



at the Institute for Economic Research and Policy Consulting 

# Challenges in agriculture policy of Ukraine

**by Volker Sasse**

**Project leader of the Project**

**German-Ukrainian Agriculture Policy Dialogue (APD)**

The project: Why Germany invests money in capacity building projects?

What is agriculture policy?

Selected challenges – based on our “factsheets”

Modern tools for policy decision making: AGMEMOD

- Project is financed since 2006 by the German Federal Ministry for Food and Agriculture
- Objective: Advise Ukraine policy makers on agriculture policies (institutions, instruments) on the base of German experiences

### **Enabling of Ukrainian policy decision makers!!!**

- Tools:
  - Analyses: e.g. papers/reports by German experts, study tours
  - Advisory services: e.g. seminars, commenting on draft laws
  - Support to implementation: e.g. pilot cooperatives, national forest inventory

- Priorities (draft for 2019-2021):
  - Rural development through cooperation and agricultural support systems;
  - Reform of agricultural policy; centralization;
  - Modernization of agricultural research systems;
  - Development of agricultural organizations;
  - COMPONENT: Agricultural policies: „Creating the conditions for an effective and transparent market”
  - COMPONENT: Forest Policy Dialogue: “Sustainable, multifunctional Forest Land Use”

## **EU- Ukraine Association Agreement – important especially for agriculture:**

- Rejected by president Janukowich,
- Signed 27.06.2014 by president Poroshenko:  
"first but most decisive step towards EU membership"

### **Reform of Ukrainian legislation towards EU – Standards!**

- **Deep and Comprehensive Free Trade Agreement (DCFTA)**
- One side instant lifting of most of trade barriers for Ukrainian exporters
- Enforcement 01.01.2016 in both trade directions (lifting of 95% of tariffs)

### **Sanitary and Phytosanitary requirements!**

- still some import taxes (TRQ), to get lifted gradually over a period of 10 y.
- e.g. meat, grain, dairy, sugar > protection of EU resp. Ukrainian producers

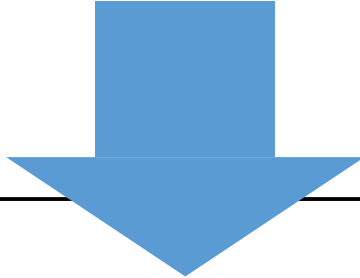
# Areas of general policy

- International relations (Russia)
- EU- Ukraine Association Agreement
- social, environmental, fiscal policies
- Volatility of legislation
- Justice and cord system
- Reform of state administration
- Particular business interest in legislation
- Transparency and efficiency of governance



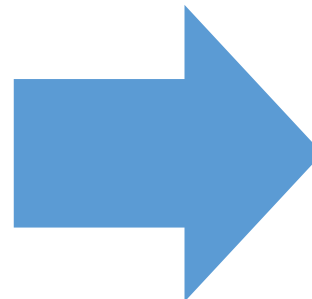
## Agricultural policy

- Reform of Ministry (MAPF)
- Lifting of moratorium on land sales
- Subsidy programs
- Development of special VAT regime
- Establishment of cooperatives
- etc.



## Economy in general

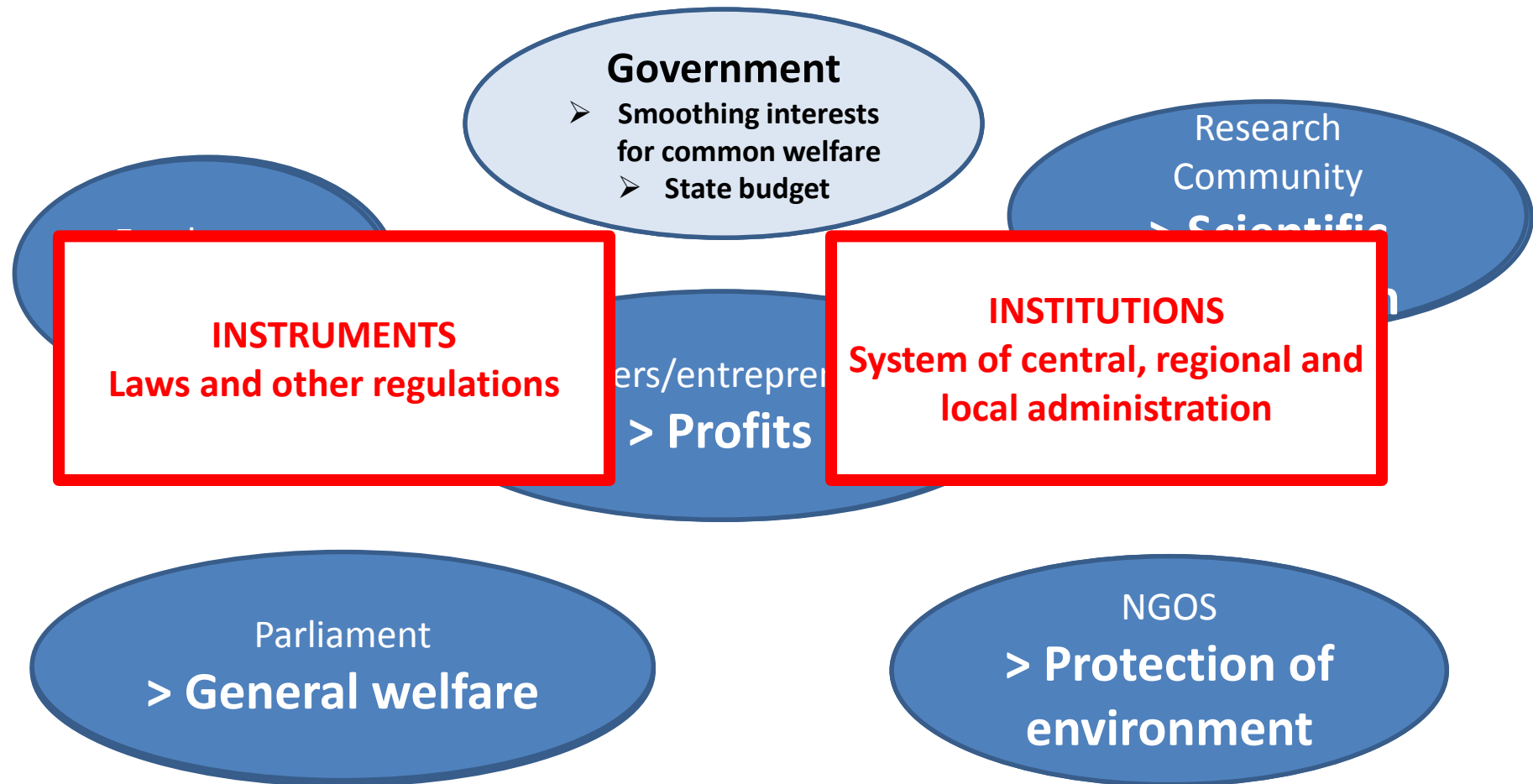
- Currency exchange rate
- GDP
- Inflation/domestic prices
- Credit rate
- Production costs/wages
- etc.
- Investments



## Economy of agricultural sector

- Production/yield
- Processing level
- Export/import
- Domestic consumption
- etc.

