



Ukrainian agricultural market regulation instruments: their effectiveness and directions of improvement

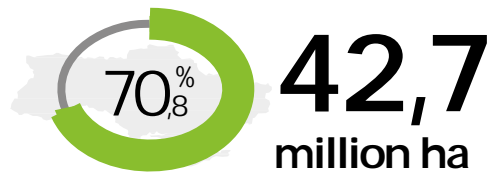
Olga Varchenko
Bila Tserkva National Agrarian University

**IAFE-IVRI conference on
“The Common Agricultural Policy of the European Union”**

5-7 December 2017, Stare Jablonki, Poland

What is agribusiness in Ukraine?

The agricultural sector covers



of Ukraine's total landmass

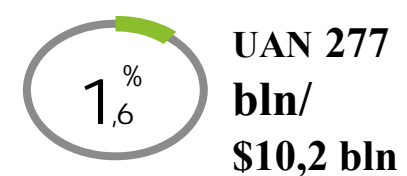
Agricultural products accounted for



of Ukraine's export in 2016

by 4,5% more than in 2015

Agricultural production made up



of Ukraine's GDP in 2016

Ukraine's place on the world food market¹



Production of sunflower seeds



Production of sunflower oil



Export of sunflower oil



Export of barley



Export of rapeseed



Export of corn



Production of barley



Export of wheat



Production of corn



Production of honey



Export of soybean



Production of wheat

1

3

4

6

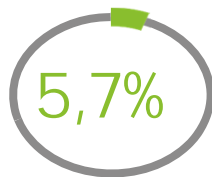
7

8

Components of production potential

A) Land

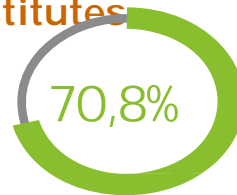
The land fund of Ukraine is



of the territory of Europe

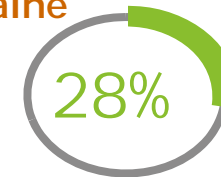
42,7 million ha

Agricultural land constitutes



