Ukraine's Agriculture Policy Review

One in a series of policy notes on work of the OECD of interest to Canada

Ukraine: threat and opportunity

Recently, the OECD prepared a detailed review of Ukraine's agricultural policies and potential that included Producer Support Estimates (PSE) calculations. Canada provided a peer-review of this paper. It provides a preview of the caliber and range of information that can be expected from the proposed consortium reviews.

The Ukraine review included discussions of how Ukrainian agricultural policies have evolved and the nature of agricultural support. It also highlighted macroeconomic conditions in the agro-processing sector and rural infrastructure. In this way, the review drew out Ukraine's path as they grew from a struggling economy to a potential agricultural competitor.

After the fall of Communism, Ukraine has struggled through economic collapse.

Between 1990 and 1999:

- Ukraine's agricultural output declined by 51%
- Agriculture fell from 18.6% of GDP to 13.6%
- Macroeconomic instability and recession drove much of this decline
- Sharp agricultural policy reversals and ad hoc interventions exacerbated the decline
- Sequencing of agricultural reforms became extremely difficult

Prior to 1999, farmers didn't own their land. This eliminated incentives for efficiency. More importantly though, without collateral it was impossible to get a credit system running. Inefficient border and port regulations were also a problem. These issues depressed potential in primary markets, advanced input markets and agro-processing.

The irregularity of policy interventions and infrastructure reforms are reflected in the volatility of the calculated support levels prior to 1999. Both consumer support estimates and producer support estimates level off significantly after that year. After 1999, several successful policy reforms where achieved.

Government support for large agricultural enterprises (largely inefficient communal farms) in the form of an agricultural credit program was abandoned. Land reform finally allowed ownership and transfer of agricultural land and enabled genuine farm restructuring.

Ukraine is evolving to become a major exporter in world markets

Ukraine's agricultural trade policy has been improving since the early 1990s. Exports have progressed from largely barter-based bilateral agreements to private market transactions with an increasingly diverse set of export destinations. Export quotas are being removed though indicative prices and export taxes still restrict a few selected products.

Ukraine applies indicative prices as a minimum under which products cannot be exported. Indicative prices apply to hides, live cattle, mutton, sheep, sunflower, flax and false flax seeds.

Since Ukraine is not yet a member of the World Trade Organization (WTO), its has continued to increase its import barriers:

- Specific duties in ad valorem terms for sunflower, sugar and all kinds of meat were all above 100% in 2001. Even wheat had an import tariff rate of 77%.
- Non-tariff barriers such as registration requirements, contracts with state enterprises, and requirements for joint investment agreements also impede imports.
- The State Committee for Standardization of Ukraine imposes several technical standards and certifications that are viewed as non-transparent, lengthy and expensive.

When Ukraine accedes to the WTO, border protection will have to be lowered, opening their markets to other countries, including Canada.

A NEW MAJOR PLAYER?

In 2001, Ukraine exported US $2.4 billion of agro-food products of which 27% were cereals, 15% milk products and 12% sunflower oil.

Since 1996, Ukraine's exports of cereals increased by 24% and dairy products have risen by 44%.

Ukrainian agricultural exports have been low relative to countries with similar agricultural capacity.

Given Ukraine's latent capacity, as their domestic and export policies continue to improve their competitive threat will increase (see Box 1).

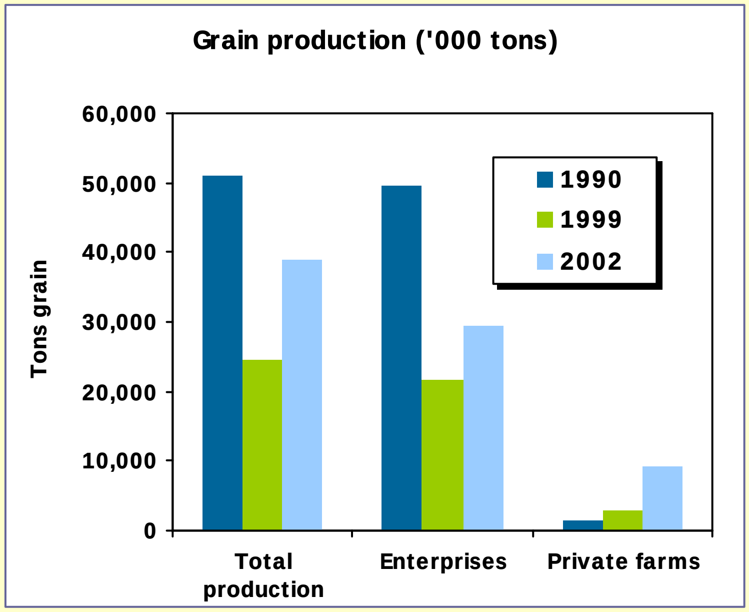
Box 1 – Ukraine: A rising competitor in wheat

Ukraine is advancing on the world grain market. Increases in volume available for export and in their capacity for export are significant.

