013. In this case, the premium discount is as small as 11 kopecks per kg. The reduction of cheese exports to levels below the monthly average between October 2012 and September 2013 was due to lower competitiveness of Ukrainian products in the Russian market compared to other countries' products rather than due to export restrictions.
- In light of the above conclusions, we estimate the historical effect of the trade restrictions to be at 27 kopecks per kilogram of milk.

Lower competitiveness of Ukrainian products at the Russian markets (inter alia, because of a large difference between prices for milk in Ukraine and Poland) means that one should not expect milk prices to increase. Another risk factor is a potential increase in dairy product imports to Ukraine. Under such conditions, it is particularly important to improve the performance of milk producers and ensure that they can and do utilize government support measures properly.

6. Recommendations for diversifying the export of Ukrainian dairy products

Steps towards neutralizing the negative impact of Russia's imposition of restrictive measures on Ukrainian dairy products should be subdivided into several key components.

1. *Negotiations with Russia (the Customs Union) on compromising restrictive steps.* Possible areas for compromise are (a) using tariff barriers only in the case of actual growth in the

volume of product exports¹⁰ to the Customs Union market (e.g., in the form of special duties) and (b) improved collaboration in adopting product certificates of origin in order to block the export of products with Ukrainian origin¹¹.

Theoretically, turning to the WTO could help resolve the issue; however, in this specific situation, it could be counterproductive, since Russia, were any customs tariffs to be imposed, would set them at a level in line with its WTO commitments. The problem is only in the “depreciation” of a significant part of the free-trade agreement within CIS; however, one could not rely on impartiality of arbitration procedures within this organization.

2. *Prerequisites for possible compensation to economic agents for their losses from the drop in milk prices.* One of the key elements of such a policy could involve continuation of the existing special taxation regime for dairy plants, which would allow dairy companies to (a) set the level of procurement milk prices incorporating a 50% payment of VAT amount to milk suppliers, and (b) receive the remaining 50% of VAT amount for implementing the activities of direct budget support to milk producers at the expense of a special fund in the State budget.

In the current version of the Tax Code, the special taxation regime for dairy plants is only envisaged through year 2014; with the possibility of extension through 2015 (and possibly beyond), relevant legislative amendments will have to be made to the Tax Code by 1 July 2014.

3. *Preconditions for self-organization of small players on the milk market, mainly, households.* The most common international approach to address this matter is using the tool of association into cooperatives. In Ukraine, unfortunately, no economic preconditions exist for this, primarily, at the level of taxation.

If a household independently sells its produce, the seller is exempt from personal income tax and value-added tax. Conversely, when joining service cooperatives, it must carry an additional obligation at the level of 35% of sales, which makes the establishment of coops economically senseless. An alternative option for development of cooperation (e.g., when coops operate based on commission or an agency agreement) is more complex from the organizational point of view and, typically only implemented with support from external stakeholders, e.g., processing plants. Generally, establishment of coops should help address these three main problems:

- Increase the volume of batches of milk sold, making them more attractive suppliers for dairy plants;
- Improve the milk quality, in particular, through supplying milking equipment to households, as well as when coops have milk cooling equipment and;
- Carry out service functions, for instance, with regard to supplies of fodder, mechanization tools etc., which would help optimize the cost structure.

¹⁰ Clearly, the negotiating process in this case will not only deal with dairy or agricultural produce, but with a wide range of goods.

¹¹ In the case of dairy products, this issue is not so pressing, as it is hard to imagine systematic import of milk from EU Member-States with subsequent processing in Ukraine; however, it could also be discussed in a broader context.

If the said issues are resolved, households could receive a 31% higher milk price thanks to bringing the prices in line with the selling prices of agribusiness companies¹². The impact from this scenario is hard to overestimate; however, as has already been mentioned, legislative changes for its implementation are absolutely essential.

4. *Diversification of export destinations for dairy produce.* Attempts of dairy plants to diversify their markets by entering the promising markets of Asia are met with some specific requirements of this region, in particular, different tastes and consumer traditions. Therefore, expanding the markets is primarily possible through Ukraine's gaining opportunities of exporting dairy produce to the European Union market. This opportunity is extremely important in the context of the EU DCFTA, which would give the Ukrainian producers opportunities for unlimited export of some types of produce to the EU market (e.g., export of cheeses without quotas and import duty).