# Major Tools



## Структура собственности

		Государс твенная	Частная	Коммун альная	Коллект ивная			Сумма в хозяйствах нии
Сумма в собственности		25.2	74.8	0.0	0.0	Взято в аренду	Сдано в аренду	
Структура хозяйствования в т.ч. Госгеокадастр	Агрохолдинги *)					13.5		13.5
	Не государственные предприятия	0.4	0.1		0.0	22.8	0.1	23.1
	Фермерские хозяйства	1.5	0.7			8.4	0.1	10.4
	Государственные предприятия	2.2				0.1	0.0	2.3
	Земли государственного резерва						1.6	1.9
	Земли запаса						2.8	7.6
	Земли не в пользовании в н. п.						0.3	1.8
	Земли общего пользования						0.1	1.6
	Мелкие хозяйства населения					3.5	43.5	36.3
	Прочее	1.2	0.0	0.0		0.6	0.4	1.5
						48.9		
Сдано в аренду		4.8	44.1					
Взято в аренду		0.1	48.8				48.9	
Сумма в собственном управлении		20.5	79.5	0.0	0.0			100

**20,3 Mio. ha rented  
about 5 EUR/ha  
about 100 mio. EUR  
> 3 bill. UAH**

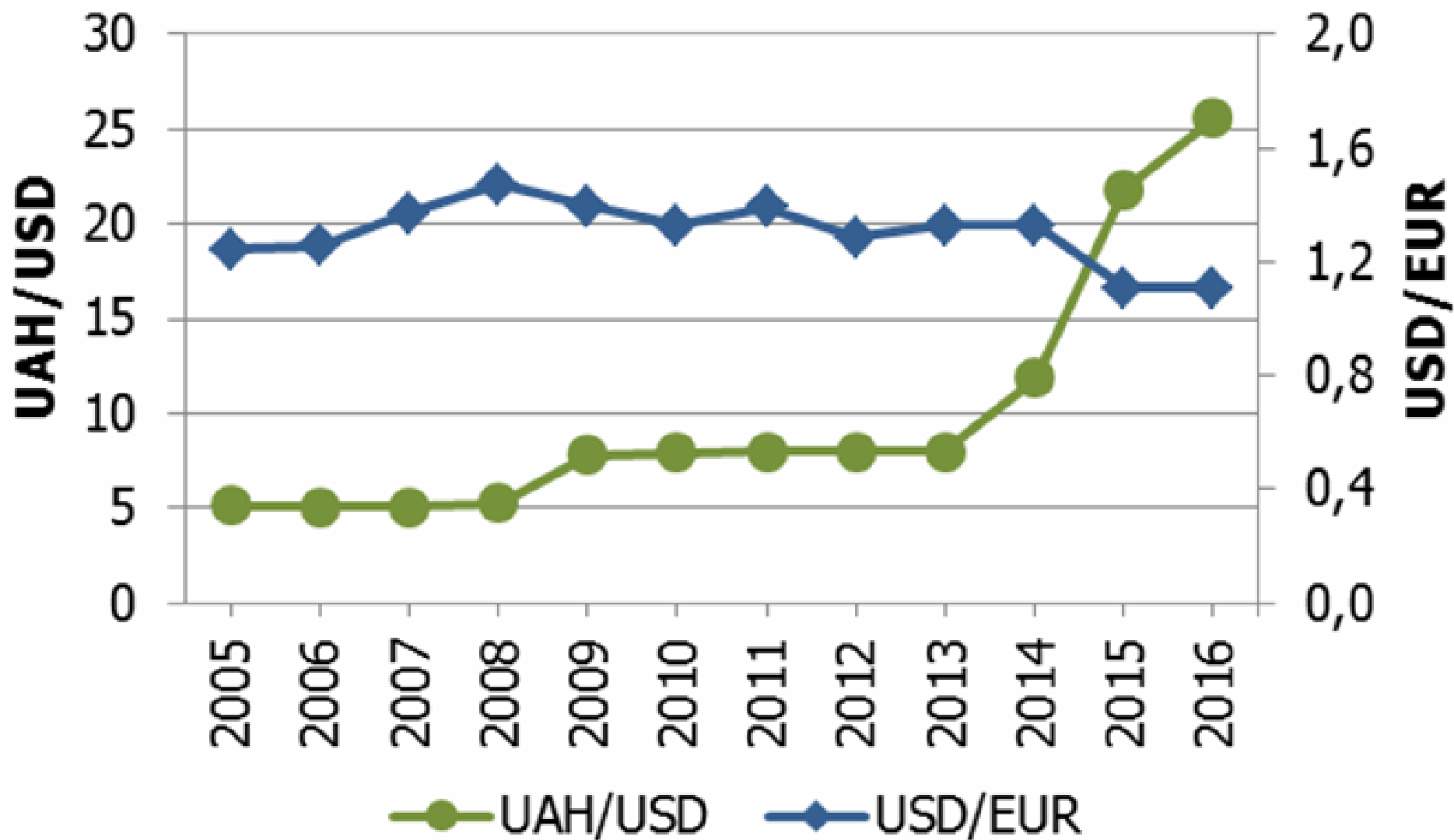
**Total area 41,5 Mio. ha**

# **The agricultural sector Ukraine and Germany: facts and comments**

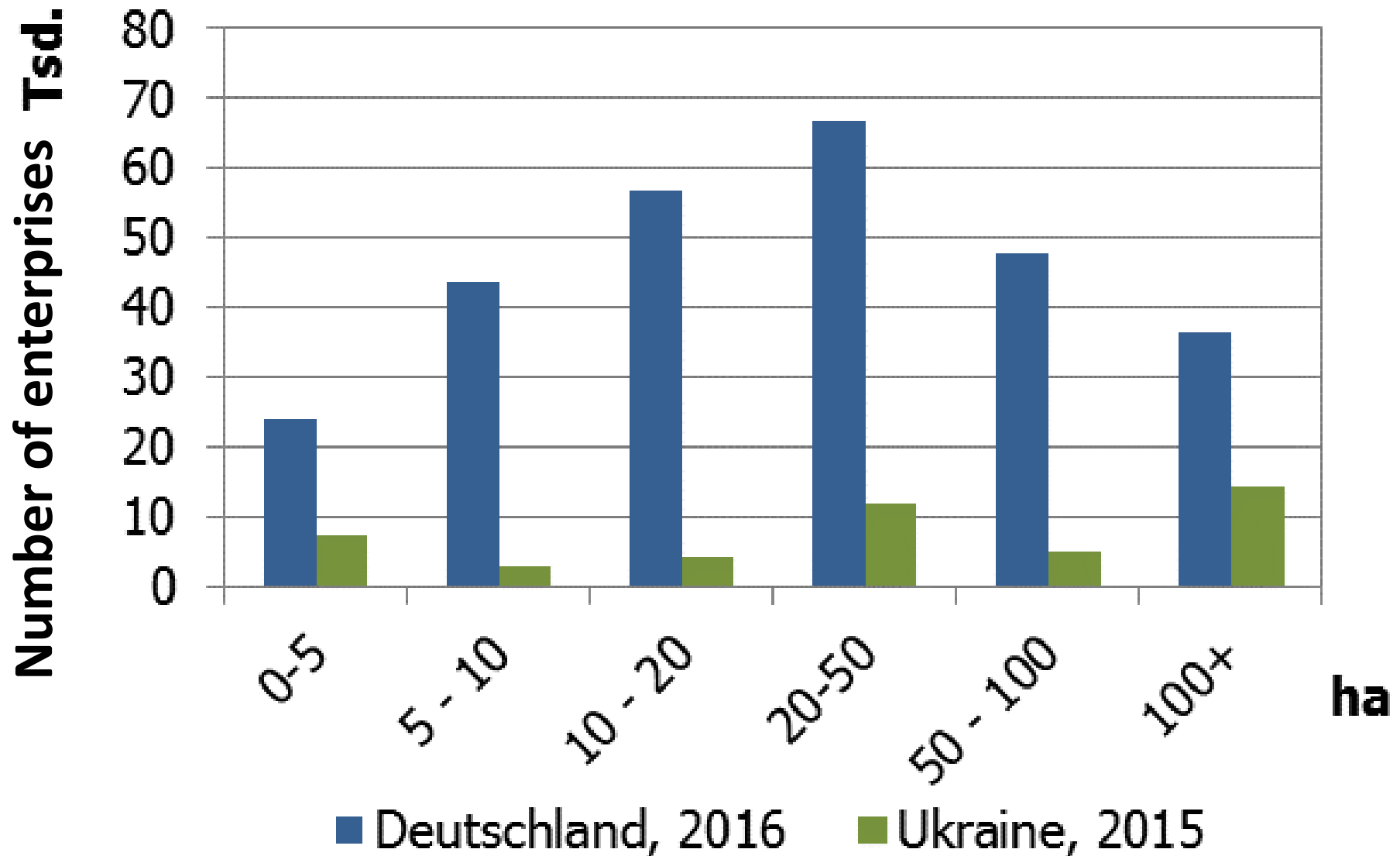
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<b>Indikator</b>	<b>Deutschland</b>	<b>Ukraine</b>
Area, km2	357 137	603 500
Number of citizens, mio.	82,2	42,5
BIP, bill. USD	3 467	93,3
Density of population, capita/km2	230	70
BIP, KKP Int. USD/Capita	48 729	8 271

