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The Role of Trade Policy in Reducing Ukraine's Current Account Deficit - Lessons from Abroad

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The Role of Trade Policy in Reducing Ukraine's Current Account Deficit - Lessons from Abroad

Executive Summary

Ukraine's current account deficit has widened significantly in recent years. Until mid-2008, this deficit was comfortably financed by capital inflows, but since then net capital inflows decreased dramatically and the size and the financing of the current account deficit became an urgent problem for the country. Initially, Ukraine has focused, in accordance with the IMF stand-by agreement, on macroeconomic policies and especially on the flexibilisation of the exchange rate to reduce its current account deficit. However, by the end of 2008 protectionist sentiments intensified in the country. Disregarding the constraints set in the Memorandum with the IMF, Ukraine's Parliament passed several laws envisaging various trade policy measures aimed at coping with the crisis. The most important one is a law which foresees the temporary introduction of additional import charges for all products excluding "critical" imports. In addition, several other laws have been proposed envisaging sector-specific support based on a range of measures including higher import barriers.

A review of other countries' crisis responses in terms of trade policy measures demonstrates that countries vary considerably in their trade policy measures adopted. The most common measure used to promote exports is trade finance. This measure is in compliance with WTO regulations. Countries also liberalise their trade regimes as a crisis response by eliminating export barriers and relaxing import restrictions for certain products. The most common measure to restrict imports is the increase in import tariffs. Apart from most likely causing trade disputes with affected trade partners, increasing selectively import tariffs also opens an opportunity for lobby groups to pursue their interests, which is unlikely to result in an adequate policy response to the problems posed by the current crisis.

Considering the constraints posed by Ukraine's trade structure and its commitments with regard to IMF and WTO, we come to the following conclusions and recommendations:

- In the case of Ukraine, macroeconomic policies are better suited to address its balance of payments problems. The adoption of protectionist measures should be regarded as an inadequate policy response to combat the economic crisis. In particular, we recommend abolishing a recently introduced temporary import surcharge on "non-critical" imports because it is not conducive to a good relationship with the IMF, opens the way for long-term protection of specific industries, might provoke retaliation from trading partners, and could result in a loss of international trade competitiveness in the long-term.
- To promote exports, Ukraine should promote export finance and insurance through direct government support and through support from multilateral organisations.
- We recommended to eliminate (temporarily) export taxes on edible oil seeds or to reduce them immediately to 10% as already committed to during Ukraine's WTO accession.

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1. Introduction

Ukraine's current account deficit has widened significantly in recent years. But until mid-2008, this deficit was comfortably financed by capital inflows. Thus, there was no urgent need to implement policy measures to reduce the deficit. But the situation changed during the summer 2008, when the global crisis reached Ukraine. Since then, net capital inflows decreased dramatically and the size and the financing of the current account deficit became an urgent problem for the country.

Ukraine's current account deficit is the direct result of Ukraine's trade deficit. Ukraine's goods exports are heavily concentrated on steel and therefore have been severely affected by a sharp drop in its price as a consequence of the global crisis. Imports are similarly dependent on few products, which are mostly energy imports.

Broadly speaking, a country has two main ways to reduce its current account deficit. First, it can use macroeconomic instruments, such as exchange rate, monetary and fiscal policies. Second, it can use trade policy measures, with the goal of reducing imports and/or increasing exports. Initially, Ukraine focused, in accordance with the IMF stand-by agreement, on macroeconomic policies and especially on the flexibilisation of the exchange rate. This macroeconomic response appears to be effective, as evident from recent reductions in the current account deficit.

Ukraine's trade policy response to the crisis is characterized by several documents. First, Ukraine signed a Memorandum of Economic and Financial Policies (MEFP) with the IMF. Although the MEFP does not contain any specific trade policy measures to counter the current crisis, the document contains an explicit commitment regarding what Ukraine *cannot* do in terms of trade policy. Disregarding the constraints set in the MEFP, Ukraine's parliament passed several laws envisaging various trade policy measures aimed at coping with the crisis. The most important one is a law which foresees the temporary introduction of additional import charges for all products excluding critical imports. There are also several laws envisaging sector support including higher barriers on imports.

In this paper, we study whether and how trade policy could contribute to a reduction of the trade deficit. For that we rely on a comparative analysis of anti-crisis trade policy measures in other countries, and on the analysis of the current stance of Ukraine in terms of trade structure, trade barriers, and the country's international obligations.

The remainder of the paper is structured as follows. Section 2 presents a summary of the current situation with regard to Ukraine's balance of payments with a particular focus on trade in goods and services, and on tariff restrictions applied by Ukraine. Section 3 contains a brief overview of Ukraine's policy response to the crisis in terms of trade policy. We provide an overview of other countries' crisis responses in terms of trade policy measures in Section 4. Lessons and recommendations conclude the paper in Section 5.

2. Summary of current situation

Before the current crisis, Ukraine's current account deficit was rapidly deteriorating. As shown in Table 1, the deficit has gone from a deficit of USD 0.3 bn in the third quarter of 2007 to over USD 3.2 bn in the fourth quarter. The rise in the deficit was attributed to rapid expansion of commodity imports, including imports of machinery and equipment, chemical and mineral products, and to a seasonal reduction of the service trade surplus.

Ukraine's net foreign position continued to worsen in 2008. The current account deficit was 2.2 times larger in 2008 than in 2007 reaching USD 11.9 bn. At the same time, the surplus of financial and capital accounts amounted to only USD 8.8 bn after USD 5.7 bn of capital had left the country during the last quarter of 2008. During the first nine months of 2008, about 60% of net capital inflows were coming from foreign direct investment (FDI), while during the same time period in 2007, the share of FDI in total net capital inflows still amounted to 75%. The remaining share of capital inflows included foreign debt.

Table 1 shows that the trade balance is the cause for the current account deficits. Thus, below we consider trade in goods and services in greater detail.