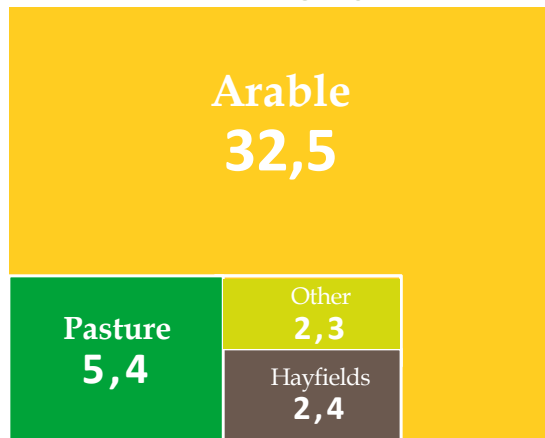
of Ukrainian territory

On the territory of Ukraine

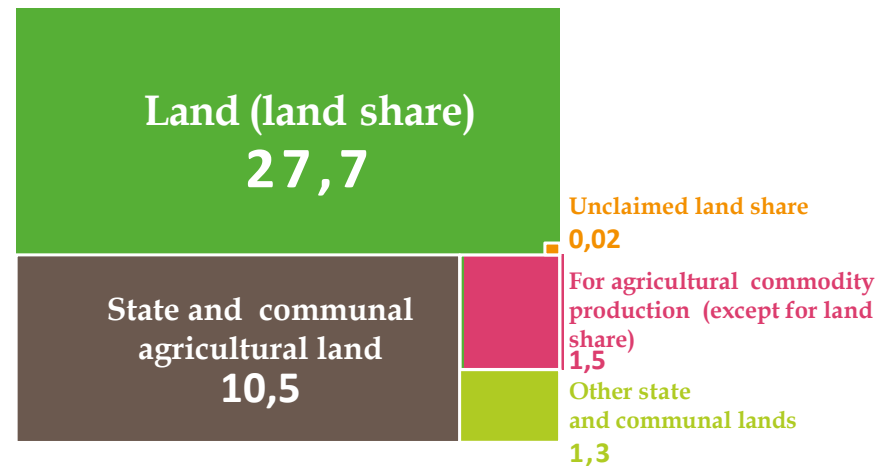


of the world's reserve of chernozem (black soil) is located

Structure of agricultural lands of Ukraine¹, million ha

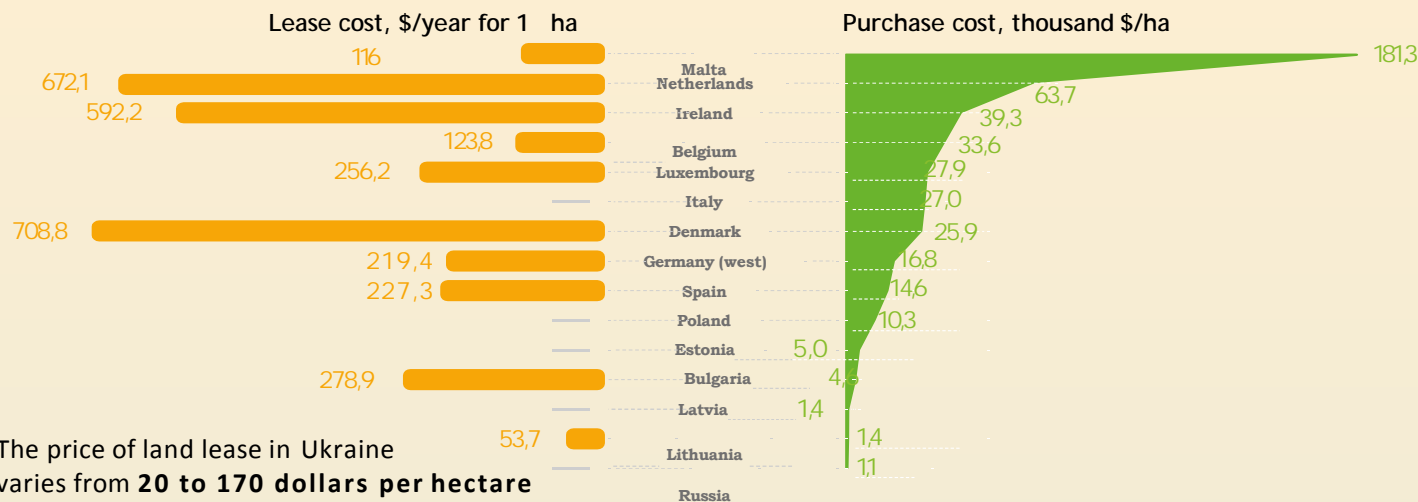


Structure of owners of land under the moratorium, million ha



The price of land in Ukraine

THE COMPARISON OF THE COST OF LEASE AND PURCHASE OF LAND IN DIFFERENT COUNTRIES



The price of land lease in Ukraine varies from **20 to 170 dollars per hectare** a year, depending on the region, the price of land.



1.7 million ha of agricultural land are not subject to the moratorium



Ukraine has about **23 million** private landowners and land users (about **90%** of them are individuals) and about **4.9 million** users of state-owned land



In Ukraine, **2.4 million ha** of land are controlled by foreigners (which is more than the area of Israel)¹.

THE LAND REFORM IN UKRAINE²

The land reform lasts for **25 years**

The moratorium is valid for **15 years**

The moratorium was prolonged: **8 times**

27 million ha were distributed

6,9 million land share owners, of whom:
 1,6 million – over 70 years old;
 1,4 million – died,
 0,5 mln of whom did not have inheritors.