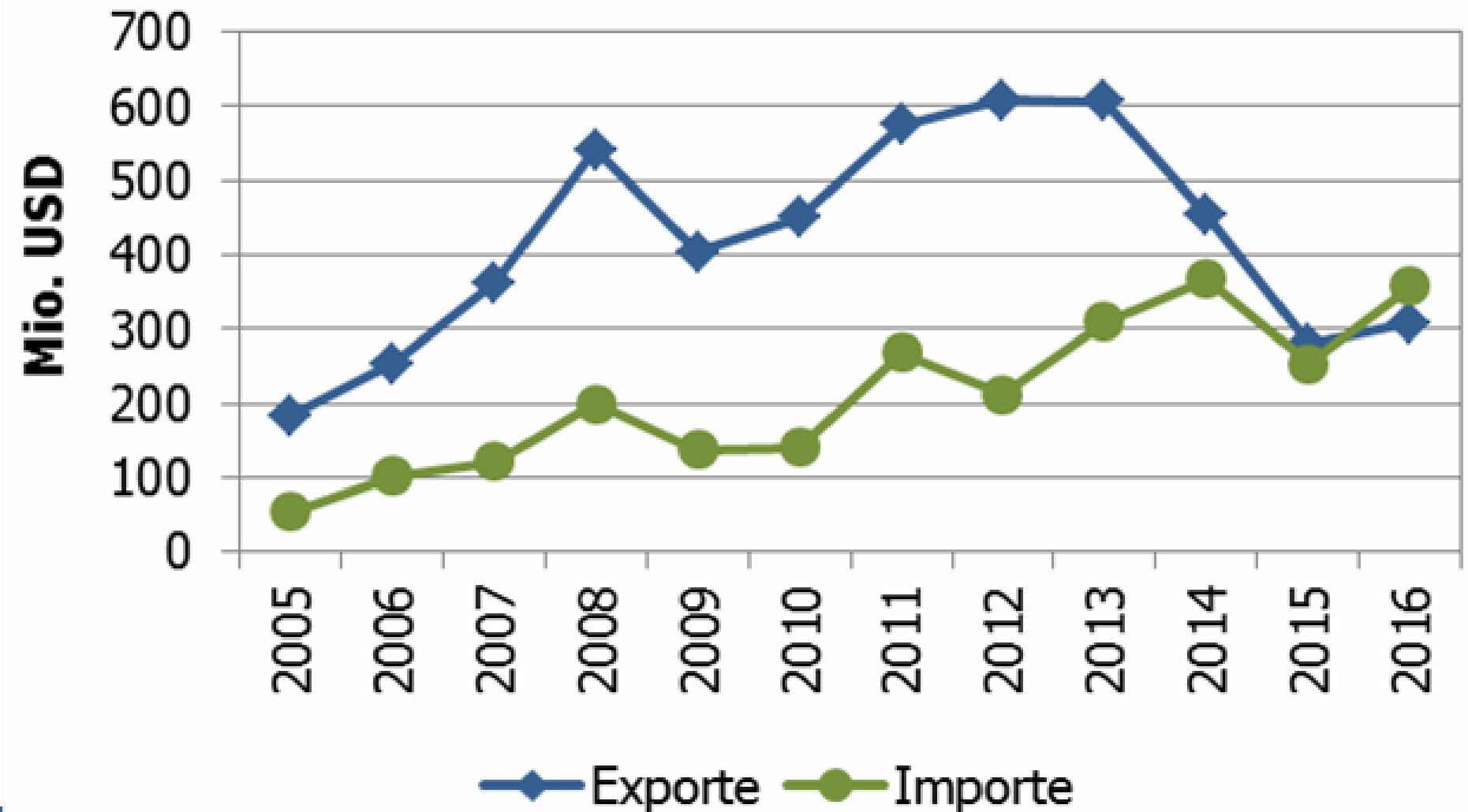
## Development of currency exchange rate



