

ISSUES OF EXPORTING COMMODITIES OF UKRAINIAN ORIGIN TO EU COUNTRIES

Since the full-scale Russian invasion of Ukraine, local farmers and traders faced multiple challenges connected to the need for new logistics of delivery, border crossing, and increased costs of delivery. An incapability to pass about 15 million tons of commodities per month through the western borders, logistics issues connected with building up brand new on-land routes for delivery as well as its increased cost became **primary reasons for undermining Ukrainian agricultural commodities export**. Moreover, higher demands for quality, more bureaucratic issues introduced by EU customers, and the necessity to work under the constant risk of being shelled had led a local farmer to the edge of his survival. All of these resulted in the price increase that made commodities trading highly unprofitable for Ukrainian farmers. Most of the local producers were truly unprepared for such conditions.

In peacetime, up to 70% of the state's external trade was carried out via sea routes. More than 90% of the total grain trade passed through the ports, which with the start of the invasion became either closed or blocked. The ports of Berdiansk, Mariupol, Skadovsk, and Kherson had to be closed due to their temporary occupation by the Russians. Since February 24, the entry and exit of ships from the ports of "Pivdenny", "Mykolaiv", "Olviia", "Odesa", "Chornomorsk" and "Bilhorod-Dnistrovskiy" are also not possible*. Therefore, these ports worked exclusively with cargo and fleet, which were already under processing on February 24.



Despite the war, Ukrainian exporters continued work and searched for new ways of delivery, **railway** was one of them. Ukraine's operational railway network is one of the largest in Europe, stretching almost 20 thousand km. Railway transport provides 82% of Ukraine's freight transportation, but it didn't happen to be farmers' salvation.

The issues in the logistics by railway originated in the distant past. Because of the decision of the USSR government, Ukraine and post-Soviet countries have 1520 mm gauge railways, meanwhile, the European countries agreed to have a 1435 mm, standard-gauge railway. This decision echoes us today. In order to cross the Western border by railway, we need to shift the wheel pair to 1435 mm on the Ukrainian wagons or load European wagons at the **transshipment stations** in the EU or Ukraine and reload commodities from one type of wagon to another. There are not so many transshipment stations and the number of existing ones is still insufficient (even taking into account all the new ones, built during the war). Only huge projects of dry ports could change the situation. But they could not be constructed for a few months of the war as the transshipment stations could. Moreover, establishing new supply chains without getting more new free hoppers (wagons for transporting grain) could lead to all those ambitious projects losing any sense.

We have to admit that the European railway system was not ready for such a high transportation demand either. In terms of cargo traffic, Ukraine's railway is the fourth on the Eurasian continent after China, Russia and India railways. Its freight traffic (annual volume of traffic per 1 km) is 3-5 times higher than in European countries. And while it is possible to establish

new supply chains, without getting more new free hoppers (wagons for transporting grain) any ambitious projects and changes lose all sense.

The necessity of shifting wheel pair results in the providing blocks, called conventions, to the railway stations from Ukrzaliznytsia (a state company of Ukrainian railway), which could do such operations. The convention status also means that there is a prohibition to send any new wagons to this station. As a result, we witnessed **thousands of wagons** stuck on those stations, blocking others from working at their full capacity as there are not enough European wagons (1435 mm) ready to load commodities from transshipment stations. For example, on April 7, 2022, Ukrzaliznytsia reported that 10,320 wagons (about half of the total) were waiting at the Ustyluh (Izov)–Hrubieszów border crossing on the Linia Hutnicza Szerokotorowa line, the main railway connection between Ukraine and Poland.

Therefore, the sheer volume of goods that needs to find an alternate route is able to lead to the collapse of the Ukrainian railway system from the point of view of exporting commodities through the western border. Such a situation pushed the **truck logistics market** to a price rise of **220%**, making the on-land truck grain transportation relevant as never before.

Poland. The issue faced by Ukrainian carriers is connected to the process of the Polish-Ukrainian border crossing. All goods of Ukrainian origin must be delivered with verification of sanitary service. However, the sanitary service can accept only 80 trucks per day, which is far from the amount needed to keep the export level high and to prevent the constant price rising of logistics fees. The role of sanitary service is only technical marking documents and the real analysis is conducted for 1 of 50 trucks. However sanitary service may hold the truck for up to 6 days. There is also a veterinarian service, which constantly stops trucks with grain for up to 4 days more. Polish traders comment on this situation during off-the-record conversations, claiming there is an indication from the government to the customs house to create an artificial obstacle and slow down the pace of delivery of commodities of Ukrainian origin. Thus, the purchase of Ukrainian grain would drop, letting Polish companies keep the desired high price of crude for Polish farmers. At the moment of publication the situation has improved due to the agreement between the Ukrainian and Polish governments.