Table 1

Balance of Payments 2007/2008, USD m

	2007				2008				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	9M 2007	9M 2008
CURRENT ACCOUNT	***-1081***	***-622***	***-312***	***-3257***	***-3602***	***-3040***	***-1596***	***-2015***	***-8238***
Goods and services (balance)	-1685	-1253	-1070	-4144	-4392	-3616	-2063	-4008	-10071
Exports of goods and services	13369	15775	17523	17334	17513	23550	27360	46667	68423
Imports of goods and services	-15054	-17028	-18593	-21478	-21905	-27166	-29423	-50675	-78494
Goods (balance)	-1735	-1701	-2684	-4452	-4573	-4142	-3546	-6120	-12261
Exports of goods	10848	12526	12688	13778	13919	18866	21285	36062	54070
Imports of goods	-12583	-14227	-15372	-18230	-18492	-23008	-24831	-42182	-66331
Services (balance)	50	448	1614	308	181	526	1483	2112	2190
Exports of services	2521	3249	4835	3556	3594	4684	6075	10605	14353
Imports of services	-2471	-2801	-3221	-3248	-3413	-4158	-4592	-8493	-12163
Incomes (balance)	-128	-213	-189	-129	-120	-444	-562	-1126	-530
Current transfers (balance)	732	844	947	1016	910	1020	1029	2523	2959
CAPITAL AND FINANCIAL ACCOUNTS	**2530**	**3385**	**4150**	**5065**	**3515**	**4719**	**6249**	**10065**	**14483**
Capital account	-1	3	0	1	0	-1	5	2	4
Financial account	2531	3382	4150	5064	3515	4720	6244	10063	14479
Direct investment	1709	1934	3927	1648	2438	3083	3310	7570	8831
Portfolio investment	1816	1477	616	1844	224	129	-707	3909	-354
Other investment	-994	-29	-393	1572	853	1508	3641	-1416	6002
Long-term credits	1161	2139	4358	5417	3371	3392	5675	7658	12438
Monetary authorities and general government	-88	-156	319	407	186	-121	-172	75	-107
Banks	532	1702	1799	2798	2069	1959	3158	4033	7186
Other sectors	717	593	2240	2212	1116	1554	2689	3550	5359
Short-term capital	-2155	-2168	-4751	-3845	-2518	-1884	-2034	-9074	-6436
Net errors and omissions	-717	152	403	-275	-47	735	-724	-162	-36
BALANCE	732	2915	4241	1533	-134	2414	3929	7888	6209
Financing	-732	-2915	-4241	-1533	134	-2414	-3929	-7888	-6209
Reserve assets	-593	-2843	-4092	-1452	285	-2389	-3794	-7528	-5898
Use of IMF credit and loans (net)	-139	-72	-149	-81	-151	-25	-135	-360	-311

Source: National Bank of Ukraine

2.1. Trade in Goods and Services

Ukraine's single most important export product is steel (see Table 2). It accounts for about 34% of exports and slightly more than 17% of Ukraine's total trade. Given the importance of steel exports for Ukraine's trade performance, the recent sharp fall of steel prices has large (short-run) consequences for Ukraine's external position. The drop in steel prices was among factors causing almost twofold devaluation of the nominal exchange rate and thereby fuelling inflation due to an increase in import prices (IMF, 2008).

Ukraine's most important imports are energy products contained in the HS category 27. It accounts for nearly 27% of imports and 18% of total trade. In other words, steel and mineral fuels represent roughly equally important products in Ukraine's trade balance – with steel generating export revenues and energy products being imported. Therefore, the drivers for a trade balance deficit or surplus are these few product categories. At the same time, these product categories contain products of structural importance to Ukraine with very few possibilities to influence prices (or demand), i.e., trade policy has few angles to further increase steel exports and lower energy imports.

Table 2

Ukraine's most important export and import products, HS-2, USD m, 2008

Product	HS Code	Exports %	Imports %	Total %
Mineral fuels, oils, distillation products, etc	27	6.13	26.69	17.66
Iron and steel	72	34.31	3.86	17.24
Nuclear reactors, boilers, machinery, etc	84	5.22	11.19	8.57
Vehicles other than railway, tramway	87	1.86	13.29	8.27
Electrical, electronic equipment	85	4.24	4.45	4.36
Articles of iron or steel	73	5.28	1.68	3.26
Ores, slag and ash	26	3.21	2.41	2.76
Plastics and articles thereof	39	1.02	4.11	2.75
Cereals	10	5.53	0.17	2.52
Railway, tramway locomotives, rolling stock, equipment	86	3.97	0.74	2.16
Fertilizers	31	2.98	0.71	1.70
Pharmaceutical products	30	0.23	2.84	1.69
Oils	15	2.90	0.72	1.68
Paper & paperboard, articles of pulp, paper and board	48	1.17	1.86	1.56
Inorganic chemicals, precious metal compound, isotopes	28	2.39	0.41	1.28

Source: State Statistics Committee of Ukraine

In contrast, trade in services maintained a surplus throughout 2007 and 2008. Yet, in absolute terms, the surplus covered only about a quarter of the deficit of trade in goods in 2007 and has fallen further during 2008. Transport services accounted for 65% of total Ukrainian export services in 2008, including more than 20% of transport pipeline services. Other service exports, such as financial services or communication services, attain shares below 5% of total service exports. Service imports consist also mainly of transport services (rail transport) and financial services. Given the current composition of services trade, trade policy measures can hardly influence the main services generating exports, since these services rely on structural and political conditions which do not lend themselves to short-term intervention.

Table 3

Ukraine's most important export and import services, HS-2, USD m, 2008

Service	Exports %	Imports %	Total %
Transportation	65.18	24.79	50.54
of which pipelines	21.89	0.07	13.98
Miscellaneous business, professional, and technical services	13.05	16.69	14.37
Financial services	4.16	22.04	10.64
Travels	4.21	6.36	4.99
Government services, not included elsewhere	0.04	10.26	3.74
Computer services	2.30	3.56	2.76
Communication services	2.83	2.15	2.58
Repair	3.64	0.53	2.51
Insurance services	1.61	2.72	2.02
Royalties and licence fees	0.34	4.19	1.73
Other business services	1.19	2.41	1.63
Personal, cultural and recreation services	0.43	2.75	1.27
Construction services	1.02	1.56	1.22

Source: State Statistics Committee of Ukraine

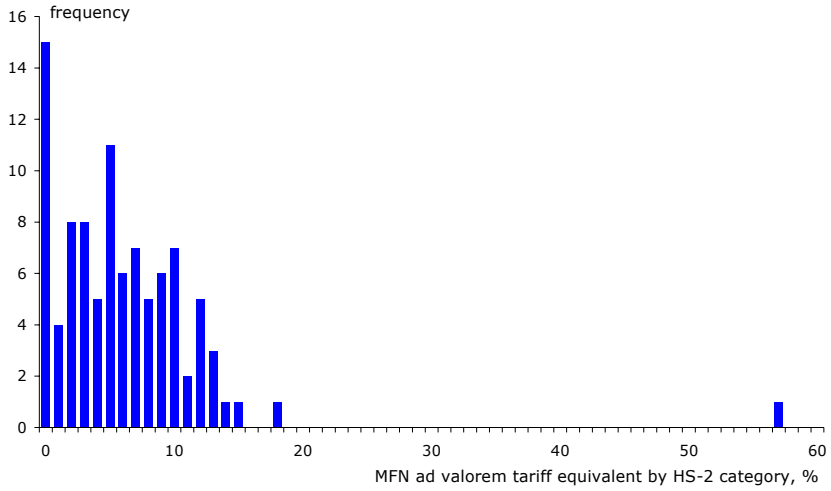
2.2. Tariff barriers

Ukraine applies MFN tariffs for WTO members and general tariffs for all other trade partners. Ukraine signed bilateral free trade agreements with the CIS countries, including Russia. These agreements establish zero tariff rates for the majority of traded products.[1]

