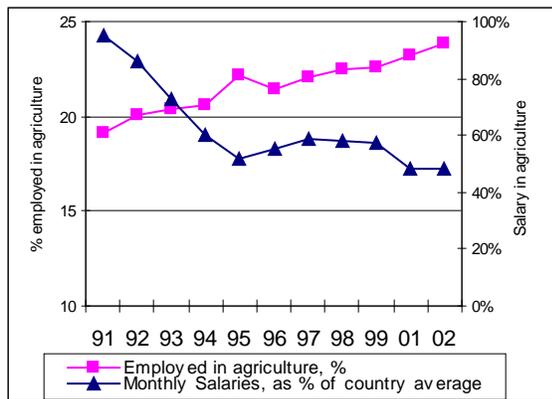


Ukrainian agriculture: reforms and development outlook

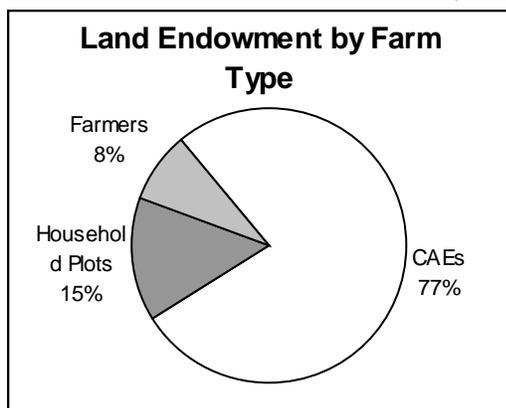
Many agricultural economists agreed that Ukraine has competitive advantages in production of grains, oilseeds, and livestock products. Mild climate, big pool of cheap labor force, and fertile black soils are the main ones. Contrary to these beliefs, the performance of Ukraine's agriculture in 90's had been turbulent, although the share of agriculture in GDP was pretty stable around 14.0%-14.6%

The share of population employed in agriculture was growing throughout 90's despite the fact that incomes in rural areas of Ukraine had been much lower than in urban areas. Families saw greater security in rural areas where they can rely on self-subsistent way of living.



There are 3 very different types of farms in Ukrainian agriculture:

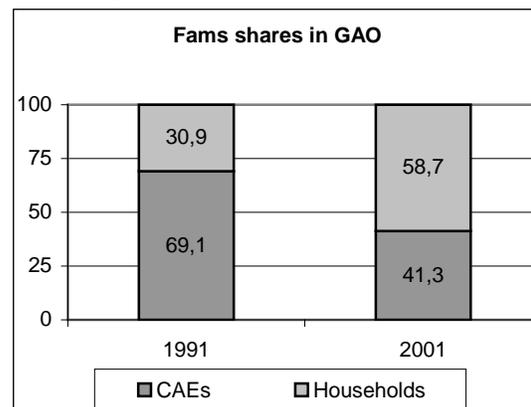
- Former collective agricultural enterprises (CAEs)(now registered under variety of names and ownership structures);
- Independent farmers (Western style family farms);
- Household plots (owned mostly by collective farm workers and some urban dwellers).



The land and non-land property in possession of former kolkhozes was shared among agricultural workers, so new business entities could be formed. The land titling and sharing procedure started in late 1999 and is not finished yet. The USAID and the World Bank spent a lot of money and efforts trying to speed up the process. Most rural families rented their land back to former CAE heads or to private businesses. In many cases local flour milling facilities or sunseed crushing plants served as investors. This formed small vertically integrated structures in rural areas and eased access of the ag. enterprises to bank loans as many processing enterprises were able to provide a collateral.

Currently each CAEs has 500-4000 hectares of land. Average private farm used to be quite small 26-32 hectares, but land titling procedure allow farmers to rent as much land as they can handle. In 2003 the average farm size reached 66 hectares.

Household plots in rural area produce some commodities for sale, but their main target is to provide rural families with foodstuffs. In many cases these plots are the only source of food and money to rural dwellers, especially if CAE where they work is not doing well. The efficiency of these farms is very high despite little use of machinery.