42,7 million ha of agricultural land

96% are subject to the moratorium

Under the moratorium:



It is allowed

- to lease units;
- to exchange for another equivalent unit;
- to inherit;



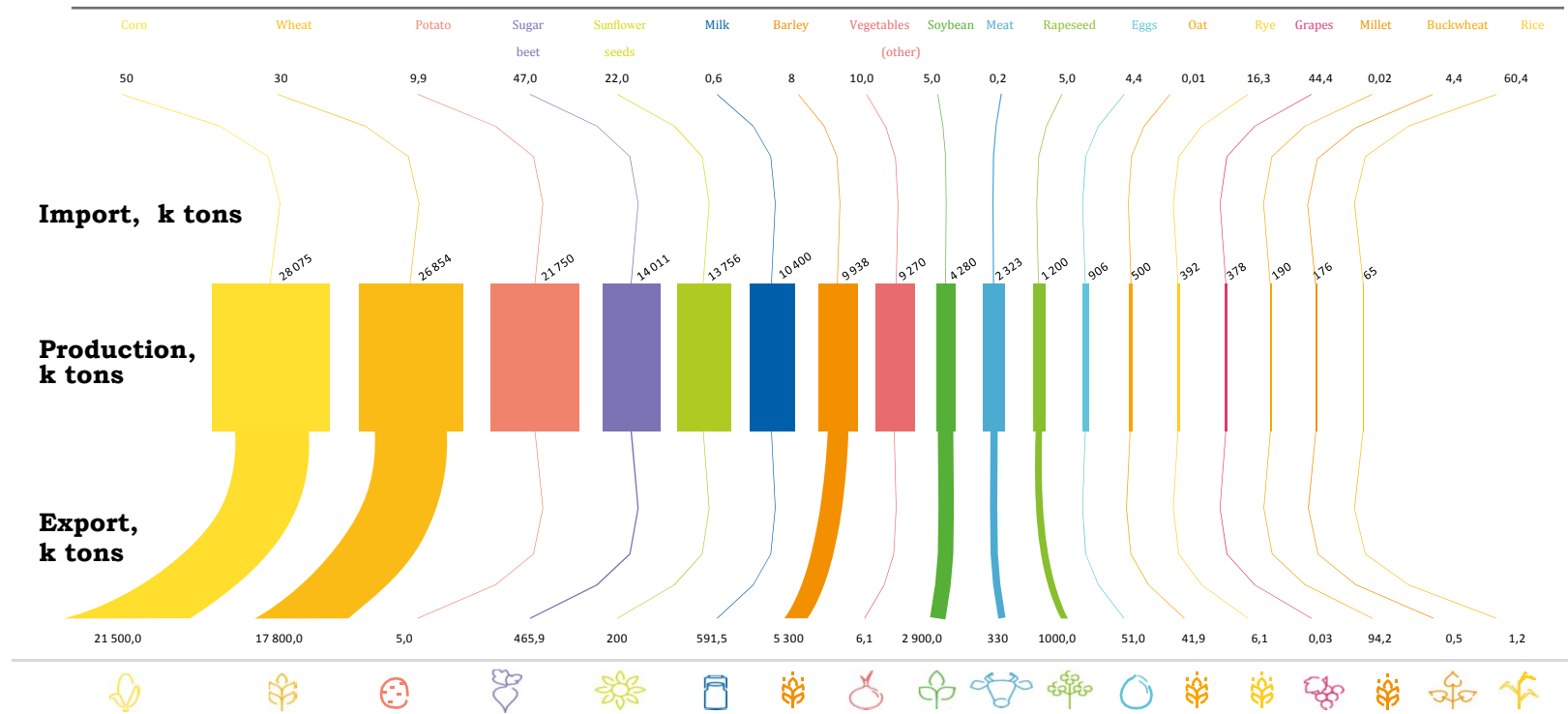
It is prohibited

- to sell units and make anybody change their designated purpose;
- to add units to the share capital;

Elements of the land market:

- payment of rent
- purchase and sale of land leasing rights
- purchase and sale of land for private households

UKRAINIAN AGRICULTURAL PRODUCTS IN 2016



The main elements of the regulation of agricultural market

Subsidies and subsidies for the production and acquisition of resources.

Decree Cabinet of Ministers of Ukraine.

Resolution of The Cabinet of Ministers of Ukraine "On Approval of the Procedure for Using the Funds Envisaged in the State Budget for Partial Compensation of the Cost of Agricultural Equipment and Domestic Equipment" provides 30 % compensation for the cost of agricultural machinery and equipment.