Figure 1 shows the frequency of MFN ad-valorem equivalent tariff rates by HS-2 category applied since Ukraine jointed the WTO. The figure shows that the overwhelming majority of imports by HS-2 product category are taxed ad-valorem tariffs between zero and 13%. There are only four HS-2 product categories that face higher average tariffs, including HS 07 'Edible vegetables and certain roots and tubers', HS 11 'Milling products, malt, starches, inulin, wheat gluten', HS 22 'Beverages, spirits and vinegar', and HS 24 'Tobacco and manufactured tobacco substitutes'. However, there is important heterogeneity across tariff lines, which is disguised in Figure 1. For instance, the highest ad valorem rates are applied to sugar (50%) and sunflower-seed oils (30%). Also, higher ad valorem equivalent tariffs are paid for some imports of products for which specific or mixed rates are applied. That refers in particular to imports of selected types of spirits and tobacco products.

Figure 1

MFN import tariffs applied by Ukraine



Source: IER estimates on the basis of WTO (2008) and Customs Tariff of Ukraine

Ukraine also has a number of export restrictions in place. While Ukraine committed during its WTO accession to a gradual reduction of export taxes, long transition periods have been envisaged, leaving most of these taxes in place as of now. These export duties concern exports of young live cattle/sheep, animal hides, oilseeds, and waste and scrap metal.[2]

In addition, there are a number of goods that are subject to export licensing. These products concern precious metals, certain types of steel products, Ukrainian oil and gas, optical polycarbonates, as well as products containing ozone-depleting substances (WTO, 2008a).

The composition of Ukraine's trade is concentrated on few products which are currently subject to a significant price drop (steel exports), or not easily substitutable (energy imports). This calls for some scepticism if the current account deficit is to be addressed through (short-run) trade policy

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[1] Exemptions vary among partner countries. For instance, in trade with Russia, Ukraine levies import duties on selected products from HS categories 1701, 1704, 1806, and 2402, and on products on which Russia applies export tariffs or quotas.

[2] For a complete overview of export taxes see Tables 20(a) and 20(b) in the Report of the Working Party on the Accession of Ukraine to the WTO (2008a).

intervention. At the same time, export taxes are still charged on several products, which may provide an opportunity for short-run policy intervention.

3. Policy response so far

Ukraine's trade policy response to the crisis is contained in several documents. On the one hand, Ukraine signed a Memorandum of Economic and Financial Policies (MEFP) with the IMF in order to obtain a stand-by loan from the IMF. In this memorandum, the Ukrainian government commits to a range of policies designed to lead the country back to stability and growth. Although the MEFP does not contain any specific trade policy measures to counter the current crisis, the document contains an explicit commitment regarding what Ukraine cannot do in terms of trade policy. On the other hand, Ukraine's parliament passed several laws envisaging various trade policy measures aimed at coping with the crisis. The most important one is a law which foresees the temporary introduction of additional import charges for all products excluding critical imports for the case in which the balance of payments situation worsens. This document uses exclusively trade policy measures in order to counteract the current account deficit. Also, there are several laws envisaging trade policy changes referring to specific sector interests.

3.1. IMF Memorandum of Economic and Financial Policies

The government of Ukraine signed a Memorandum of Economic and Financial Policies (MEFP) with the IMF on October 31, 2008. The memorandum lays out the economic and financial policies to be adopted by Ukraine by the end of 2008 and during 2009-2010 to counter its current crisis. The package is a condition for obtaining a stand-by agreement with the IMF amounting to USD 16.4 bn for the period November 2008 to October 2010.

While the memorandum contains a large range of measures targeted to restore a balanced external position, it does not contain trade policy changes among the measures proposed to contain the current account deficit. To the contrary, the continuous performance criteria established in the MEFP explicitly list a statement ruling out increases in trade barriers, i.e., a `*prohibition on the imposition or intensification of import restrictions for balance-of-payments reasons*'. This can be understood as a prohibition to invoke Article XII GATT 1994 and may reflect a general attitude of the IMF that import restrictions are not needed for balance-of-payments adjustment.

Overall, the MEFP draws a rather positive picture with regard to the development of the current account deficit in the near future. The memorandum estimates a narrowing of the export-import gap to 1-2% of GDP in 2009 mainly due to a drop of imports relying heavily on the availability of credit, such as machinery. This may explain why the MEFP does not explicitly consider measures to address the current account deficit and de facto rules out the use of Article XII GATT 1994.

The main policy contained in the MEFP, which has an effect on Ukraine's external position, is the government's commitment to adopt a macroeconomic policy framework with a flexible exchange rate. As such, the National Bank of Ukraine (NBU) started already in November 2008 to curtail its interventions in the foreign exchange market, allowing a sharp drop of the Hryvnia between November and December 2008.

3.2. Law on temporary import surcharge

On December 23, the Verkhovna Rada adopted the Law `On amendments to some Laws of Ukraine in order to improve the balance of payments with regard to the financial crisis'.[3] The document contains amendments to the Law `On the Custom Tariff of Ukraine' concerning the introduction (abolition) of temporary import surcharges in case of a `critical condition of the balance of payments'.

[3] http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi Draft Law No. 3379 of November 20, 2008.

The law proposes to set an import surcharge of 13% points for a period of at least six months with maximum duration of one year. Goods considered `critical' imports should be excluded from this surcharge. Initially, it was envisaged that the Cabinet of Ministers shall adopt the list of commodities falling into this category. The Parliament defined the categories that cannot be treated as 'critical' imports covering meat and miscellaneous husbandry products, spirits, coal, carpets, finished textile products, some metal products and a wide range of machinery and equipment products including passenger cars.[4]

On January 14, the President of Ukraine vetoed the abovementioned law stating that a 13% import surcharge would be largely ineffective in reducing imports and improving Ukraine's trade balance as it could not be applied to countries, which have concluded an FTA with Ukraine which concerns a significant share of Ukrainian imports. Moreover, the President claimed that the introduction of the surcharge would contradict the WTO and IMF commitments of Ukraine (see Box 1). Other comments of the President concerned the name of the surcharge and the procedure of how the list of commodities falling into the 'critical' imports category would be formed.