## Structure of agriculture enterprises by size

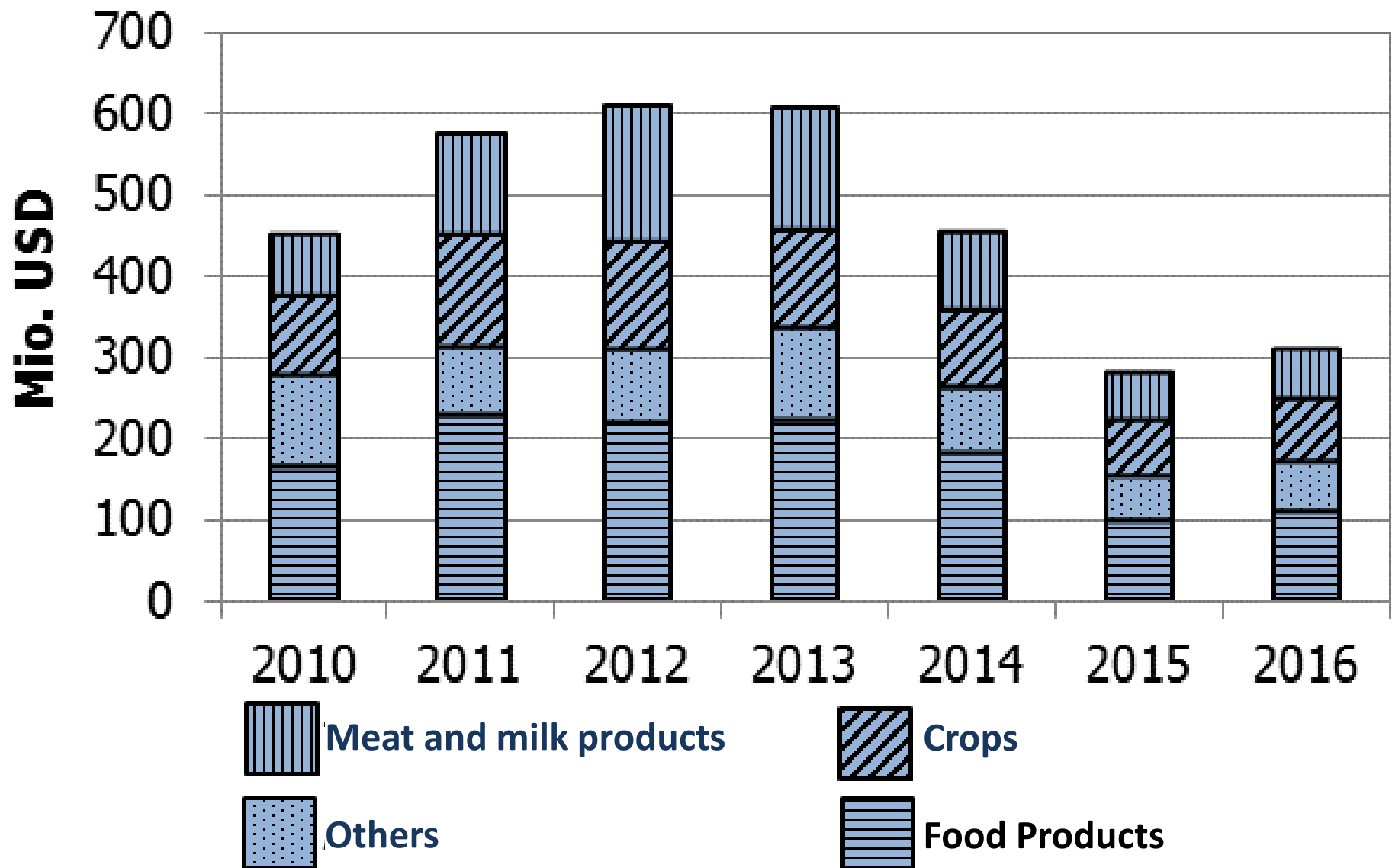


## Agriculture Trade of Germany with Ukraine



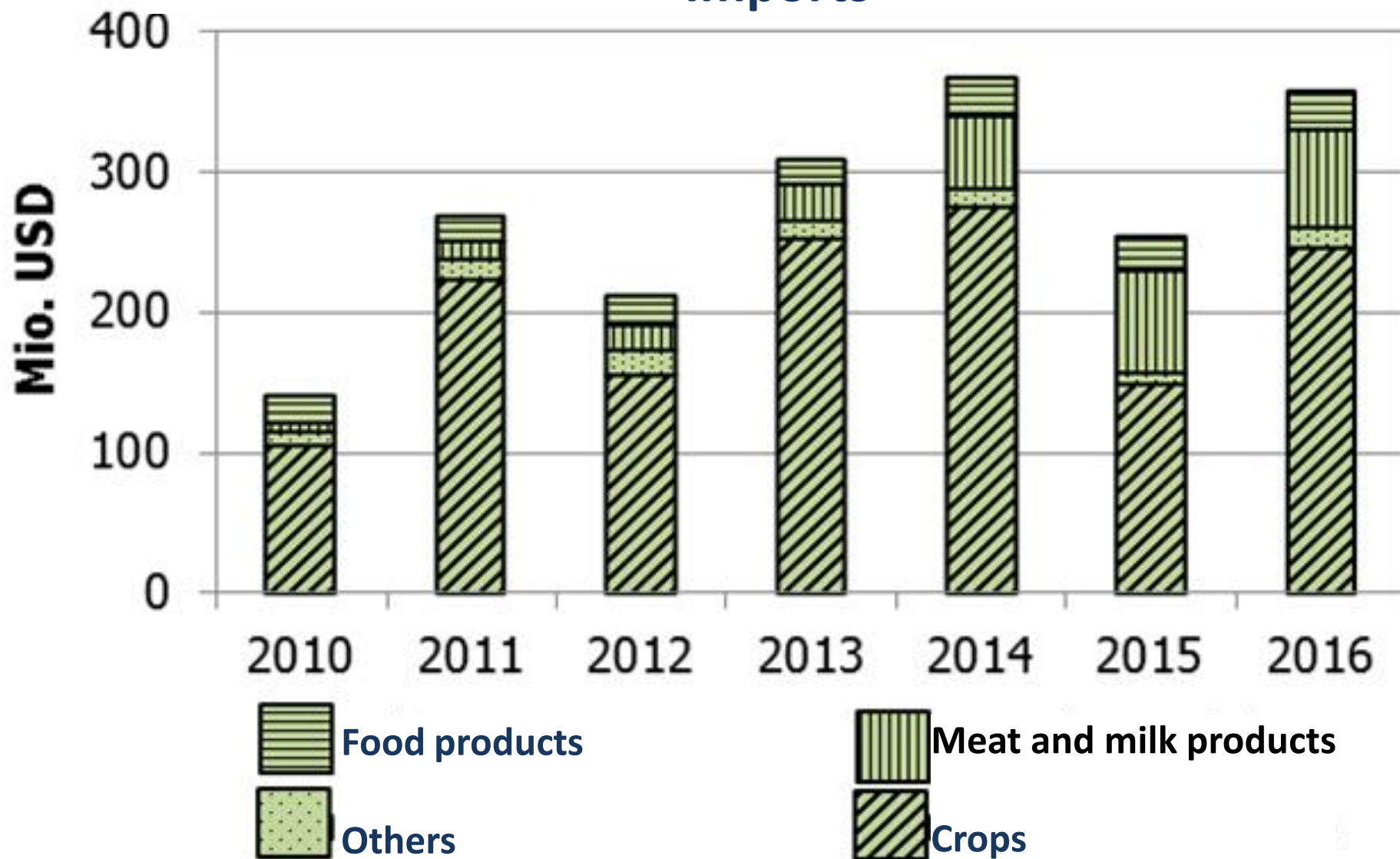
# Agriculture Trade of Germany with Ukraine