The requirements for improving the quality assurance and safety system for gaining the opportunity to export dairy products to the EU market are listed in Appendix 2¹³. In more practical terms, this includes the following:

- Conducting a total identification of animals and imposing penalties when not able to conduct the identification¹⁴;
- Appointing a single competent authority in the field of food quality and safety¹⁵;
- Prohibiting acceptance of milk for processing if manual milking is used.

In general, DG SANCO experts have a favorable opinion of Ukraine's progress towards improving its system of milk and dairy product quality and safety; however, adoption of the abovementioned key legislative changes is critically important for further progress in gaining access to the EU market.

5. *Attracting foreign investors in dairy production who are interested in exporting Ukrainian dairy products to countries of the investors' origins is a potential means of expanding the existing trade market.* A number of investors from Arab countries are ready to develop commercial dairy farms in Ukraine. In so doing, they are also willing to lease agriculture land for fodder production purposes¹⁶. All existing enterprises in Ukraine face similar problems with invest attraction and execution of long-term state-owned land leases under investment obligations and long-term communal-owned land leases under obligations to preserve jobs could be solutions to these problems.

¹² According to Derzhstat, the average price of milk sold by agribusiness companies amounted to UAH 3.31 per kilo during nine months of 2013 compared to just UAH 2.27 per kilo for milk sold by households.

¹³ The respective recommendations can also be found at http://ec.europa.eu/food/fvo/ap/ap_ua_2010-8520.pdf

¹⁴ The respective bill has been submitted by the Cabinet of Ministers to the Verkhovna Rada, however, it is yet to be considered in the first reading - http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=45901

¹⁵ The respective bill has been submitted by the Cabinet of Ministers to the Verkhovna Rada, however, it is yet to be considered in the first reading - http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=48052

¹⁶ The agriculture land lease negotiation process is burdensome. The cost of assigning the lease right, specifically through assigning corporate rights, ranges from \$200 to \$500 per hectare. This increases investors' expenses substantially under conditions where dairy production without own fodder base production is far less profitable.

6. *Developing a proper enabling regulatory environment.* In a situation where the Government has limited capacities for providing financial support to milk producers, development of a proper enabling regulatory environment becomes particularly important. For instance, producers complain on an inappropriate procedure for setting waste disposal standards leading to imposition of financial sanctions by Ukraine's environmental inspection authorities, delays with issuance of water intake permits, etc. Resolution of these and other similar issues does not require any funding and could improve the business environment in the industry significantly.
7. *Developing qualified personnel.* Educational institutions are poorly equipped. Their faculty has a very weak connection with production. In many cases, they do not have any experience in production operations. Under such conditions, producers are not able to hire qualified staff and, consequently, to implement modern production technologies and improve their economic performance. At the national level, the Government should promote internship programs for faculties from educational and training institutions. There needs to be support of private professional training initiatives at existing enterprises, likely with the engagement of donors and international organizations. Attention should be paid to OECD recommendations on implementing student internship programs similar to those existing in other countries whereby students are enabled to work in enterprises during several months (initially – on a voluntary basis). In such cases, students should be allowed to attend educational institutions on a flexible schedule.
8. *Focus on public/private development of the dairy sector.* The available experience shows that projects in cooperative development and/or development of small holdings up to the medium-sized business level are most successful when they are funded by private investors and/or donors. The synergy from combining funding and consulting will ensure successful implementation of such projects. From the government policy perspective, it is a matter of priority funding of projects where alternative sources of funding exist (processing enterprise, cooperative's or producer's own funds, donor's funds, etc.).

Although most of the above steps would be difficult to implement, they are absolutely essential, even outside the context of possible trade barriers to Ukrainian dairy products on the part of the Customs Union. The said risks must become a catalyst for positive changes in both the legislation and dairy business practices in order to bring the industry's performance to a new level.

Annex 1.