In response to the President's comments the Parliament passed a new version of the law. Although the Parliament introduced some cosmetic changes to the law regarding issues such as how the list of products that are affected by the surcharge will be defined, the essence of the law remained unchanged. It foresees the introduction of a 13% import surcharge for products listed in the law (the list was expanded by adding apples, pears and quinces; meat, fish and seafood food preparations; sugar and syrups; skin and fur skin clothes; mineral wools; bricks; and some metals[5]) for at least six months with the possibility of prolongation for another six months. The Cabinet of Ministers has to notify the WTO within 30 days after the surcharge is introduced and conduct consultations with the relevant WTO committee.

The law was signed by the President on February 20, and comes into force on March 6.[6]

According to the IER estimates, the import surcharge will be applied to over 13% of tariff lines, and covers approximately 16% of Ukraine's commodity imports in 2008 (USD 14.0 bn). A surcharge of 13% will considerably increase tariff protection for 'non-critical' import product categories as the simple average tariff for these products currently is 10.7%. As a result of this increase, *ceteris paribus* imports are estimated to fall by USD 0.6 bn to USD 1.7 bn (i.e., 1-2% of the 2008 commodity import value) depending on the elasticity and assuming that imports from CIS countries are excluded from the scheme in line with Ukraine's free trade arrangements. Since the rate of commodity import contraction was around 30% yoy in the last month of 2008 driven by a sharp devaluation of the hryvnia and a contraction of domestic incomes, it seems that the adoption of the import surcharge will have only a minor additional impact on the overall reduction of imports.

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[4] HS codes: 0202, 0203, 0206-0210, 0504-0506, 0509, 0511 (excluding 0511100000), 2204-2208, 2701, 57, 60-65, 7321, 8414, 8418, 8516, 8702, 8703, 8704.

[5] HS codes: 0202, 0203, 0206-0210, 0504-0506, 0509, 0511 (excluding 0511 10 00 00), *0808, 1601-1605, 1701, 1702 (excluding starched syrup in product category 1702 30 99 00)*, 2204-2208, 2701, *4203, 4303*, 57, 60-65, *6806, 6901, 7201*, *7301*, 7321, *8401*, 8414, 8418, *8501*, 8516, 8702, 8703, 8704 (*Italic* indicates categories that were added in the final version of the law).

[6] http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi Law No. 923_VI of February 4, 2009.

BOX 1

WTO commitments and balance-of-payments problems

The law on the 13% import surcharge invoked a discussion in Ukraine on the WTO ruling concerning import restrictions aimed at safeguarding country's external position threatened by balance-of-payments problems.

In particular, the President insisted that the law contradict Ukraine's WTO obligations as well as violate the MEFP prohibition on the imposition or intensification of import restrictions for balance of payment reasons. The law is indeed in breach with Ukraine's commitments agreed to in the MEFP. While the Ukrainian government may invoke Article XII GATT 1994 which contains provisions allowing for the imposition of trade restrictions on imports in order to safeguard its external position threatened by balance-of-payments problems, it is unclear whether this would indeed be in accordance with WTO rules.[7]

Article XII maintains that countries are allowed to impose trade restrictions for a limited time period in case of balance-of-payments problems. A country invoking Article XII GATT 1994 is obliged to consult with the WTO Committee on Balance-of-Payments Restrictions before or immediately after imposing trade measures. The legal difficulty during the consultation process is in determining whether a country is indeed entitled to invoke Article XII GATT 1994. This is addressed by Article XV:2 GATT 1994 which establishes that the WTO shall consult the IMF on balance-of-payments issues. The IMF provides the WTO with the corresponding statistical information as well as with an evaluation of a country's balance of payments situation in order to judge whether a country's balance-of-payments problem fulfils the criteria set by Article XII GATT 1994.

Therefore, the IMF's judgment could be regarded *de facto* as authoritative to judge whether a country implements trade restrictions in accordance with the provisions of Article XII GATT 1994. While the proposed measures by Ukraine are of only temporary nature fulfilling one requirement set by Article XII GATT 1994, given the MEFP, it must be doubted whether the IMF considers Ukraine's balance-of-payments situation indeed such that it would allow Ukraine to invoke Article XII GATT 1994.

3.3. Proposed changes in trade barriers for specific sectors

For the agricultural sector, the anti-crisis trade measures listed in the law, which was adopted by the Parliament on December 23, foresaw the abolition of export taxes on sunflower seeds until September 2009.[8] Moreover, it was been proposed to set the prohibition of meat imports on the give-and-take basis to stop illegal imports of meat to the Ukrainian market, a topic which has been on the agenda over the past few years. The Law also foresaw the temporary introduction (until December 31, 2010) of import duties on certain agricultural commodities.[9] This law was vetoed by the President on January 14. On February 4 the Verkhovna Rada passed a new version of the law, expanding a ban of give-and-take schemes for all agricultural imports, but excluding other key trade-related provisions. Although this version of the law was also vetoed by the President, the Parliament overruled the veto in early March[10].

The Verkhovna Rada has also passed a law that envisages the accelerated amortisation for manufacturing enterprises, abolishment of import duties on equipment for industrial enterprises (whereby the list of entitled enterprises and commodities is to be drafted by the Cabinet of Ministers), and grants the automotive industry strategic innovative value.[11] Claiming its inconsistency with Ukraine's commitments, the President did not sign the Law. Nevertheless, the Verkhovna Rada overruled the President's veto. The Law came into force on January 1, 2009.

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7 The `1979 Declaration on Trade Measures Taken for Balance-of-Payments Purposes' widened the trade measures that may be imposed from only quantitative restrictions to any trade measures giving thereby preference to price-based measures, such as tariff increases. The `Understanding on the Balance-of-Payments Provisions of the GATT 1994' reaffirmed the 1979 declaration and added that preference should be given to those trade measures which have the least disruptive effect on trade. Moreover, a country is required to justify why price-based measures are not adequate if it has chosen to impose quantitative restrictions instead. A country is also prohibited to use more than one type of restrictive trade measure to the same product. Also note that Ukraine is not considered a developing country member of WTO. Hence, Article XVIII GATT 1994 does not apply.

8 http://gska2.rada.gov.ua/pls/zweb_n/webproc4_1?id=&pf3511=33649 Draft Law No. 3353 of November 11, 2008.

