

A LOOK AT THE AGRICULTURAL SECTOR IN UKRAINE

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Historically Ukraine has been an agriculture-based country. Black earth, or the so-called *chernozem* soil occupies 60% of Ukrainian land and its fertility is one of Ukraine's natural treasures. Surprisingly however, agribusiness in Ukraine is characterized as unstable as well as unprofitable. According to the World Bank Group's annual report "Doing Business 2010: Reforming Through Difficult Times", in terms of regulations that enhance business activity and those that constrain it, Ukraine is ranked 142 out of 183 economies for the ease of doing business. This report measures a set of regulations affecting 10 stages of a business's life: starting a business, dealing with construction permits, employing workers, registering property, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts and closing a business.

Table 1. Ukraine's ranking in Doing Business 2010

Rank	Doing Business 2011
Ease of Doing Business	142
Starting a Business	134
Dealing with Construction Permits	181
Employing Workers	83

Registering Property	141
Getting Credit	30
Protecting Investors	109
Paying Taxes	181
Trading Across Borders	139
Enforcing Contracts	43
Closing a Business	145

Thus despite the efforts of Ukrainian governments to build a positive image in the eyes of foreign investors, the negative investment appeal of its economy is evident. Let's try to analyse possible reasons for this and highlight the strengths and weaknesses of agribusiness in Ukraine.

Some experts suggest that the lack of a free market for agricultural land may be the main cause of the difficulties in this sector of the Ukrainian economy. According to the Land Code (the principal law governing land issues in Ukraine), foreign individuals, legal entities and foreign states are allowed to own, use and dispose of certain non-agricultural land in Ukraine, but are explicitly prohibited from owning agricultural land. Moreover, in 2001 a moratorium on the sale of agricultural land came into effect so that even Ukrainians cannot purchase agricultural land. However, the actual situation is quite far from the law and in reality agricultural land in Ukraine is bought and sold on a large scale. Foreign businessmen invest in land through local companies created for that purpose as there is no official land market in Ukraine. A complicated method of investing in Ukrainian stocks through such entities as the "Land West Company" or "Landcom" makes it extremely difficult for foreigners to conduct agriculture-related financial and economic operations. At present no one doubts that an official land market is necessary, because the moratorium stems the tide of investment in the agricultural sector. The present situation prevents effective use of the land and improvement and modernization of techniques because small and middle farmers do not have the means to invest money in land improvements (it is well known that productivity gains in agriculture can only be achieved by using modern technologies on large land plots).

The arguments in favour of a land market collide with imperfections in the legal and regulatory framework and the lack of a unified cadastral system in Ukraine. Two new laws – *Concerning the Land Market* and *Concerning the Land Cadastre* – should create optimal conditions for the agricultural land market in Ukraine, as they strictly define the procedure for the conduct and registration of transactions. The unified cadastre system and registration of title will make it possible to complete a technical inventory of land plots and open up the agricultural land market through a positive legislative environment protecting domestic

producers. But both of these documents are currently on hold as their adaptation and adoption has been slowed due to the country's recent political instability. For example, on the 19th of January 2010 the moratorium on the sale of land was once again prolonged till the 1st of January 2012, thus fuelling renewed debate on the subject. In his appeal to the nation on June 3rd, 2010 President Victor Yanukovich declared that the formation of a transparent land market was a top-priority goal. Nevertheless, there is still no agreement between the governing coalition and the opposition, so this question is up for heated discussion in the near future.

Now let us refer to facts and statistics. Ukraine has the second largest territory in Europe (after Turkey) with a total of 60 million ha. of land. While 76% of Ukraine's land has no crop restrictions, nearly one-fifth (over 12 million ha) is classified as land of special value. There is a technological gap of approximately 40 years between Ukraine and developed countries, illustrated by the fact that currently only 2% of agricultural land is cultivated with land-saving technologies. Crop losses reach 30% due to technical backwardness.

Evidently, the Ukrainian agricultural sector has great untapped potential. As a rough estimate, with advanced techniques Ukraine could produce 70-75 (some experts estimate up to 100-150) million tons of grain per year. This is much higher than the current amount of approximately 46 million tons. In fact a joint UN-OECD study points out that Ukraine is "likely to see rapid agricultural growth over the next few years". World trends in agriculture should also contribute greatly to its development. According to *The Food and Agriculture Organization of the United Nations* forecast, over the next 10 years food prices will rise by 15-40% in view of the fact that developing countries' food needs as well as the demand for biofuel will grow considerably. All these factors confirm that in the nearest future agriculture is going to be one of the most profitable businesses and Ukraine, with its rich land, has a great investment potential in this field.

In this regard we should also mention the problem of eco-fuel use and production in Ukraine. Biofuel production worldwide is expected to triple by 2020 and Ukraine can establish itself in this business segment. Kiev has a program of state support for the development of nontraditional and renewable energy sources and small hydro power plants. In December 2009 it was accepted as a member of the Energy Charter Conference, obliging it to introduce European fuel standards, particularly for the use of eco-fuel. Thus biofuel production, under strict state control (otherwise unrestrained use of the land for biofuel purposes could lead to a depletion of fertility) could become a good source of income for the Ukrainian economy. According to the National Agency of Ukraine for Ensuring the Efficient Use of Energy Resources Management (NAER), in 2009 Ukraine benefited from only 0.8% of its biofuel potential. The NAER assumes that bioenergetics, with an estimated economic potential of over 24 billion tons of standard fuel per year, is one of the most promising sectors of the nation's future agricultural business.

Currently the agricultural sector in Ukraine is in a chaotic state and the lack of adequate state support and regulation aggravates the situation. New market mechanisms have not yet been adequately established and a significant shortage of agricultural equipment, fuel and fertilizers makes it almost unprofitable for farmers to cultivate the land and keep animals.

Ukraine's economy is still hindered by corruption and poorly established rule of law. Since the Orange Revolution the country has been dragged into political instability: an incapable parliament as well as economic adversity have damaged Ukraine's image for foreign investors. Long disregarded, Ukraine's agricultural sector has lost much of its previous attractiveness. Yet despite all the problems described above, the country has held on to its principal and richest resource: the land, which for investors as well as for Kiev represents a profitable asset, potentially rewarding even in the short term.

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