## - Exports -

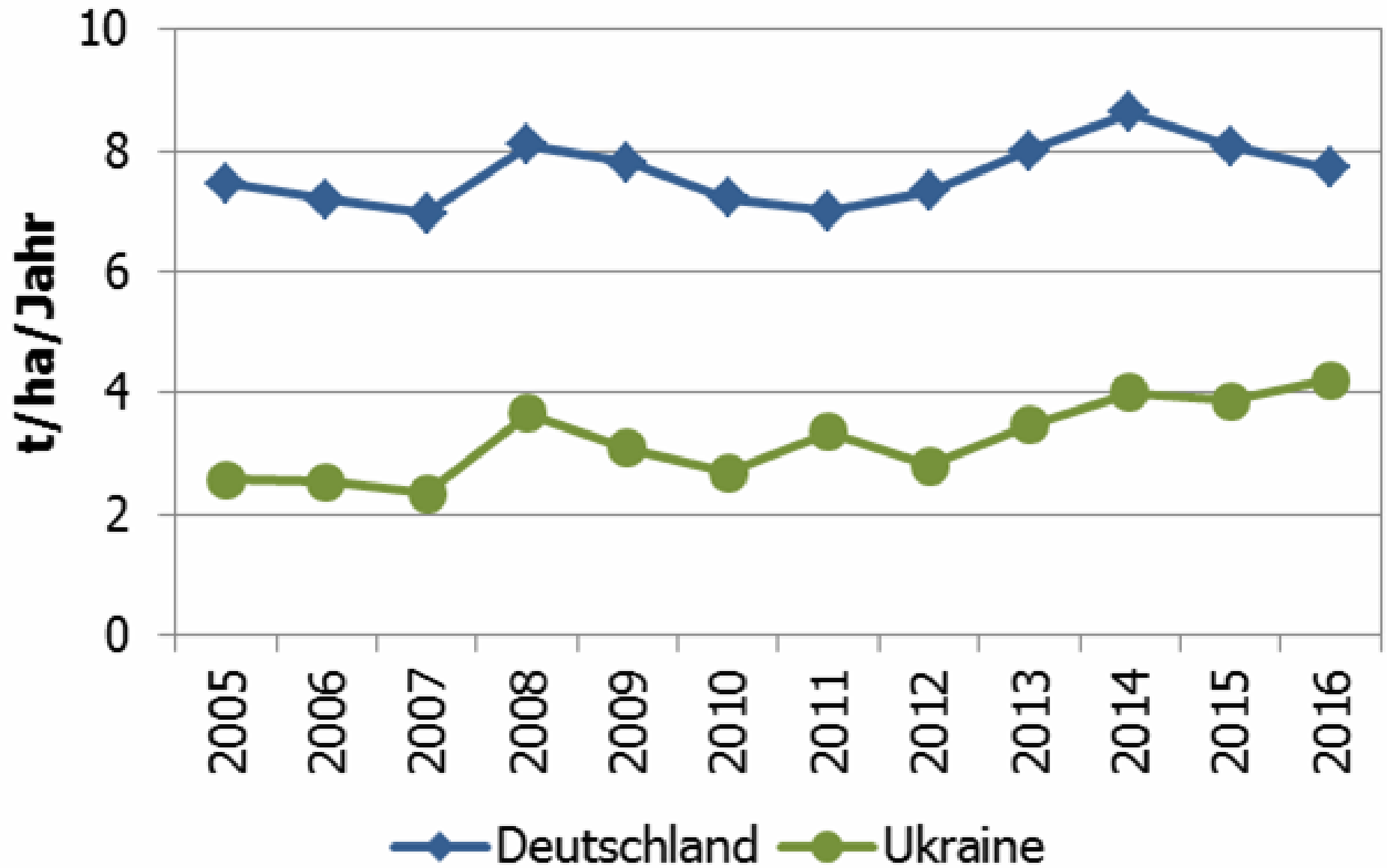


# Agriculture Trade of Germany with Ukraine

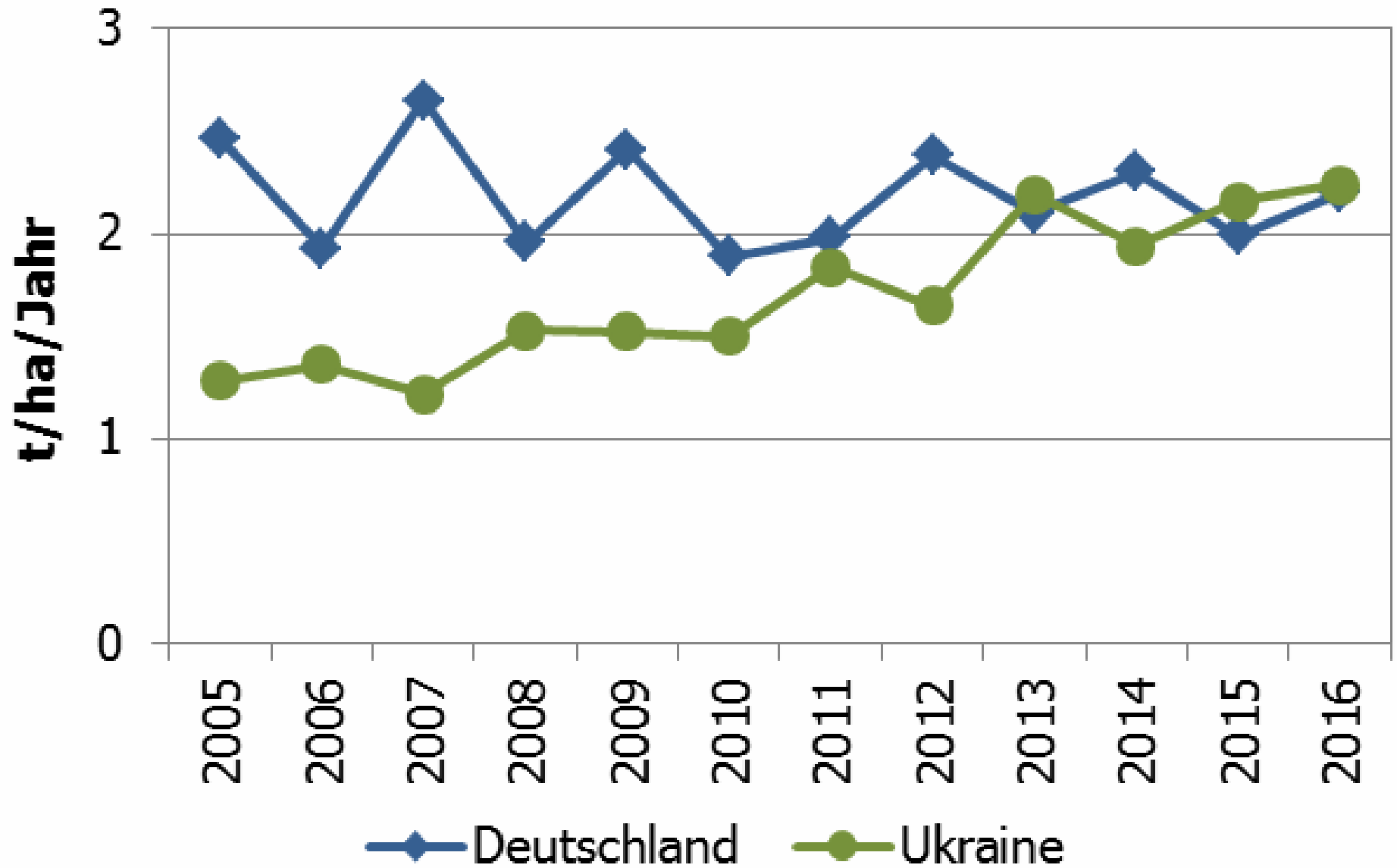
## - Imports -



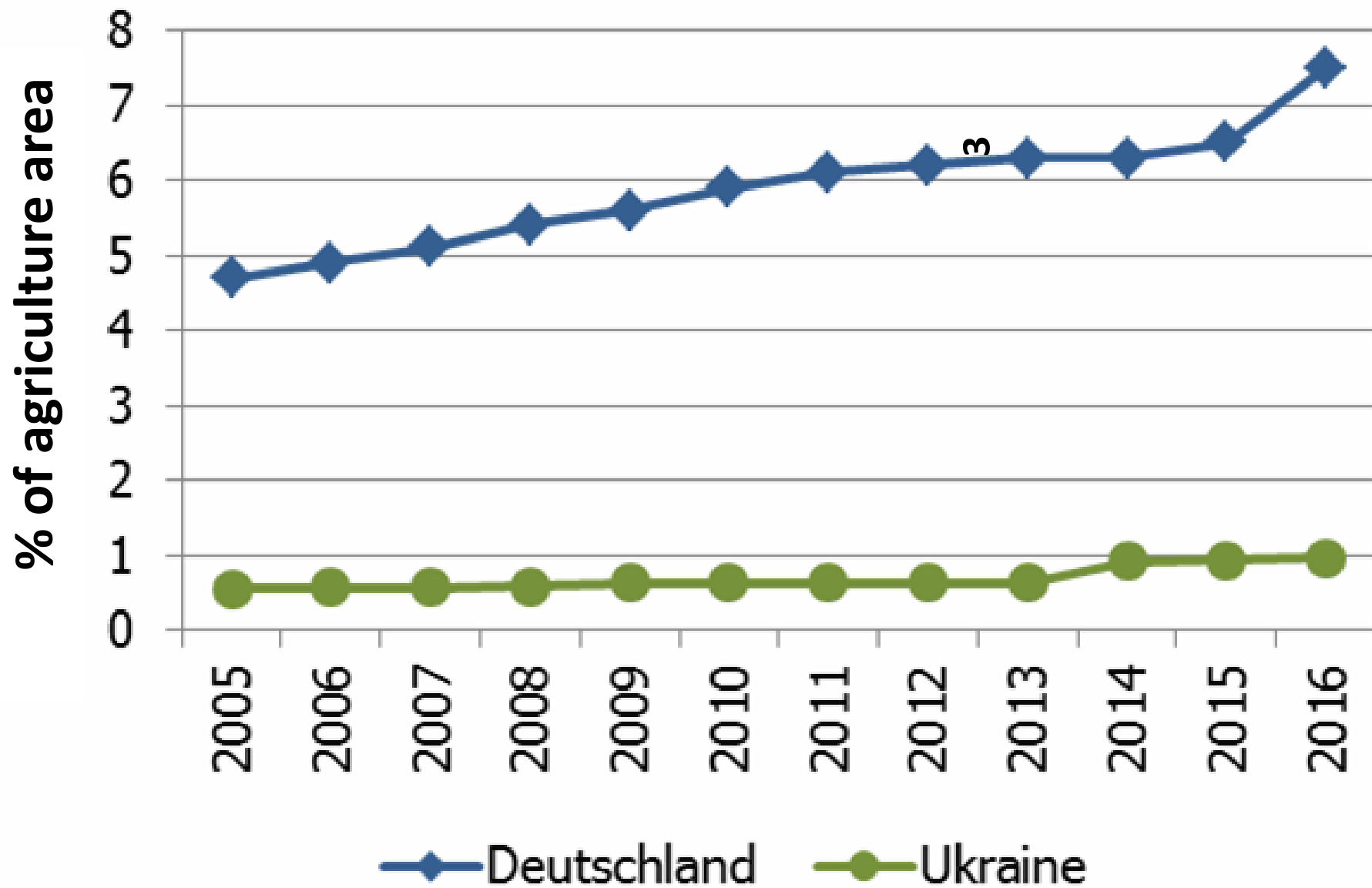
## Yield of wheat



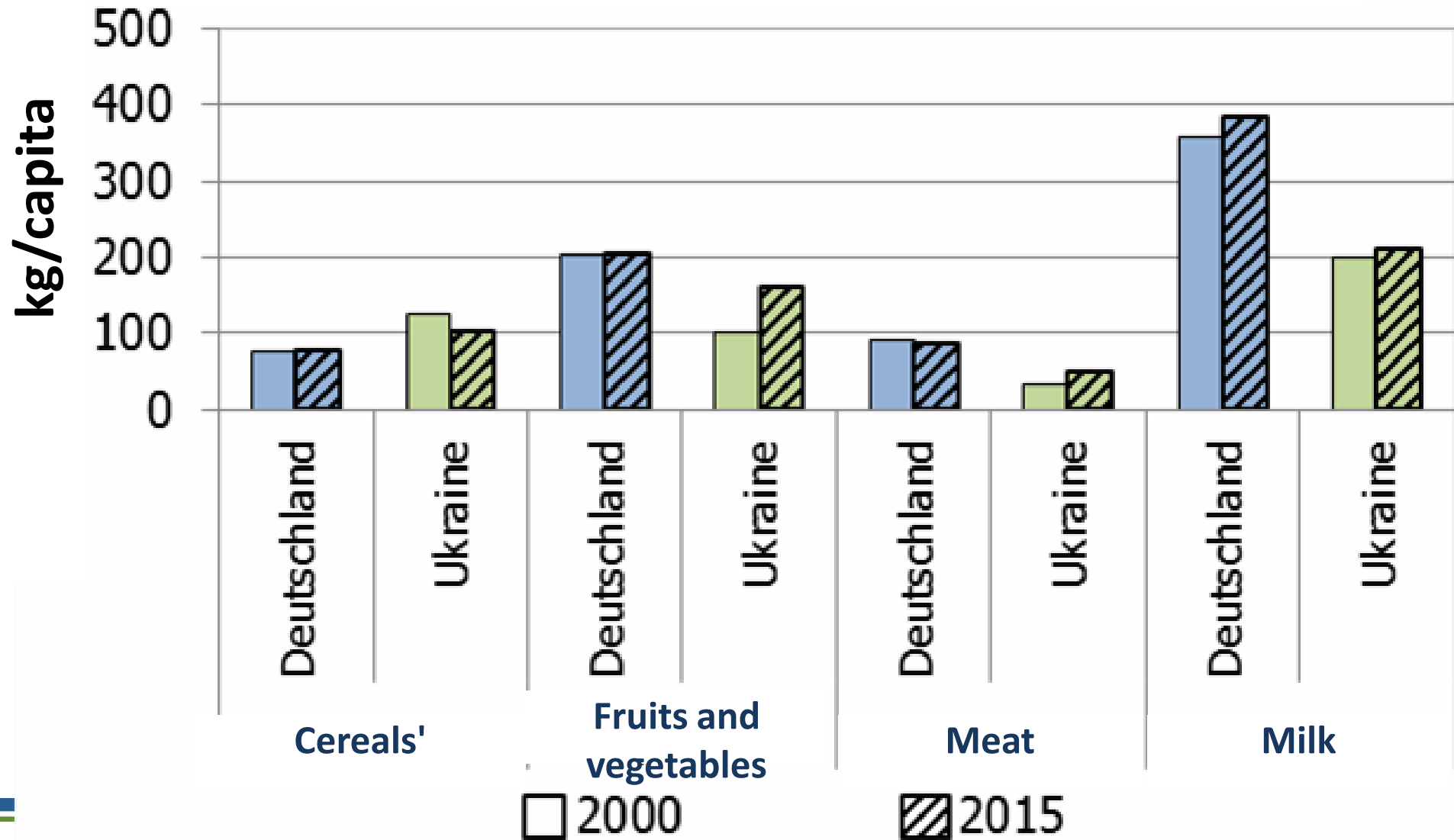