Import duty rates provided for by Russian Federation commitments to the WTO

FEACN Code	Name	Bound import customs duty rate as of the date of joining	Final bound import customs duty rate	The year of termination of fulfillment of commitments
0406	Cheeses and curds:			
0406 10	– young cheeses (green or immature), including wheyey-albumin cheeses and curds:			
0406 10 200	-- with a fat content not more than 40 oil. %:			
	--- curds:			
0406 10 200 2	---- in original packages with net mass not more than 200 g, for baby food	20, but not less than 0.25 € for kg	15, but not less than 0.19 € for kg	2015
0406 10 200 3	---- other	20, but not less than 0.25 € for kg	15, but not less than 0.19 € for kg	2015
0406 10 200 9	--- other	20, but not less than 0.25 € for kg	15, but not less than 0.19 € for kg	2015
0406 10 800 0	-- others	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2015
0406 20	– grated cheeses or powered cheeses, all types:			
0406 20 100 0	-- Glarus cheese (also cold "Shabciger") made of skim milk with addition of finely cut aromatic herbs	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2015
0406 20 900 0	-- others	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2015
0406 30	– processed cheeses, ungrated or unpowered ones :			
0406 30 100 0	-- in production of which use was made only of chesses Emmentaler, Gruyère and Appenzeller and which can include Glarus cheese as an additional ingredient (also cold "Shabciger"); packed for retail sale, with a content of fat in dry matter not more than 56 oil. %:	15, but not less than 0.3 € for kg		
	-- others:			
	--- with a content of fat not more than 36 oil.% when kept in dry matter:			
0406 30 310 0	---- not more than 48 oil. %:	15, but not less than 0.3 € for kg		

FEACN Code	Name	Bound import customs duty rate as of the date of joining	Final bound import customs duty rate	The year of termination of fulfillment of commitments
0406 30 390 0	---- more than 48 oil. %:	15, but not less than 0.3 € for kg		
0406 30 900 0	---- with a fat content more than 36 oil. %:	15, but not less than 0.3 € for kg		
0406 40	– blue and other cheeses containing the veins obtained by using <i>Penicillium roqueforti</i> :			
0406 40 100 0	-- Roquefort	15, but not less than 0.3 € for kg		
0406 40 500 0	-- Gorgonzola	15, but not less than 0.3 € for kg		
0406 40 900 0	-- others	15, but not less than 0.3 € for kg		
0406 90	– other cheeses:			
0406 90 010 0	-- for producing processed cheeses	23, but not less than 0.46 € for kg	14, but not less than 0.28 € for kg	2017
	-- others:			
0406 90 130	--- Emmentaler:			
0406 90 130 1	--- with a fat content of 45 oil.% or more in terms of dry matter, matured for three or more months	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 130 9	----- others	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 150 0	--- Gruyère, Sbrinz	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2015
0406 90 170 0	--- Bergkase, Appenzeller	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2015
0406 90 180 0	--- Fribourgeois cheese, Vashren Mont d'Or and Tête de Moine	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2015
0406 90 190 0	--- Glarus cheese (also cold "Shabciger") made of skim milk with addition of finely cut aromatic herbs)	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2015
0406 90 210 0	--- Cheddar	20, but not less than 0.4 € for kg	14, but not less than 0.28 € for kg	2017
0406 90 230 0	--- Edam	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 250 0	--- Tilsiter	20, but not less than 0.45 € for kg	15, but not less than 0.3 € for kg	2016

FEACN Code	Name	Bound import customs duty rate as of the date of joining	Final bound import customs duty rate	The year of termination of fulfillment of commitments
0406 90 270 0	---- Butterkase	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 290 0	---- Caciocavallo	15, but not less than 0.3 € for kg	12, but not less than 0.24 € for kg	2015
	---- Feta:			
0406 90 310 0	----- made of sheep milk or buffalo milk in containers containing brine or in waterskins made of sheep or goat's skin	15, but not less than 0.3 € for kg		
0406 90 330 0	----- others	25, but not less than 0.43 € for kg	15, but not less than 0.26 € for kg	2015
0406 90 350 0	---- Kefalotyri	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 370 0	---- Finland	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 390 0	---- Jarlsberg	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
	---- others:			
0406 90 500 0	----- cheeses made of sheep milk or buffalo milk in containers containing brine or in waterskins made of sheep or goat's skin	15, but not less than 0.3 € for kg	12, but not less than 0.24 € for kg	2015
	----- others:			
	----- with a fat content not more than 40 oil.% and moisture content in defatted matter:			
	----- not more than 47 oil. %:			
0406 90 610 0	----- Grana Padano, Parmigiano Reggiano	15, but not less than 0.3 € for kg		
0406 90 630 0	----- Fiore Sardo, Pecorino	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 690 0	----- others	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
	----- more than 47 oil. %, but not more than 72 oil. %:			
0406 90 730 0	----- Provolone	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 750 0	----- Asiago, Caciocavallo, Montazio, Raguzano	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016