Romania. The Ukrainian agricultural traders have found a panacea for their export – the Danube ports. The river ports “Ust-Dunaiskyi”, “Izmail” and “Reni” are operating as usual since the invasion broke out. Although before the invasion they weren’t widely used and accounted for 10% of goods turnover, they still became a glimmer of hope for agricultural businesses.

It made them dependent on the Romanian side as well. When it was decided by Romania to close the gateway to the Danube River nearby Galați, the water levels in Reni and Izmail river ports decreased leading to limitations in loading barges. Essentially, it was possible to load the barges for 4-5 thousand metric tons, but after closing the gateway the possibility of loading decreased to the 1 thousand metric tons barge. That is why the passage of 80 trucks per day decreased to 10 trucks as an average indicator. On the other hand, such action allows the Romanian side to increase the size of barges from 4 thousand metric tons to 6-7 thousand metric tons and to ensure a higher supply chain of exporting into the depth of the EU.



General price-making is another topic for discussion. The Romanian market works by the principle of MATIF -10 EUR (somewhere the difference could be higher than 10 EUR), but in case of mentioning the Ukrainian origin of commodities, the price falls to another -30 EUR. Such a decision isn't explained by the lower quality of products, but by the price of cooperation with companies in the country, which is in a state of war. It leads to a higher risk of execution of agreements or even their non-fulfillment. The price cut also happens, because of the high supply of UA-origin commodities. Thus, businesses use it as a way to get extra margin on it.

It is worth mentioning, that the significance of river ports was already noted by the late Oleksiy Vadaturskyi, the CEO of NIBULON LLC – one of the biggest agricultural companies in Ukraine and the pioneer of river navigation, who decided to build up the river port in Izmail with the simultaneous storage of 2 million tons of commodities. That had to facilitate its port in becoming as significant as Odesa or Pivdenny seaports. His vision of the promising future of river navigation and the legacy he left, in fact, saved the Ukrainian agricultural business in modern conditions. An epoch-making figure, the creator and main advocate of river navigation in Ukraine, Mr. Vadaturskyi died with his wife as a result of a Russian missile attack on his family home in Mykolaiv on July 31. His death is an irreparable loss for all representatives of Ukrainian agricultural businesses.



Bulgaria. In Bulgaria, the dissatisfaction with the fall of uniquely high scarcity prices due to Ukrainian export turned into **physical aggression** of Bulgarian farmers against Ukrainian carriers. Among other things blockade of the roads, Ukrainian trucks are using for logistics occasionally occurs, drivers may suffer from cut wheels and even violence.

The principle of price making here works the same way as in Romania, the Ukrainian-origin goods get 30 EUR less per 1 mt.

The principle of “Take it or go”

Also, Ukrainian companies faced agreement violations in the time of their “during war” work. The European companies could easily breach all agreements if any changes on market occurred. There have already been a huge number of cases when the European trader confirms a business offer (price, amount, term of delivery, period, etc.) and, after, disappears for a long period of time without providing a draft of the contract to sign the gained agreement. After coming back the offer is reduced to -75 / -100 EUR without any explanations – take it or go.

*Grain deal between Ukraine, Turkey, and the UN: unlocking that didn't make it easier