Price regulation. In accordance with the Law of Ukraine "On State Support to Agriculture of Ukraine", the state regulates the wholesale prices of certain types of agricultural products, setting minimum and purchase prices.

Tax incentive in the form of a fixed tax for the 4th group of payers, as well as a special regime for paying value added tax until 2016.

Financial and lending support.

On the basis of the Law of Ukraine "On the State Budget for 2017" in accordance with:

- the program "Financial support of measures in the agro-industrial complex by reducing the cost of loans" provided UAH 300 million;
- the program "Granting loans to farms" – UAH 65 million.
- Special support for specific courses and programs. So, in the State budget for 2017 the Ministry of Agrarian Policy has provided expenditures on programs supporting the development of agro-industrial complex in the amount of UAN 5448.1 million.

In particular:

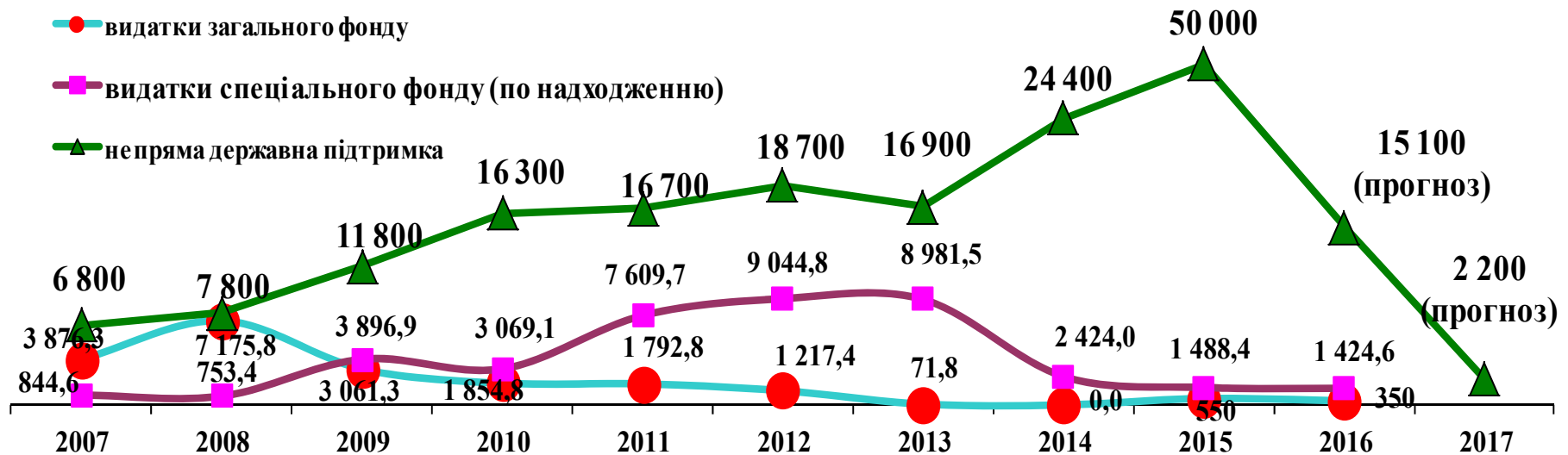
- "Financial support of measures in the agro-industrial complex" – UAH 60 million;
- "State support for the development of hopping, landing of gardens, vineyards and berries, and supervision over them" – 299.3 million USD;
- "State support for animal husbandry" – UAH 170 million;
- "Financial support of measures in the agro-industrial complex on terms of financial leasing" – UAH 3.8 million.
- Economical subjects (entities, actors) in agriculture

After Ukraine's entrance to WTO (World Trade Organization) there were the obligations not to exceed annually the level of aggregate measurement of support (AMS) , which was fixed at the level of 3 043.3 million UAN.