## Yield of sunflower



## Share of organic production



## Development of consumption of agriculture products





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# Modeling the development of agricultural sector of Ukraine

## (on the basis of AGMEMOD)

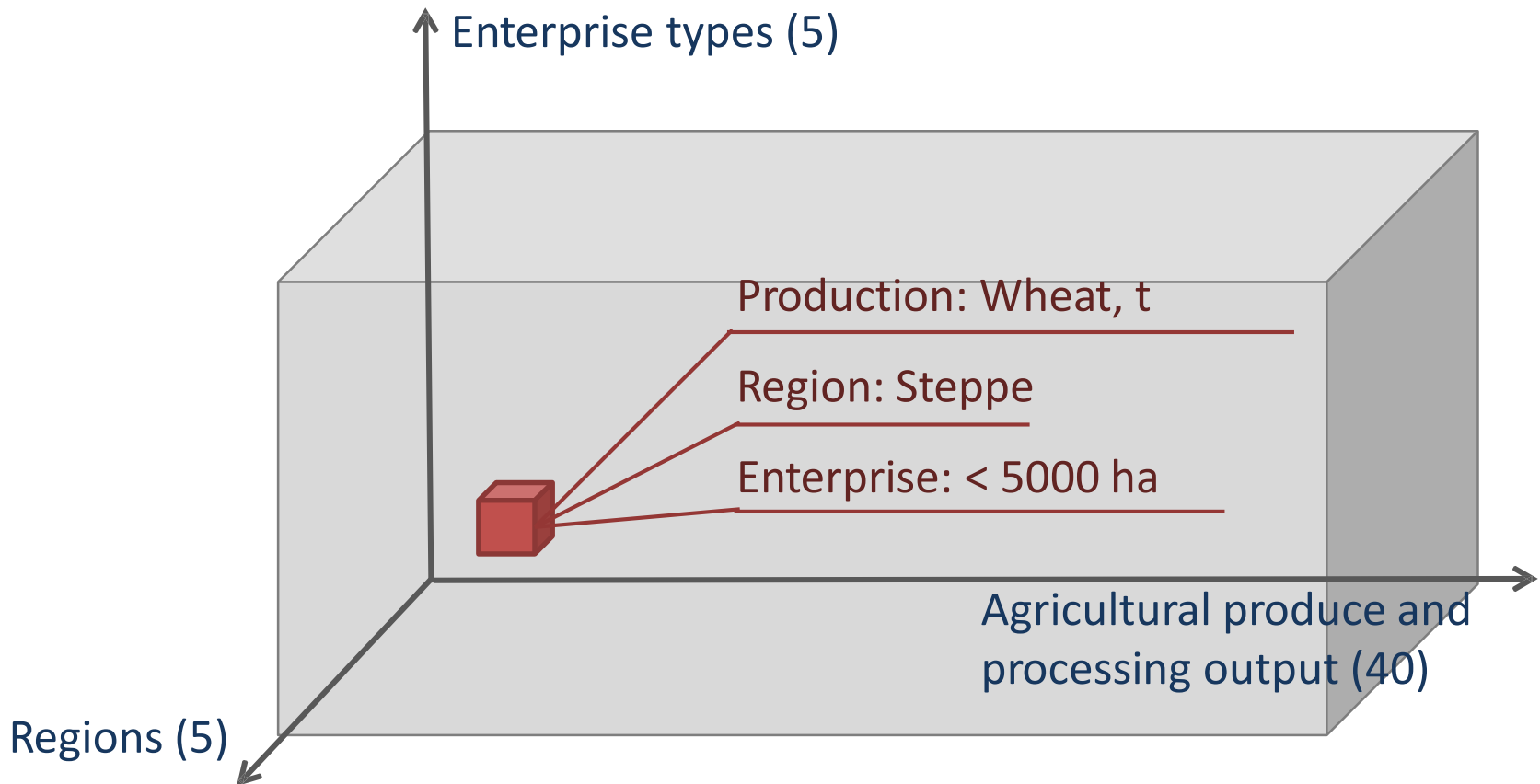
Oleksa Stepaniuk  
Mariia Bogonos  
Volker Sasse