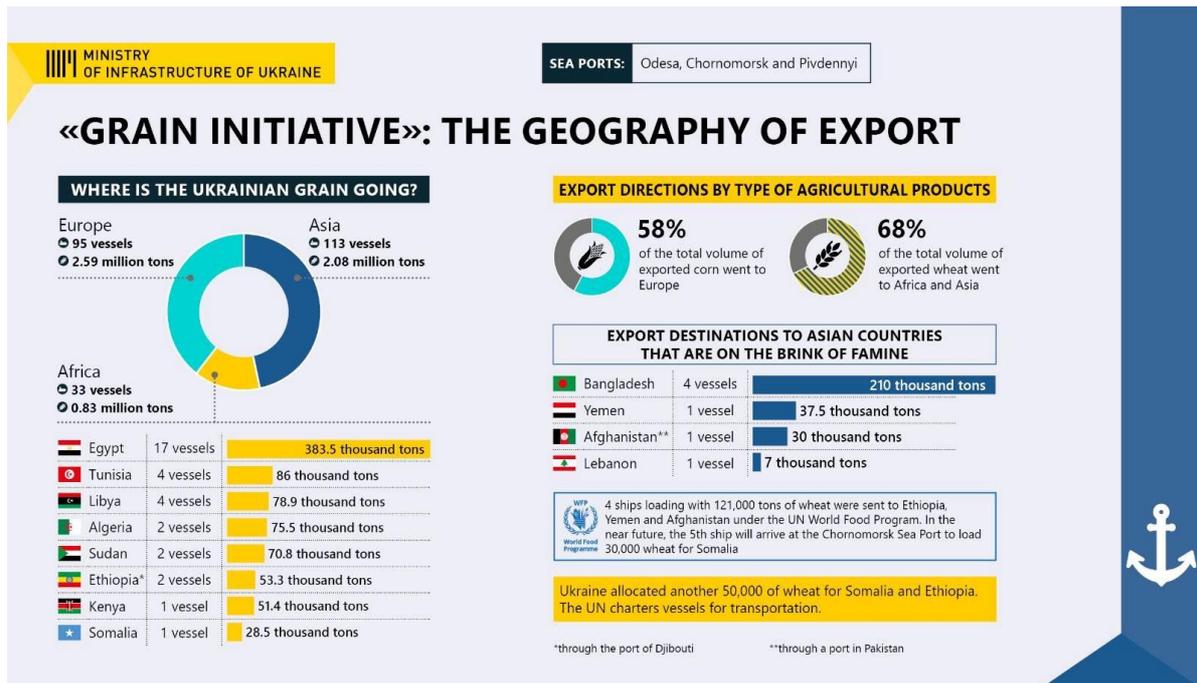
On July 22, 2022, the «grain agreement» was concluded between Ukraine, the UN, and Turkey in Istanbul. A similar document was signed between the UN, Turkey, and Russia, which undertook not to hinder the export of grain by commercial vessels if they are not used to deliver military supplies to Ukraine. The agreements provide for the unblocking of three Ukrainian ports (Odesa, Chornomorsk, and Pivdenny) for the export of grain and food supplies. A Joint Coordination Center was created under the auspices of the UN, and the agreement itself was concluded over a period of 120 days.



For Ukraine, this agreement became an opportunity to demonstrate to the world that despite the state of war, it strives to prevent a global food catastrophe and takes the necessary steps for this. With this agreement, Ukraine also deprives Russia of the opportunity to weaponize hunger and food scarcity, particularly against developing countries, to influence their stance on the war. Another question is whether it is being perceived that way by, for example, our African partners, who were specifically targeted by the Russian disinformation campaign concerning the topic.

For more than a month of operation this corridor, it was used by 241 ships, which managed to export 5,5 million tons of agricultural products (according to the data of the Ministry of Infrastructure of Ukraine, October 1, 2022). Before the grain agreement took effect, 20 million tons of that year's crop were in ports and grain warehouses. The term of the agreement will not be enough to ship this entire amount. Thus, the grain deal does not solve the problem of the export of the harvest

of 2021 and 2022, and overland transportation of grain as well as the availability of free areas for storing the new harvest remain relevant challenges.



Besides, on April 4, Ukraine was included in the list of potentially dangerous areas for shipping. This means that from the point of view of insurers, the territorial and internal waters of Ukraine are dangerous, so this affects the conditions of insurance of vessels and, as a result, the cost of delivery for charterers.

Adding to the abovementioned – the waiting time (this time at the coordination center that inspects the vessels on entry and exit) and historic increase in prices for the passage of ships in the Bosphorus and Dardanelles (first in the last 40 years) have become another resilience test for the companies.

In November the grain agreement is due to end which again raises logistic risks for vessels. This causes excessive internal demand for grain export from Ukraine through seaports. Everybody wants to depart their production in a very limited time period. This leads to long traffic jams for unloading trucks and wagons in Ukrainian seaports and passage of the Bosphorus strait by vessels. The Coordination Center designed to control the passage of the vessels is now taking more time to execute the control procedure, from 4 to 6 days longer than usual. That deteriorated the issue of jams, even more, causing higher logistical and storage costs.



The image represents the number of vessels waiting in line to pass the Bosphorus on October 12, provided by maritime analytics provider the MarineTraffic.com

Nowadays, the situation on market stays unstable, severely depending on the political statements of the Russian President, stock prices and logistics fees.

Kyiv, Ukraine
October 13, 2022

Although Ukraine is in an active state of war, the classic principles and rules of doing business as well as high market competitiveness still apply to it. Contrary to the popular belief in universal support of Ukraine, business remains in the “as usual” mode. Existing logistical challenges and security risks, that affect the timely execution of contracts, and the new ones related to the intention of European countries to protect their producers put a dangerously enormous strain on the leading profitable industry of Ukraine. Though Ukrainian resilience is admirable, we are yet to meet the consequences of this crisis.

Vasyl Stupak and Daryna Sydorenko for TDC