- The right to support «de minimis» has been obtained. It's not included in the overall size of AMS on conditions that it doesn't exceed 5 per cent of the cost of the certain types of agricultural products and up to 5 per cent of the annual value of the gross agricultural production of the base period for non-product support programs.
- The possibilities of financing budget programs, which according to the provisions of the Agreements on agriculture are applied **to the «green box», are not limited.**
- Ukraine has no obligations to reduce domestic support which is provided within the «yellow box» programs. The obligation only applies to the failure to exceed the annual support level accumulated in the indicator of aggregate domestic support.
- In 2017 5.5 billion UAH had been allocated to agriculture industry (in 2016 the cost of agricultural production is 544.2 billion USD).

Dynamics of domestic support to the agro-industrial complex at the cost of state budget and indirect support

mln UAN



Accumulation VAT
19,8 bln UAH

fixed agricultural tax
3,8 bln UAH
grant for milk,
meat 0,8 bln UAH

Accumulation VAT
46 bln UAH

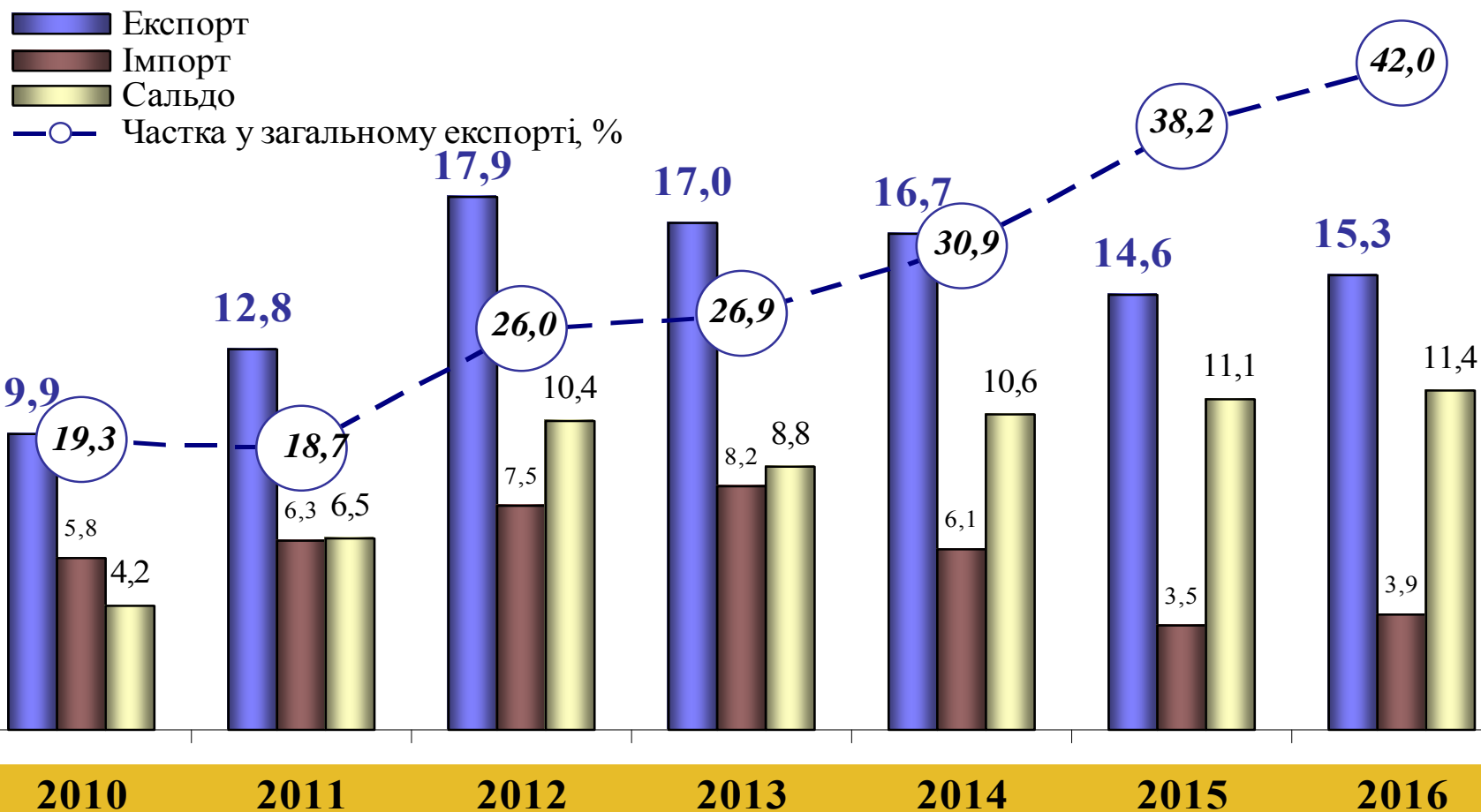
fixed agricultural tax 4 bln UAH

Accumulation VAT
12,9 bln UAH

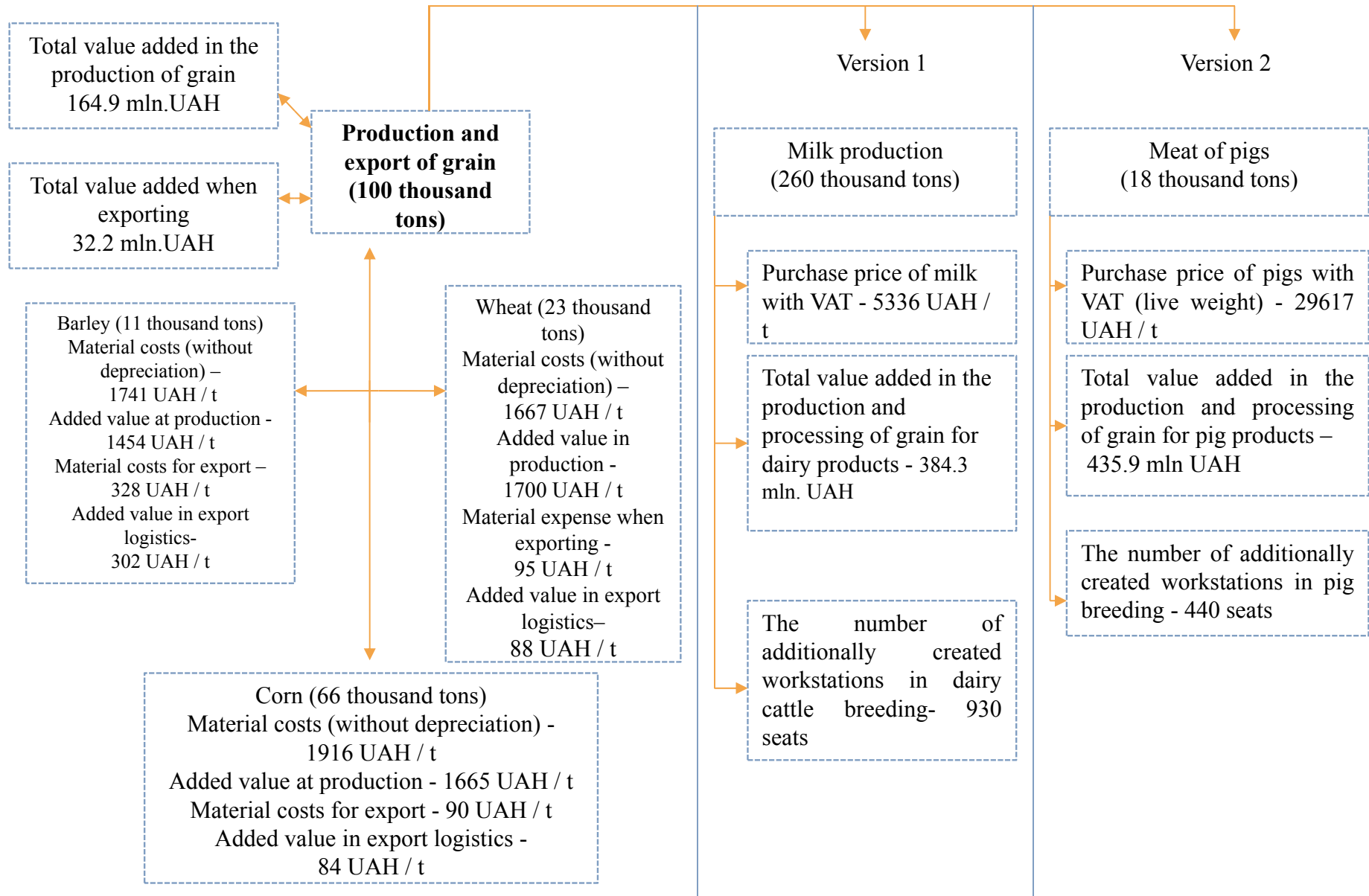
flat tax of 4th group
2,2 bln UAH

flat tax of 4th group
2,2 bln UAH

Dynamics of the volume of export-import of agricultural production and its share in total export of the country



Options for the formation of value added (on the example of the grain-product chain)



As of January 1, 2017, in accordance with the requirements of international standards in the food industry, the following quality management systems are implemented:

ISO 9000 series: have been certified – 403 units, under development and implementation – 46 units;

ISO series 14000: have been certified – 43 units, in the stage – 14 units;

HACCP: have been certified – 342 units, in the stage – 150 units;

State standard DSTU ISO 22000: have been certified – 552 units, in the stage – 128 units.

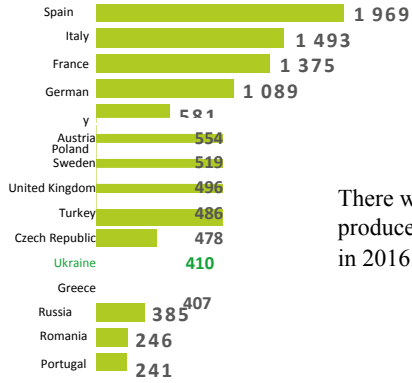
**Among agricultural producers (44.9 thousand)
there are up to three per cent of enterprises which
(according to expert judgment):**

- a) introduced Safety Systems (HACCP or DSTU ISO 22000: 2007 as a part of the agro-food chain);

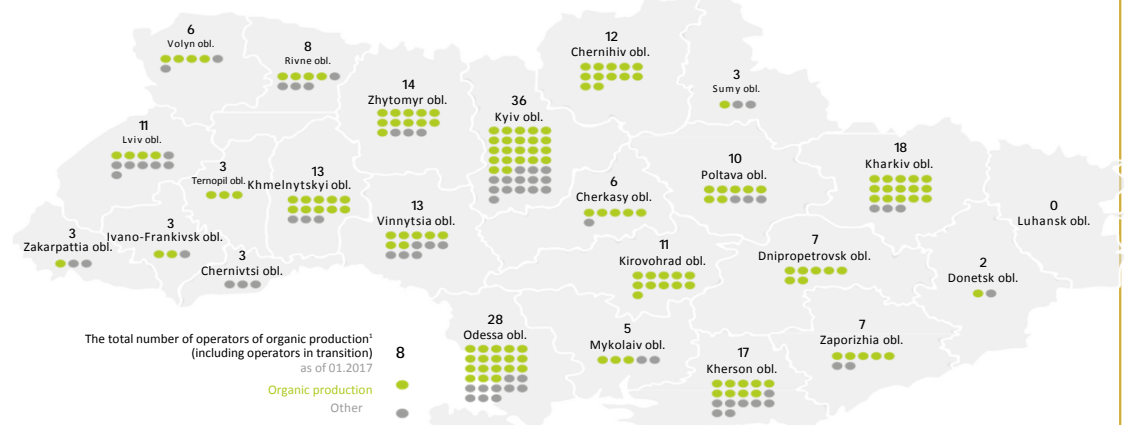
- b) independently audited the production compliance with the minimum requirements of the basic programs (ISO / TS 22002-3: 2011 The program of obligatory previous measures for ensuring food safety.