Ukraine adopted a progressive Land Code in 2001, which allows ownership and sale (after 2007) of agricultural lands. Only after 2007 the land market will get formed and the land could be used as a collateral for bank loans.

Many U.S. and EU agricultural reform support projects targeted independent farmers, while Ukrainian business was mainly investing in CAEs, which were responsible for recent production increase of many cash crops.

State Policies and Trade Framework

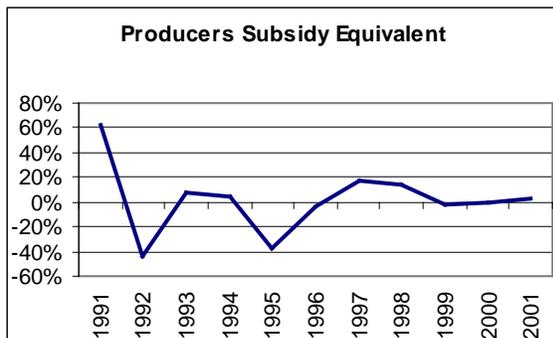
Unfortunately for almost 14 years Ukrainian government was unable to develop sound and coherent agricultural policies. In mid 90's the government used soviet administrative support measures. Some outbreaks of those policies still can be seen today. The subsidies were provided by in-kind input supplies made by state companies for future in-kind repayment with harvested crops. This highly inefficient scheme often resulted in severe taxation of agriculture and widespread corruption. Now support level is positive, but it is very moderate and varies from commodity to commodity. Producers Subsidy Equivalent index (PSE) are especially high for:

- poultry (35%)
- pork (33%)
- eggs (22%)
- sugar (30%)

While production of

- -milk (-25%)
- -sunflower (-6%)

is taxed at a high rate.

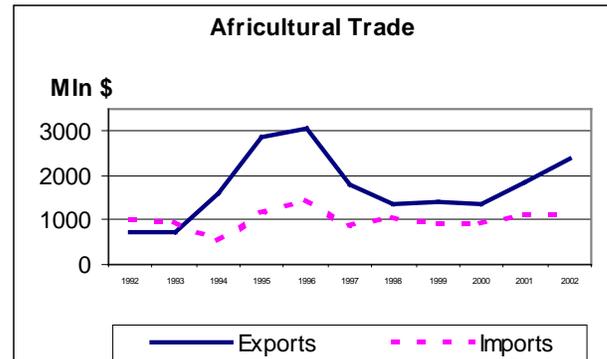


Budget constraints made the GOU to abolish supplies subsidies and use different kinds of support. Today, two main support measures are used. These are partial compensation of commercial banks interest rates for agricultural producers and single agricultural tax rate. There are some limited subsidies in livestock sector paid per one kilogram (live weight) of slaughtered animal.

During the WTO negotiations Ukraine insists on Aggregate Measure of Support level to be set at \$1.38 Billion, assuming 1994 -1996 base period. Agricultural question remains to be the only serious obstacle for Ukraine's accession to the WTO. The maximum bound rate for agro-food products is expected to be 20%

Ukraine still maintains export tariffs on live animals (since 1996) and skins and sunflower seeds (since 1999). Import tariffs are numerous, very high (often *ad valorem* 50%-400%) and not justified.

There are a large number of non-tariff (SPS) barriers, which are impeding imports into Ukraine.

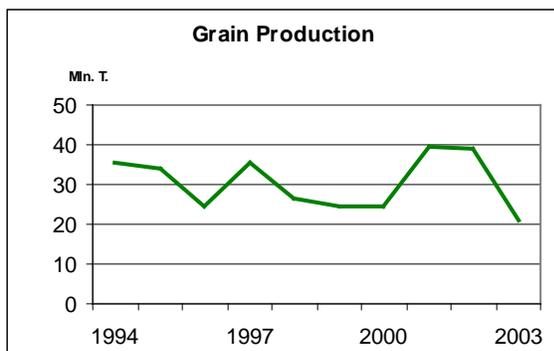


Because of bumper crops of 2001 and 2003 agricultural trade was on increase. Ukraine was exporting grains, oilseeds to Mid East countries and Western Europe, butter, non-fat dry milk, alcoholic beverages, and red meat to Russia and CIS countries.