9 HS categories 02, 15, 16 and 05 (0505 90 00 00, 0506 90 00 00)

10 http://zakon1.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=922-17&p=1237382242454032 Law No. 922_VI of February 4, 2009

11 http://gska2.rada.gov.ua/pls/zweb_n/webproc4_1?id=&pf3511=33824 Draft Law No. 3430 of December 2, 2008

Moreover, the Government introduced indirect subsidies to metallurgy and the chemical industry, having granted these industries lower freight rail tariffs for cargo transportation, as well as constant electricity prices until April 1, 2009.[12]

In sum, the policy measures agreed upon with the IMF and contained in the MEFP, do not contain any trade policy measures. Moreover, Ukraine explicitly agreed in the MFEP not to adopt new or increase existing import barriers to address balance of payments problems. Nevertheless the Ukrainian Parliament has passed laws to implement (temporary) trade restrictions on imports, in particular to address the current account deficit. It is indeed questionable whether the implementation of the laws will not cause trade disputes, including at the WTO dispute settlement body, with affected trading partners. Yet other laws envisaged eliminating existing export and import restrictions, which are in accordance with WTO regulations.

4. International survey of anti-crisis trade policy measures

This section gives a short overview of *trade policy measures* adopted by a range of developed, developing and emerging economies in response to the global financial crisis.[13] Table 3 summarises the information on anti-crisis trade policy measures for selected countries. To provide more insight into the various measures adopted, we discuss three cases in more detail. Brazil, on the one hand, serves as an example of a very selective and targeted use of trade policy measures to counteract the crisis. The only trade policy measure promoted by Brazil as an anti-crisis tool is export finance and insurance which is in accordance with current WTO regulations. Russia, in contrast, finds itself at the other end of the spectrum. It has adopted nearly the complete range of trade policy measures to increase selectively import barriers and restrict exports of certain goods. Finally, India positions itself somewhere in the middle between Brazil and Russia. While India also uses selective trade barriers to influence directly exports as well as imports, it does much less so than Russia. At the same time, it also employs trade finance, in a very similar way to Brazil, to promote exports in a WTO-conform way. We will draw some recommendations for Ukraine from this analysis in Section 5.

4.1. Overview

Table 3 shows a (non-exhaustive) summary of trade policy measures adopted by diverse developed, developing and emerging economies. We divided trade policy measures into three broad categories according to their objective: (a) export promotion, (b) import liberalisation, and (c) import restriction. Measures included in the export promotion category are support for export finance, lower export taxes, and export tax rebates. Some of the measures falling into the import liberalisation category could also be subsumed into the export promotion category as they allow for lower import tariffs for certain goods, which serve as intermediate inputs into the production of export goods. However, some countries also reduce import barriers to lower prices of certain goods for domestic consumption, which corresponds directly to the concept of import liberalisation. Finally, import restrictions include standard barriers to trade, such as increased import tariffs, quota limits, and import licensing requirements. While Russia, a non-member of WTO, stands out in Table 3 as the country applying the largest range of import restricting measures, also WTO members, such as India, rely on import restrictions as anti-crisis responses. It remains to be seen to what extent this will create disputes between these countries and trading partners that are also members of WTO. Also, there appears to be little association between a country's current account balance and the degree of protectiveness of its anti-crisis trade policy measures. Brazil ran a current account deficit of 1.8% of GDP in 2008 and implemented solely measures to support trade finance to counteract the crisis. Russia, on the other hand, achieved a current account surplus of 6.5%.

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[12] http://www.kmu.gov.ua/kmu/control/uk/cardnpd Decree of the CMU, No. 925 of October 14, 2008

[13] There has been extensive media coverage on `anti-crisis' packages adopted in the US and large EU member countries, focusing mostly on support for the banking sector as well as selected industries through large-scale capital injections. Much less has been reported on developing and emerging economies, with the exception of Russia which has received some media coverage for selected anti-crisis measures. Yet, overall little information on trade policy measures adopted by developing and emerging countries as anti-crisis tools has been released. Yet, there has been some general coverage on the topic for example in The Economist (December 20, 2008).

Table 3

Overview of anti-crisis trade policy measures

Country (WTO members in italic)	GDP, current prices (USD bn, 2008) [Ukraine: 180.4]	CA Balance as % of GDP (2008) [Ukraine: -6.7]	Target	Trade Policy Measures
Argentina	338.72	0.82	Export promotion	• Cheaper access to export financing • Lower export taxes on wheat and corn by 5 percentage-points
Belarus	57.68	-5.94	Export promotion	• Compensation for some part of loan interests obtained for production of export goods • Interest-free tax credits to firms facing sales problems • Belarusian producers allowed to take part in bidding at Russian commodity markets and to export goods, bypassing the Belarusian Universal Commodity Exchange for selected goods
			Import liberalisation	• Duty-free import of certain raw materials and spare parts that are not produced domestically and are imported for the country's own use
Brazil	1,664.7	-1.76	Export promotion	• Central Bank sells off part of its international reserves to generate funds to support export finance and insurance with particular focus on micro firms and SMEs
China	4,222.4	9.5	Export Promotion	• Support export finance and insurance through Export-Import Bank of China • Increases in export tax rebates for selected machinery and electronic goods
Egypt	158.25	0.56	Export promotion	• Increase of tax rebates by 50% of previous level
			Import liberalisation	• Reduction of import customs duties for certain capital goods from between 2% and 5% to 0%
India	1,237.5	-2.79	Import restriction	• 5% import duty on specific iron and steel items • 20% import tariff on crude soya oil • License requirement for carbon steel hot rolled coils
			Import liberalisation	• Abolition of 5% import duty on naphtha for electrical energy generation • Abolition of import duties on wheat flour
			Export promotion	• Support to export insurance • Reduction of 15% export duty on iron ore fines to 8%
Indonesia	496.83	0.10	Import restriction	• Introduction of new import regulations for specified product groups where imports must have been pre-inspected prior to shipment and can only enter Indonesia through 5 designated seaports • Regulation making it mandatory for all drug importers to build manufacturing facilities in Indonesia over the next five years
			Export promotion	• Support to trade finance
Malaysia	214.73	14.80	Import liberalisation	• import duty exemption on raw materials and intermediate goods which are used for domestic manufacturing activities
Russia	1,778.69	6.48	Import restriction	• Raise import tariffs for cars • Increase of import duty on agricultural machinery to 15% • Import duties on corrosion-resistant pipes set at 28.1% • Seasonal import duty on sugar of 75% • The import quota for poultry decreased to 952,000 metric tons • Increase of out-of-quota tariff on poultry imports to 95% • Import duty for pork increased to 75% • Import duty for beef increased to 30%
			Import liberalisation	• 9-month abolition of 5% import duty on 0.5-1.0 millimetres thick cold rolled steel products used in motor vehicles and their parts • 9-month abolition of 5% import duty on ceramic headers
USA	14,334.03	-4.63	Export promotion	• Support export finance and insurance through US Export-Import Bank

Sources: Reuters, Financial Times, Economist Intelligence Unit, Dow Jones Factiva, official government websites, IMF World Economic Outlook 2008 (data)

4.2. Examples: Brazil – Russia - India

In order to provide more detailed information on three countries from Table 3 above, we have chosen Brazil, Russia, and India, each representing a different way to use trade policy tools to counteract the crisis.