ORGANIC PRODUCTION IN UKRAINE

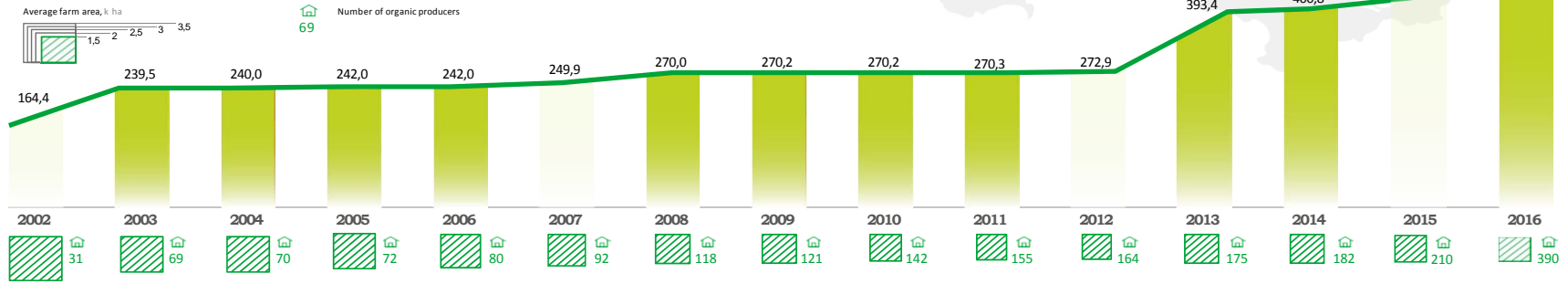
The area of organic lands in Europe in 2015, k ha



There were 390 organic producers in Ukraine in 2016.



Total area and number of organic producers in Ukraine, k ha



The priority areas of the maintenance of farming:

Mechanisms which are proposed to be applied during state financial support to farms and agricultural cooperatives:

- provision of financial support on a competitive basis to farmers through a Ukrainian state fund of the maintenance of farming;
- partial compensation of the interest rate on bank loans which are borrowed in national currency;
- financial support of agricultural servicing cooperatives;;
- financial support of operations in the agro-industrial complex on terms of financial leasing;
- government support by reducing the cost of insurance payments (bonuses);
- partial reimbursement of the construction budget and reconstruction of livestock farms, complexes, milking halls and meat-processing enterprises which are formed on a cooperative basis;
- partial reimbursement for the cost of heifers, calves, cows of domestic origin and pedigree heifers, dairy cows, breeding pigs and male pigs (class "elite"), sheep breeders, rams that were purchased for further reproduction
- partial compensation of the cost of agricultural machinery and equipment of domestic production;
- partial compensation of the cost of landing and maintenance of perennial plantations;
- provision of government guarantees for investment projects.

Financing rural development programs

Possible ways to achieve

Grants (co-financing) of business projects in the village:

- «green tourism»
- bioenergy
- organic farming
- production and processing of niche products
- handcrafts

Grant financing of consulting projects:

- management consulting services (financial, legal and other types of consulting)
- expansion and promotion of export
- support for the development of self-regulating machinery
- traceability, safety, quality
- education, extension of the technology

Support for small-scale producers: available options

1. Direct payments related to production:

- 1.1. Payments for seeding of certain crops (per 1 ha)
- 1.2. Payments depending on the amount of livestock (on the head)
- 1.3. Payments depending on the value of realized production

Advantages:

- stimulating the development of certain sectors

Challenges:

- complexity of administration, control and inspections;
- collection and spread of data, analysis, monitoring;
- size limit within the bounds of WTO (yellow box);

2. Direct payments which are non-connected with the production volume:

- 2.1.** The same amount of payment to all program participants
- fixed in advance
 - proportionally to everyone and based on the available state budget
- 2.2.** Depending on the area of the land in ownership / usage (but not more than the determined amount «in one hands»)
- 2.3.** Depending on the amount of income / sales of all products (but not more than the determined amount «in one hands»)

Advantages:

- the possibility of referring to the «green box» of the WTO;
- minimal influence of manufacturers' decisions.

Challenges:

- collection and spread of data, analysis, monitoring;
- involvement of individuals to the program.

Thank you for attention!