FEACN Code	Name	Bound import customs duty rate as of the date of joining	Final bound import customs duty rate	The year of termination of fulfillment of commitments
			€ for kg	
0406 90 760 0	----- Danbo, Fontal, Fontina, Fynbo, Avarty, Maribo, Samsoe	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 780 0	----- Gouda	20, but not less than 0.35 € for kg	15, but not less than 0.26 € for kg	2015
0406 90 790 0	----- Esrom, Italico, Kernhem, Saint-Nectaire, Saint-Paulin, Tallegio	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 810 0	----- Cantal, Cheshire, Wensleydale, Lancashire, Double Gloucester, Blarney, Colby, Monterey	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 820 0	----- Camambert	15, but not less than 0.3 € for kg	Cheshire	
0406 90 840 0	----- Brie	15, but not less than 0.3 € for kg		
0406 90 850 0	----- Kefalograviera, Kasseri	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
	----- other cheeses with a moisture content in defatted matter:			
0406 90 860 0	----- more than 47 oil. %, but not more than 52 oil. %	20, but not less than 0.4 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 870 0	----- more than 52 oil. %, HO not more than 62 oil. %	20, but not less than 0.35 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 880 0	----- more than 62 oil. %, but not more than 72 oil. %	25, but not less than 0.5 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 930 0	----- more than 72 oil. %	20, but not less than 0.45 € for kg	15, but not less than 0.3 € for kg	2016
0406 90 990	----- others:			
0406 90 990 1	----- White cheese made of cow's milk, in brine	15, but not less than 0.3 € for kg	12, but not less than 0.2 € for kg	2016
0406 90 990 9	----- others	20, but not less than 0.32 € for kg	15, but not less than 0.3 € for kg	2016

Annex 2.

Recommendations given by DG SANCO in report 2010-8520-MR for the possibility of exporting Ukrainian dairy products to European markets

1. Provide credible information on the cattle available in households; identification of cattle, taking action of control over identification of the cattle and the system of registration, specifically, establishment and efficiency of a centralized data base to enable the State Veterinary and Phytosanitary Service of Ukraine, based on corresponding programs of cattle health monitoring, to adequately guarantee that the state of health of the cattle whose milk is intended for export to EU complies with the requirements of point II.1 of typical veterinary certificate Milk-HTC which is contained in Part 2 of Annex II to Regulation (EU) No. 605/2010.
2. The enterprises offered for dairy product export to EU should observe hygienic requirements presented in Annex II to Regulation (EU) No. 852/2004 as specified in Article 12 of Regulation (EU) No. 854/2004 and in accordance with Article 4 of Regulation (EU) No. 852/2004 should take action for providing compliance with corresponding standards for microbiological criteria set forth in Regulation (EU) No. 2073/2005.
3. Include verification of compliance with requirements of points II.1 and II.2 of typical veterinary certificate Milk-HTC contained in Part 2 of Annex II to Regulation (EU) No. 605/2010 in the control plans used by official veterinaries for control over the enterprises which received permit for export of dairy products.
4. Analytical methods used for E. Coli spot test¹⁷ regarding the dairy products intended for export to the EU and for determining activity of alkaline phosphates in milk immediately after its pasteurization should adhere to requirements of Annex I of Chapter 2 to Regulation (EU) No. 2073/2005 and Annex VIa to Regulation (EU) No. 2074/2005 respectively.
5. The indicators and analytical methods used for water specimen tests at the enterprises and households which produce the products intended for export to EU should be in compliance with corresponding requirements of Council Regulation 98/83/ EU.

¹⁷ **E. coli** - Escherichia coli. Enterographic strain of bacteria that is a frequent cause of food intoxication.