German Ukrainian Agricultural Policy Dialogue

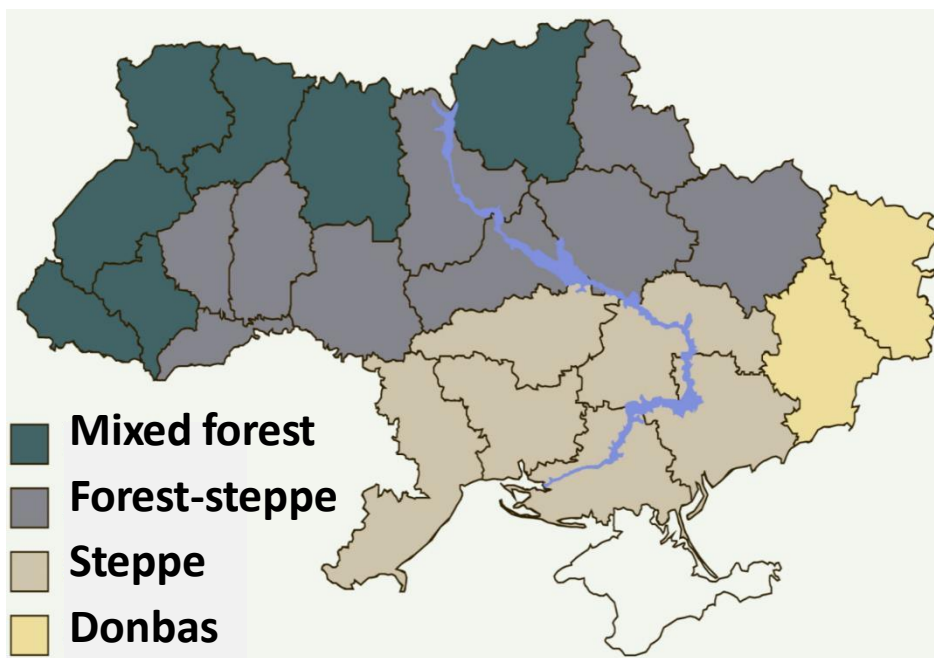


- Dynamic, multi product, econometric partial equilibrium model
- It is used for assessment of impacts of Common Agricultural Policy of the EU (CAP) on agricultural sector of the EU
- 29 partner institutes (+ Brasil, China)
- [www.agmemod.eu](http://www.agmemod.eu)

- Price
- Consumption and use (types)
- Export – Import
- Production (area and yield)



## Regions



## Producer types

- Farms
- Smaller/medium enterprises, < 5000 ha
- Larger enterprises, > 5000 ha
- Public enterprises
- Households

## Exogenous factors affecting the model

- real GDP
- GDP deflator
- population
- agricultural policy
- world prices

## Endogenous factors (estimated by the model)

- price (uah/100 kg)
- export/import volumes (t)
- types of consumption (kg/человека, t)
- area (ha)
- yield (t/ha)

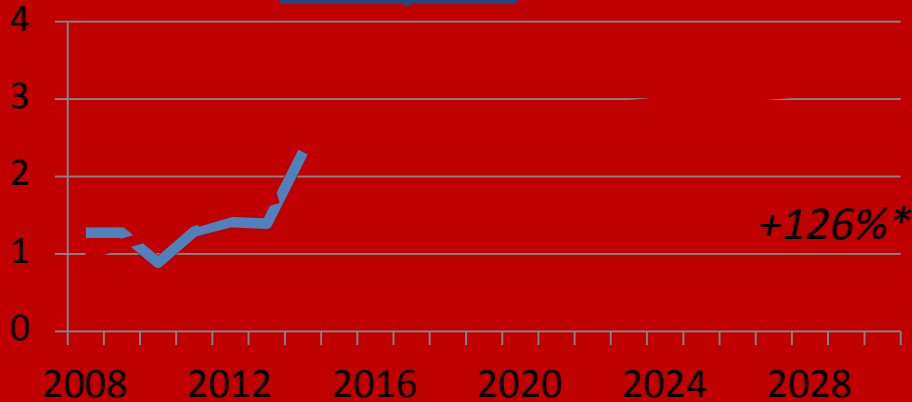
## Main characteristics of Baseline scenario

- Projected values of exogenous factors are taken from other sources (e.g., OECD)
- «Status quo» (no changes in general and agricultural policies)

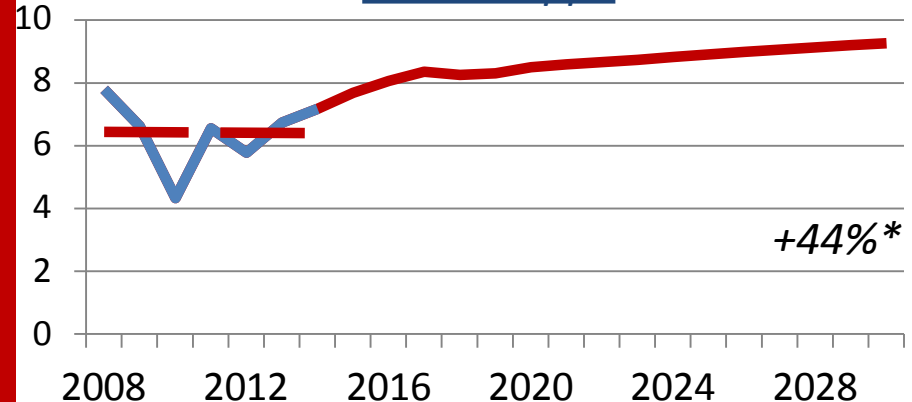
Exogenous factor	Value
Population	-0.6% per year on average
Real GDP	+3% per year on average
GDP deflator	from 8.6 in 2015 to 17.6 in 2030
Public support	According to real subsidy values in 2014 (250 UAH/ha on average)
Special VAT regime	Absent from 2017
World prices	OECD – FAO projection
Production costs	According to real costs in 2014

