

Ukraine's Agriculture: Harvesting the potential?

Summary

Ukraine is the focus of the latest MAP of 2009. It is the second largest country in Europe after Russia, and is bigger than any of the EU-27 member states. Ukraine's key geographical position combined with its fertile soils, give it huge agricultural potential, though up to now that potential has not been fully realised.

Ukraine has been badly affected by the current economic crisis, with the economy projected to shrink by nearly 16% in 2009, with only a weak recovery expected in 2010. Real income is lower today than it was before independence (around one third of that of Russia) and food still accounts for nearly 60% of the household budget. The role of agriculture in the Ukrainian economy is significant. It still remains an important sector in terms of its contribution to GDP, as an employer and also has a pivotal role in foreign trade.

Ukraine's agriculture has undergone major changes since independence. The ownership structure of farming has changed, with 55% of land now held by "family farms", which account for around 60% of production. In the decade following independence, agricultural output, especially livestock collapsed. Total agricultural output dropped by 40% from 1990 to 2007. Grain production fell by 25% but livestock output was halved, as real per capita income and consumption declined severely.

In the meantime production has partly recovered (at least in the crops sector) over the past 10 years, although there is room for further productivity growth. The area of grains and oilseeds has expanded (at the expense of fodder crops and sugar beet) with Ukraine expected to play a growing role in the world export market. It is already among the world's leading exporters, with nearly 30% of global exports of sunflower oil, 15% of barley, 9% of sunflower seed and 5% of rapeseed in volume terms in 2006-07.

Turning to livestock, the beef sector, which used to be the largest, has halved over the past decade and is expected to contract further in the coming decade. On the other hand the intensive livestock sector is projected to expand; both pigs and poultry. Poultry meat in particular has grown from almost nothing to become the most important meat sector, with further strong growth forecast.

Food security, international competitiveness and the development of rural areas are the key objectives of agricultural policy. The most protected sectors are poultry, beef, pigs and sugar. The main policy instruments are output payments and input subsidies, targeted mainly at the livestock sector. Minimum purchase prices apply in grains, oilseeds and livestock. Other key policy instruments include purchased input subsidies, tax concessions and subsidised credit programmes. According to OECD the overall level of producer support as measured by the Producer Support Estimate (PSE) was low at 10%, (well below the OECD average of 26%) in 2005-2007. Growing budgetary pressures mean that government support is likely to be cut back sharply in 2009.

Ukraine's WTO accession in 2008 led to considerable changes in trade policy. Import duties were reduced to bound rates ranging from 0%-20% (with a couple of lines at 50%), with the biggest cuts in the poultry, sunflower, and sugar sectors. The country is also committed to reducing its use of restrictive export measures, particularly quotas and duties on grains and oilseeds, which were introduced to control food price inflation but have prevented Ukraine's producers from taking full advantage of export market opportunities.

Ukraine's overall trade balance turned negative in 2005 and has continued to deteriorate since then. However agriculture makes a positive contribution to the trade balance, with a trade surplus that is growing annually. However the economic recession has had an impact on agricultural trade which dropped at the end of 2008 and the start of 2009. The decline seems to have bottomed out during the second quarter with a small recovery in the third quarter of 2009.

The EU has replaced Russia as Ukraine's main agricultural trading partner for both imports and exports. The CIS¹ countries and Middle East countries also have an increasing share in Ukraine's exports. The EU imports mainly commodities and intermediate products from Ukraine. Ukraine is also a growing market for the EU particularly for exports of final products and this looks set to continue with the launch of Free Trade Agreement (FTA) negotiations in 2008.

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