Brazil

In Brazil, as a consequence of the crisis, not only exports fell considerably towards the end of 2008, but the drop in imports even outpaced exports. Hence, Brazil's trade balance achieved an even higher surplus of USD 1.61 bn in November 2008. The drop in exports is due mostly to the fall in prices of commodities exported by Brazil (17 out Brazil's 23 exported commodities, such as petroleum and steel products, registered a drop in export prices towards the end of 2008).[14] The fall in imports is partly explained by the drop in oil prices, which account for 5% of total Brazilian imports. But it is also due to a significant drop in imports of capital goods as well as consumer goods which is related to the significant depreciation of the Brazilian Real since summer 2008.

In early December 2008, the government issued an anti-crisis package (Gazeta Mercantil, December 11, 2008). Yet, while the Brazilian government acknowledges that in Brazil exporters are among those most heavily affected by the crisis, the package does not contain any trade policy measures. The only trade policy measures in relation to action taken by the government to counteract the crisis had already been partly implemented earlier. These measures, which are designed to affect exports directly, are concentrated on export finance and insurance. The Brazilian government justifies its focus on export finance by the fact that it considers the lack of trade finance as one of the principal channels of transmission of the global crisis on the domestic economy (Interview with BNDES's president Coutinho, October 7, 2008). Hence, the programme has the objective to increase the availability of trade finance and insurance as well as to reduce its price as exporters in Brazil have experienced not only a shortage in availability of but also an increase in their price. The necessary funds to support export finance come from the Brazilian Central Bank which for this purpose sold off part of its reserves, which still amounted to comfortable USD 209 bn in December 2008. Apart from export financing, the government promotes also export insurance as part of its anti-crisis support to export finance.

Also the outlook for new trade policy measures to be introduced during 2009 as a possible response to repercussions of the crisis on the real economy appears to be pro free-trade. During the 2nd Brazil-European Union Summit, Brazil's president Lula and France's president Sarkozy announced as an anti-crisis measure 'pilot sector agreements' through which selected tariffs will be significantly lowered in order to increase trade between the EU and Brazil (in textiles, forest and steel products, non-ferrous metals and mining).

Russia

Russia's economy has been hit relatively hard by the crisis. Russia's exports consist of mostly raw materials, particularly oil and gas, which experienced sharp drops in prices on world markets. The drop in prices (demand) for Russia's main export products, a fall of the rouble by nearly 20% since summer 2008 and no significant drop in import prices have led to a deterioration of Russia's current account (Economist Intelligence Unit, 2008). Russia's current account balance is expected to fall from USD 115 bn in 2008 to only 70 bn in 2009 (IMF World Economic Outlook, 2008).

To counter the crisis, Russia uses the entire range of quantitative and price-based trade restrictions. The government employs simultaneously increases in ad-valorem import tariffs, quota restrictions, out-of-quota tariffs and reductions in import tariffs for certain intermediate inputs and capital goods unavailable produced domestically. The open attitude of the government towards demands from industry groups for import restrictions has caused a large number of requests for increases in import barriers from a large range of diverse sectors of the economy.

[14] Brazil was also hit by extreme floods during November which pushed down exports even further due to a temporary closure of one of Brazil's main harbour destined for exports.

According to Prime Minister Putin, the total amount destined at all anti-crisis measures adds up to about USD 340 bn, which is comparable in size to the annual state budget (RIA Novosti, December 29, 2008).[15] The funds for the anti-crisis package come from the federal budget as well as foreign reserves held by the central bank. This is almost twice as much as still available in foreign reserves.[16] This massive public expenditure package is expected to inflate the government's budget deficit to approximately 6% of GDP in 2009.

Import tariffs / quantitative restrictions

The automotive industry has benefited from special attention and support by the government. Import duties on imports of foreign cars and trucks older than one year have been lifted considerably.[17] The increased duties are initially in place for nine months for imports by legal entities. There is no such predetermined time period for imports made by individuals. Another capital good that will face higher import duties is agricultural machinery. Duties increased to 15% (Interfax, December 13, 2008). Russia has also set import duties on corrosion-resistant pipes at 28.1% for three years (SKRIN Newswire, December 31, 2008). These duties are targeted at imports from Brazil and China while other emerging countries such as Belarus are exempted.

In terms of agricultural and processed primary goods, Russia introduced a seasonal import duty on raw sugar for the period between December 1, 2008 and May 31, 2009. The duty increased the tax on sugar imports from previously USD 140 to USD 220 per metric ton (Dow Jones International News, January 12, 2009). This policy shift also affects Ukraine directly. Russia decided to maintain its import duty on sugar imports from Ukraine until January 1, 2013 (Prime-TASS News, January 12, 2009). The duty was scheduled to be abolished by January 1, 2009.

As of January 2009, import duties for pork have been increased from 60% but no less than Euro 1,000 per metric ton to 75% of the contract price, but no less than Euro 1,500 per metric ton for an initial period of one year. The import duty for poultry imported above the import quota has been increased to 95% but no less than Euro 800 per metric ton. The import duty for beef is set at 30%, but no less than Euro 300 per metric ton. The import quota for poultry has been reduced from 1.212 m metric tons in 2008 to 952,000 metric tons in 2009 (Dow Jones Commodities Service, December 12, 2008).

Deferment / Exemption from import duties

While import duties on imported cars have been increased, Russia suspended import duties on cold rolled steel for an initial period of nine months in an attempt to support the domestic automotive industry (Metal Expert Daily News, December 30, 2008). Starting in February 2009, iron and non-alloyed steel flat products, cold rolled, uncoated, in coils used for fabrication of vehicles can be imported duty-free. So far the import duty for these products is 5%. The Russian government has also eliminated import duties on ceramic headers for a period of nine months (Prime-TASS News, October 24, 2008). Ceramic headers are used to produce catalysts in the automotive industry. Previously the import duty was 5%.

Trade finance

Short- and medium-term export finance is obtained mostly from VTB Bank, a state-controlled bank. According to the Economist Intelligence Unit (November 4, 2008), VTB is rather restrained in distributing export financing to private companies unless export projects are covered by intergovernmental trade agreements or state export orders. There has been not report on any more generous distribution of export finance as a response to the crisis.

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[15] For a broad comparison of Russia's overall anti-crisis package with other countries, see Korolev (2008).

[16] At the beginning of December 2008, Russia had USD 123 bn in foreign reserves.