Sector Performance

Production of grains and oilseeds was always a focal point for Ukrainian producers and policy makers. Area under grains occupies 56% of arable lands and was slowly growing since early 90's. Oilseeds (mainly sunflower) are grown on 4% of land. Area under oil crops almost doubled since 1990, causing dissatisfaction of the Ministry of Agrarian Policy about land excessive use. Fodder crop occupy approximately 22% of all arable lands.

Feed winter wheat and feed barley are two major export crops. Domestically Ukraine consumes only 5,8-6,5 mln. tones of grain for human consumption with another 15-17 mln. MT needed for animal feeding. The country has become a major grain exporter in 2001-2002. Harsh winter and dry spring of 2003 had devastating effect on grain production (In that year Ukraine imported almost 4 mln. MT of milling quality wheat, but will remained an exporter of feed barley and corn.)



A class of new market operators (domestic and foreign private traders, input suppliers and owners of reformed CAEs) control 80% of the grain market. The remaining 20% are used as wages in kind. Ukraine managed to double its ports export capacity, which used to be a bottleneck for grain exports. Now the aggregate port capacity exceed 12,5 mln. MT. Marketing costs are still high, which results in significant price fluctuations in the domestic market.

In recent years Ukraine managed to increased **sunflower** yield from 2,3 to 3,6 mln. MT. Export of sunflower seed is difficult because of 17% export duty, so raw unprocessed oil became one of the major export items.

Production of **sugar beet** contracted for 67% since 1990 as Ukrainian production fails to compete with cheap cane raw sugar. Government failed to secure domestic market and was not successful in quotation of import. Quotas introduction is usually late and subject to significant and sporadic changes.

Production of **milk** was on decline for 10 years with some rebound in 2004-2005. Most of milk is produced in household sector where sanitary control is very limited. By the mid 2005 only 23% of all cows are held in CAEs. The rest is kept by households. Approximately 50% of Ukrainian milk produce is consumed by domiciles, another half is processed industrially. In 2001 and 2002 Ukraine was a major exporter of non-fat dry milk, casein, butter, and cheese. In 2003 only cheese and butter export continue to increase (mainly to Russia) while dry milk market contracted due to unfavorable world market situation. Market rebounded in 2004.

Production of **red meat** dropped significantly by late 90's due to low incomes of Ukrainian population. Besides, low cost big scale beef production is uncommon in Ukraine and most

beef comes from inefficient dual purpose or milk animals.

Production of pork cover domestic needs but it is also inefficient and concentrated in household sector of rural economy. Big industrial enterprises based on serious investments and western feeding and managerial technologies already emerging, but they are yet to become major producers.

Poultry production was quickly developing since the year 2000. After big domestic investments made to the industry. Since then production was doubled every year reaching 200 ths. MT in 2004. In 2001-2003 Ukraine maintained ban for imported poultry. Trade also was halted in early 2005 with elimination of the Free Economic Zones which were responsible for 97% of all poultry imports.

US – Ukraine bilateral trade

Exports of US agricultural fishery and forestry products to Ukraine are not very big. According to [FAS reports](#) the total volume of trade in 2004 exceeded \$128 million with consumer oriented agricultural products share of \$93.4 million and bulk commodities another \$15.2 million.

Because of relatively small amount of trade and constant poultry export problems most numbers show significant volatility from year to year.

One of the major U.S. export item was poultry meat, responsible for \$85.3 million sale in 2004. In the end of 2001 Ukraine introduced poultry ban motivating it by insufficient U.S. safety standards and excessive use of antibiotics by U.S. poultry producers. Ukraine lifted the ban in September 2003 insuring 1.5 year of trade, but empowered prohibitively high import duties in March of 2005 causing another trade stop.

According to marketing estimates made by FAS-Kiev, the most perspective US exports to Ukraine are poultry, food industry ingredients, pet food, wines, fish and fish products, soybean meal, and almonds.