Ukraine has over 32 million hectares of arable land, half of this is deep black soils and yields from these soils are greater than those of the US and Canada. This land produced nearly 20 million tons of wheat in 2002. Even more is expected in the future since recent federal reforms and macroeconomic stability are enabling Ukrainian producers to recover from a five-year 30% drop in production. Private land reforms are bringing efficiency back up and more production is available for export (see Figure).

As the domestic sector evolves, more of this potential will be unleashed in world export markets. Domestic markets are maturing, enabling cash flow and freeing wheat from barter and in-kind wages – more is destined for export (see Table). In 1994, Ukraine exported less than 1% of its total grain production; by 2002 grain exports had risen to 32%.

Ukraine is also increasing its capacity to export. In 2002, Ukrainian commercial seaports increased export capacities by 71%, they are now able to ship 12 million tons of grain annually.



Grain marketed, by participant

	1991	1999	2002
Production (1,000 tons)	38,674	24,581	38,804
Marketed (1,000 tons)	17,077	13,721	18,979
Percent marketed (%)	44.2	55.8	48.9
	Structure of sales (%)		
Procurement agency	65.4	10.7	2.4
Farmers markets, retail trade	9.6	25.3	16.1
Payment to shareholders	0	0	12.5
In-kind wages	23.6	30.2	11.4
Other	1.3	33.9	70.1
Barter	0.4	33.7	6.8

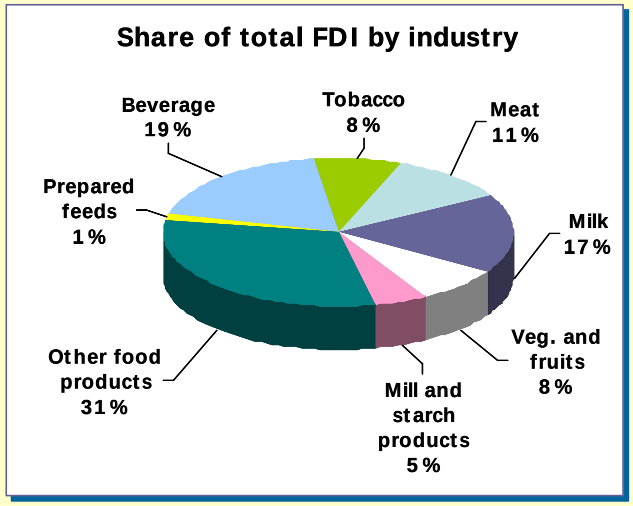
Reform increases opportunities

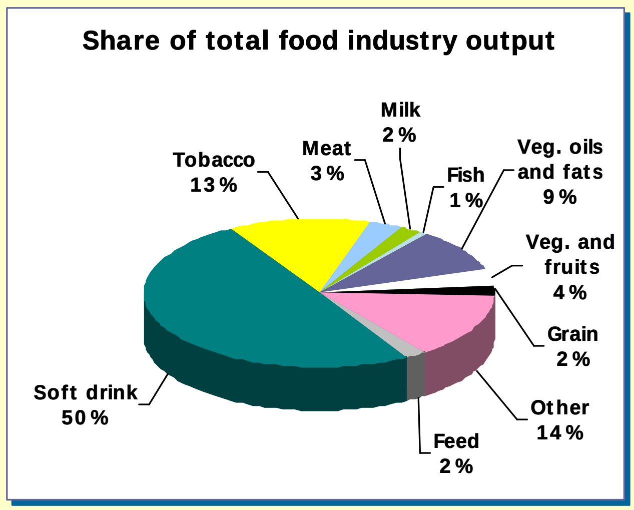
Policy reform and macroeconomic stabilization have opened up Ukraine's competitive potential. About 25% of Ukraine's labor force is based in rural areas and is largely dependent on subsistence farming. Rural land alone is conservatively estimated to be worth about US $40 billion. Ukraine is asset rich.

Since privatization, Ukraine's agro-processing sector has advanced significantly. Real output and real gross value added in the food industry has grown from 25% in 1996 to 40% in 2001. Ukrainian accession to WTO will improve the constancy, transparency and predictability of trade relations. This will provide a more stable framework for domestic and foreign investors; reducing risk and encouraging investment.

On the heels of privatization reforms in 1996, foreign direct investment (FDI) in the Ukraine food industry has grown nearly 700%. Food industry FDI grew to 20% of total FDI by 1997 and has stabilized there though the current environment continues to encourage FDI (see Figures).

The Ukraine provides a remarkably low level of producer support – one of the lowest levels among transition economies. But as their economy stabilizes, the government will face increasing pressure to support their producers, particularly because they are so close to the EU. While Ukraine has been progressive in policy reformation, they still pursue an interventionist policy agenda that unnecessarily inhibits growth. Canada has an opportunity to help shape the evolution of Ukraine's agricultural policies and help them avoid the most distorting forms of support.





For a link to the report see:
Achieving Ukraine's Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life — September 2004 http://www.oecd.org/dataoecd/39/31/34031855.pdf

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