[17] Cars between one and three years old face an import duty of 30%. Cars with a cylinder volume between 1,500 cc and 1,800 cc face a minimum duty of Euro 1.5 per cc. For cars with a cylinder volume between 1,800 cc and 2,300 cc, the minimum is set at Euro 2.15 per cc. Cars aged between three and five years are subject to a 10% tariff increase. Moreover, cars older than five years are now considered to belong to the `used' category, whereas that age was previously seven years. Used foreign cars are subject to a minimum of 50% import tariff (Euro 2.5 to 5.8 per cc).

India

India's trade balance deficit has increased from USD 79 bn in 2007 to USD 112 bn in 2008. This increase was mainly due to a strong increase of imports by 35% relative to 2007 where the increase was driven mainly by imports of capital goods (Economist Intelligence Unit, November 4, 2008). The current account deficit as a percentage of GDP has increased from 1.1% to 2.8% and is expected to widen further. India's export portfolio is by far not as concentrated as Russia's. India's main export products include agricultural products, petroleum products, chemicals, textiles, engineering goods, gems and jewellery.

Trade policy measures applied by India to counteract the crisis include support for export finance, increases in import duties, and the imposition of licensing requirements as well as exemptions from export taxes. At first, this may appear to be a policy response similar to Russia's; yet, India applies increases in import restrictions and exemptions from export taxes more selectively. Moreover, while it appears that import tariffs for some goods have been increased, in reality, tariffs have only been brought back to their level before they were cut to zero in an attempt to halt rising inflation earlier in 2008. Hence, it appears that tariffs have been put back in place rather to generate income than to protect domestic production in the first place.

Import tariffs

In November 2008, the Indian government imposed a 5% tariff on imports of iron and steel products (Metal Bulletin, November 20, 2008). A tariff of 5% had already been in place until April 2008, when it was set to zero as part of the government's efforts to fight inflation. The government argues that prices had fallen sufficiently at the end of 2008 for the import duty to be reinstalled.

Also in November, the Indian government imposed a 20% import tariff on crude soya oil. As for steel imports, only six month earlier, the government had abolished all import duties on edible oils.

Other import restrictions

The Indian government put imports of carbon steel hot rolled coils on the list of items which are allowed to be imported only under a license issued by Directorate General of Foreign Trade (The Economic Times, January 4, 2009).

Tariff exemptions

The import duty of previously 5% on naphtha, a product used to generate electrical energy, has been set to zero.[18] This measure pushes the domestic price of naphtha below that of natural gas which is largely imported (Business Standard, December 8, 2008). The reduction in price of naphtha, despite India's self-sufficiency with regard to naphtha, is the result of the fact that energy products are priced on an import-parity basis, which includes components such as freight and import duty. This is expected to reduce the tariff of power and therefore to have a larger beneficial effect on the economy.

Export duties on iron ore fines were reduced from 15% to 8% (Metal Bulletin, November 20, 2008). The Indian government also dropped import duties on wheat flour at the beginning of January 2009 (The Hindu, January 2, 2008).

Export finance

Export insurance cover has also been increased in India where the government allocated RS 3.5 bn to the government-owned Export Credit Guarantee Corporation of India (ECGC) at the end of December 2008. Risk cover was increased by 10 percentage points to the level of 95% for SMEs and larger companies in sectors including textiles, gems and jewellery, leather, engineering products, carpets, project goods, auto components and chemicals. In addition, the Export Credit Insurance Scheme for Banks operated by the ECGC will provide commercial banks with risk cover increased from 75% to 85% of losses incurred by banks in export financing which is expected to

[18] For details see Notification No. 2/2009-Customs of the Government of India, Ministry of Finance.

increase financing available to exporters (United News of India, December 26, 2008). These measures are designed to stay in place initially for six months.

The international overview demonstrates that countries vary considerably in their trade policy crisis responses. Neither a country's current account balance, nor its overall economic size or WTO membership appear to determine the degree of protectionism in a country's trade policy response. The most common measure used to promote exports is trade finance. This measure is also in compliance with WTO regulations. The most common measure to restrict imports is the increase of import tariffs. Apart from most likely causing trade disputes with affected trade partners, increasing selectively import tariffs also opens an opportunity for lobby groups to pursue their interests, which is unlikely to result in an adequate policy response to the problems posed by the current crisis. Countries also liberalise their trade regimes as a crisis response by lifting export barriers and relax import restrictions for certain products. Finally, the example of the 2nd Brazil-European Union Summit may motivate Ukraine to also explore the possibility to seek partial trade liberalisation with the EU as an anti-crisis response.

5. Lessons and recommendations

The main question is to which degree trade policy can be used to address Ukraine's current account deficit, as a complement to the macroeconomic response, which is well under way since November 2008. More specifically, are there trade policy measures that can be applied that are compatible with Ukraine's commitment to the IMF and the WTO?

Considering that Ukraine's commitments vis-à-vis the IMF clearly rule out increases in tariffs or other new quantitative import restrictions (see Section 3), any trade policy measures have to promote exports while maintaining import restrictions at their current level or even lowering trade barriers. This is desirable not only from the perspective of IMF and WTO conformity of Ukraine's policy response, but also more generally from an economic point of view. Increased protectionism is very likely to foster only interests of specific industries in the short run. While the adopted measures (see Section 3) are meant to be of temporary nature, it may be doubted how easily such protectionist measures can be abolished without having to engage in difficult negotiations with advantaged domestic interest groups. Hence, while an increase in import barriers will result in additional short-run reductions of imports, it is very unlikely to contribute to efficiency in the economy jeopardising long-run competitiveness of the Ukrainian economy. Besides, a general protectionist attitude in the country could hamper progress in establishing a FTA between Ukraine and the EU.

Recommendation 1: To rely on macroeconomic policies and in particular on exchange rate flexibility to address current account problems and to refrain from increasing import restrictions. In particular, we recommend abolishing a recently adopted temporary import surcharge levied on "non-critical" imports.

Section 2 has shown that the composition of Ukraine's imports and exports is such that short-run improvements in the trade balance are hard to achieve through trade policy measures. Section 3 made clear that Ukraine has accepted stringent conditions by the IMF with respect to possible trade policy measures to be adopted against the crisis. Section 4 surveyed other emerging economies' trade policy measures put in place to counteract the crisis. The survey has shown that countries promote exports through, often applying simultaneously, reductions of export tariffs, reductions of import tariffs for intermediate goods needed for the production of export goods, and support to trade finance and insurance. Import restrictions applied by many of the countries surveyed are not an option for Ukraine considering the given constraints. Drawing on these examples and the constraints outlined in Section 2 and 3, this section proposes two possible trade policy measures which are in compliance with WTO regulations and have high chances to gain approval by the IMF and Ukraine's trading partners. These measures are (A) support for trade finance and insurance, and (B) the accelerated reduction of export taxes on edible oils.

In Section 2, we briefly discussed export restrictions Ukraine still has in place and we pointed to the possibility of eliminating these barriers to exports. In the discussion in Section 3 of the law containing Ukraine's trade policy response to the crisis, we drew attention to the proposal to drop export duties on sunflower seed exports. The survey of other countries' trade policy measures showed that countries often used reductions in export taxes to promote exports which may be an appropriate response to the crisis if demand on the domestic market is deemed insufficient to absorb or to promote increased domestic production. This measure would be in compliance with WTO rules and most likely be welcomed by the IMF. A recent report by the German-Ukrainian Policy Dialogue in Agriculture (Strubenhoff, 2009) suggests that domestic sunflower seed production in Ukraine would indeed greatly benefit from a reduction of export taxes in order to reduce its dependency on the domestic crushing industry.

Table 4 shows the export restrictions on oil seeds still in place in Ukraine. During its WTO accession, Ukraine has committed to significantly reduce these restrictions through annual reductions of 1% until a floor of 10% is reached. According to the phase-out schedule committed to during the WTO accession process, the reduction from currently 16% to 10% would be concluded in 2014. We suggest following the proposal already contained in the law to either abolish (temporarily) export taxes on edible oils or to implement immediately the 10% rate envisaged for 2014.

Table 4

Current export restrictions on oil seeds

Tariff code	Product description	Duty rate	Legislative basis	Phase-out
12 04.00900	Flax seeds, shattered or non-shattered	16%	Law "On Export Duty Rates for Seeds of Some Oil Crops" No. 1033-XIV dated 10 September 1999, as amended by Law No. 2555-III of 21 June 2001	Annual reduction of 1% until floor of 10% is reached
12.06.00900	Sunflower seeds, shattered or non-shattered			
12.07.99990	False flax seeds only			

Source: Report of the Working Party on the Accession of Ukraine to the WTO, 2008

Recommendation 2: To accelerate reduction of export taxes, for instance to either abolish (temporarily) export taxes on edible oils or to implement immediately the 10% rate envisaged for 2014.

According to the WTO (November 12, 2008b), in 2007, trade finance in the form of insurance or guarantees was used in about 90% of total global trade.[19] The possibly disastrous consequences of the lack of and increased price of trade finance for companies, above all micro firms and SMEs, have received considerable attention by policymakers and the media during the current crisis. At the same time, the topic is not entirely new. The pivotal role for international trade attributed to trade finance has been recognised already during previous crises.[20]

In a declaration issued in November 2008, OECD members and emerging country non-members declared their support for trade finance as a measure to secure cross-border trade in light of the

[19] Trade finance, a combination of insurance, guarantees and foreign-exchange denominated credit lines, is designed to promote trade through making some of these measures or the complete bundle accessible and affordable. The trade finance market is divided into different segments according to maturity where the short term market (maturity of typically up to 180 days) is dominated by commercial banks and specialised institutions and the medium and long-term market by government and export credit agencies and regional development banks. In practice, the most important segment is the short term market. The instruments used in trade finance comprise letters of credit, open accounts, cash and overdraft for short term contracts and bills of exchange and promissory notes for medium- and long-term contracts. Insurance is offered by commercial banks and trade finance agencies in order to insure exporters and importers against insolvency of trade partners, transportation problems, delays, political risk or exchange rate fluctuations (for an overview see Auboin and Meier-Ewert, 2003).

[20] See for example the discussion on the role of trade finance in South East Asia by Stephens (1998).

current crisis.[21] Also, WTO's Director General Pacal Lamy called in a speech in November 2008 for policy intervention to secure the availability of trade finance (WTO, 2008c). The call for government support of trade finance contains a strong message. Governments often subsidise export finance as way of export promotion – in its most direct form through subsidisation of interest rates. Even in the absence of such explicit subsidisation, most export credits obtained from national export credit agencies represent an implicit subsidy because these agencies are not-for-profit and have access to financing at government rates (Moravcsik, 1989). While these subsidised trade finance measures concern mostly medium- and long-term trade finance, it is nevertheless noteworthy that both OECD and WTO implicitly accept the subsidisation of exports through the channel of trade finance.

The main institution engaged in trade finance in Ukraine is the state export-import bank – JSC Ukreximbank. It supports Ukrainian exporters in obtaining finance to cover production and delivery costs before receiving payment from importers. Ukreximbank grants both pre-export as well as post-export financing.

In August 2008, the Ministry of Economy published the draft law `On export insurance and crediting'.[22] The Draft Law aims at supporting exports of high-tech industries, creating the necessary infrastructure to ensure the availability of export guarantees and credits, the establishment of a state insurance company as well as granting Ukreximbank a particular status in the implementation of the state policy in terms of export credits. The project is to be financed from the state budget. The adoption of this draft law is one among other actions to be taken by the Government in order to reduce the trade deficit.[23]

Thus, Ukraine has already an export credit scheme in place and is currently undertaking steps to improving its effectiveness, as well as introducing export insurance. We believe that these measures are of particular importance to facilitate exports in Ukraine.

The main limitation in using trade finance as a tool to promote exports is its budgetary cost for the Ukrainian government. Yet, there are multilateral agencies which may provide help as recently indicated by Shigeo Katsu, Vice-President for Europe and Central Asia at the World Bank, 'IFC has set up global facilities to unblock trade finance and provide equity to banks in emerging markets. Ukraine can benefit, too.' (ENP Newswire, December 17, 2008). Also the EBRD has a trade facilitation programme designed to support banks and exports as well as importers from which Ukraine is already benefiting. The EBRD, for example, signed an agreement on factoring finance with the Ukreximbank in early 2008 to support specifically SMEs in Ukraine.

In brief, trade finance is a way to ensure the continuation of existing trade flows and to promote (subsidise) exports which is accepted and currently even recommended by multilateral organisations, including the WTO, as a way of coping with the current crisis. Ukraine would miss an opportunity by not considering it an option to promote exports.

Recommendation 3: To promote export finance and insurance through direct government support and through support from multilateral organizations. In addition, we recommend to adopt a law on export insurance and crediting, and to ensure its prompt and efficient implementation.

[21] "OECD Member and Non-Member governments are determined to maintain their export credit support and ensure that sufficient capacity is available with the aim of supporting international trade flows" (OECD, 2008).

[22] http://www.mdoffice.com.ua/pls/MDOffice/all_news.printnews?dat=11082008&num=67812

[23] http://zakon.rada.gov.ua/cgi-bin/laws/main.cgi?nreg=1509-2008-%F0 Cabinet of Ministers Decree No. 1509-p of December 3, 2008.

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