## Wheat production in regions, Mio t

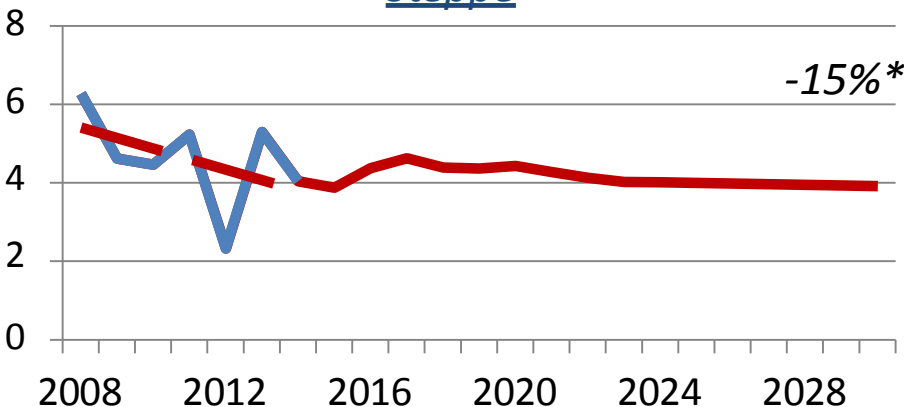
Mixed forest



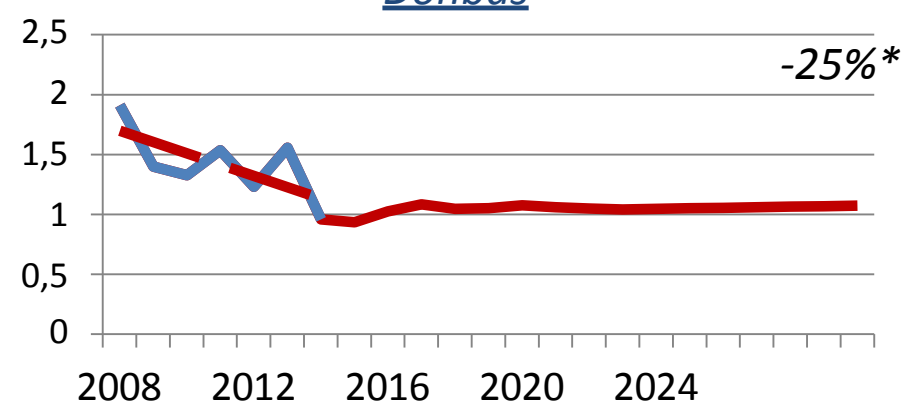
Forest steppe



Steppe

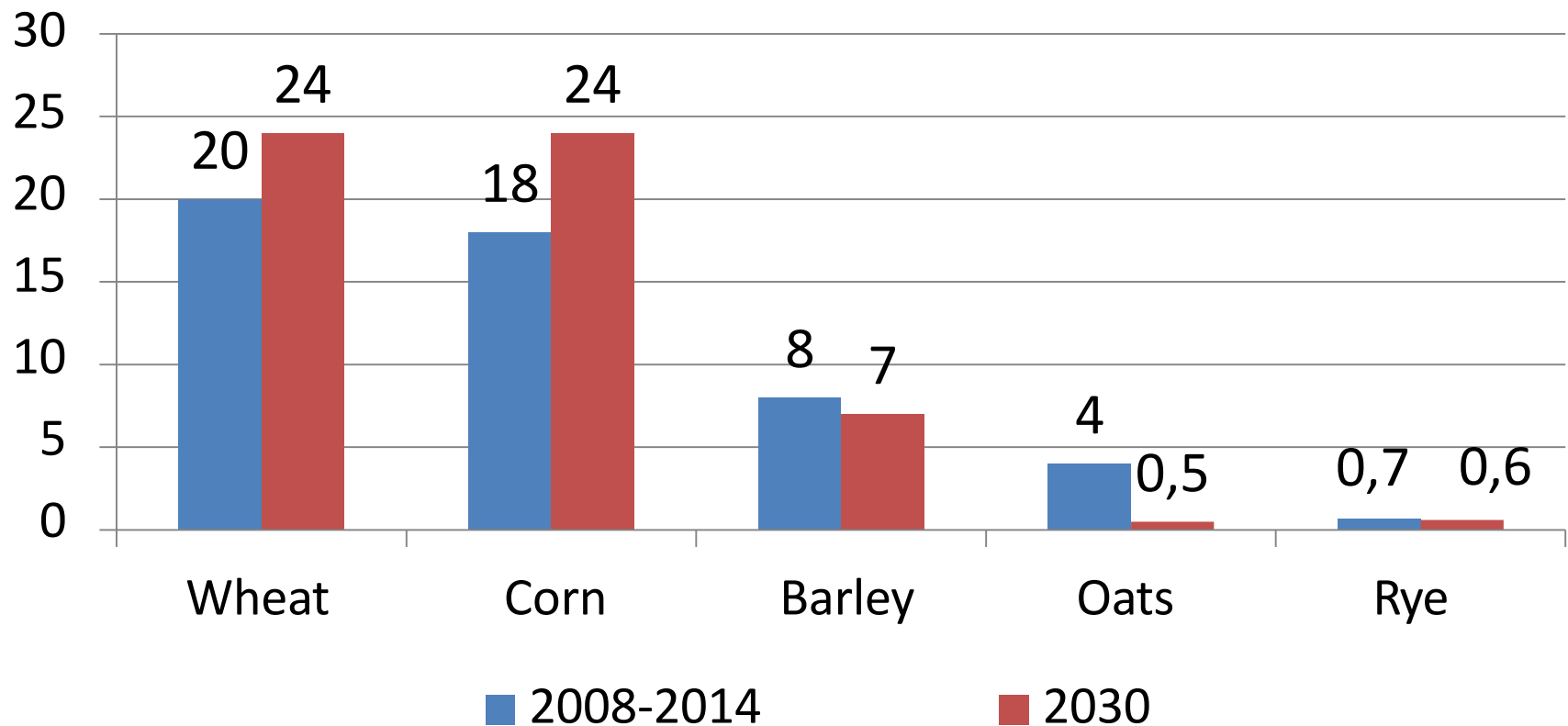


Donbas



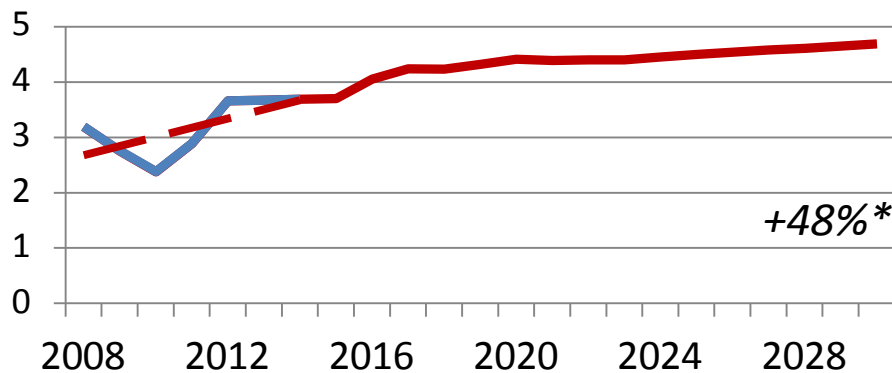
\*in 2030 in comparison to average value in 2008-2014

## Grain production in 2008-2014 and 2030, Mio t

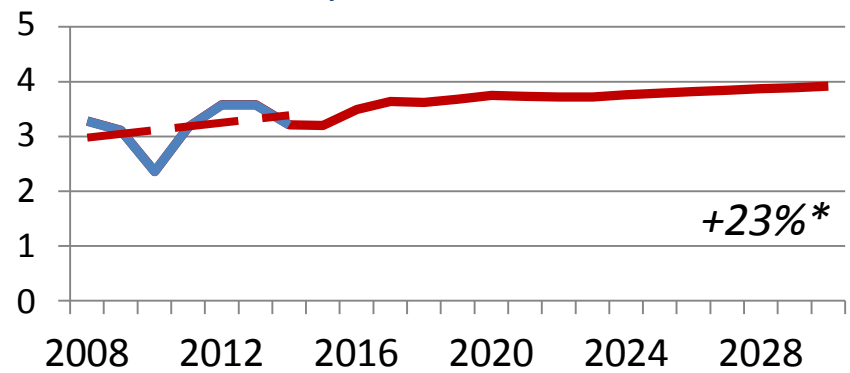


## Wheat yield in Mixed forest region with respect to enterprise types, t/ha

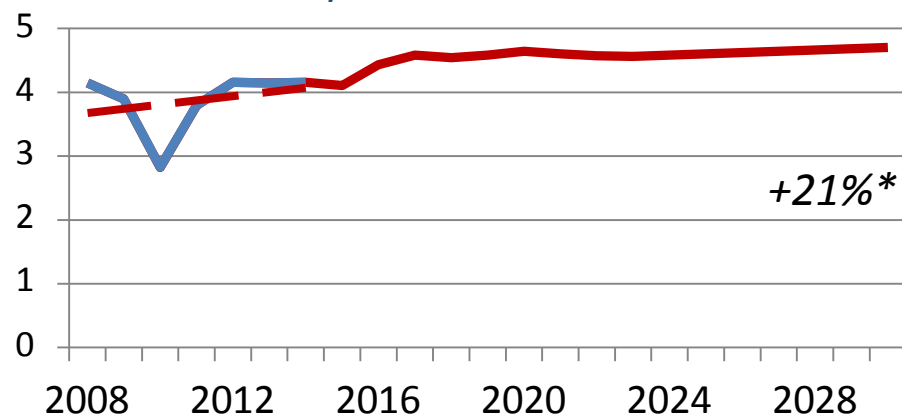
Farms



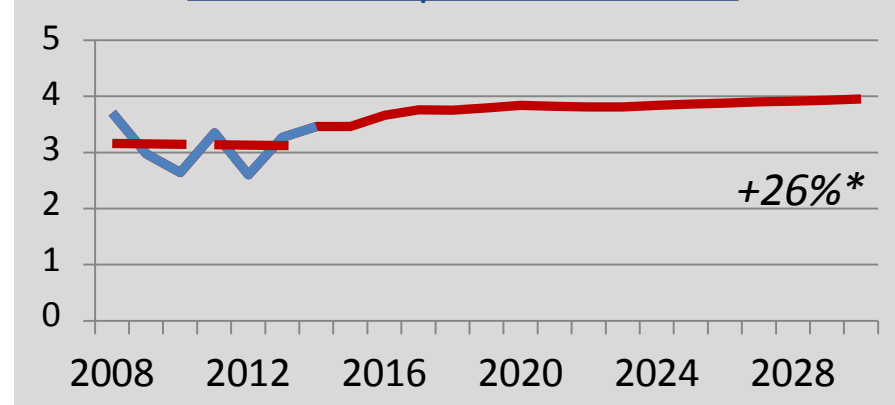
Enterprises < 5000 ha



Enterprises > 5000 ha

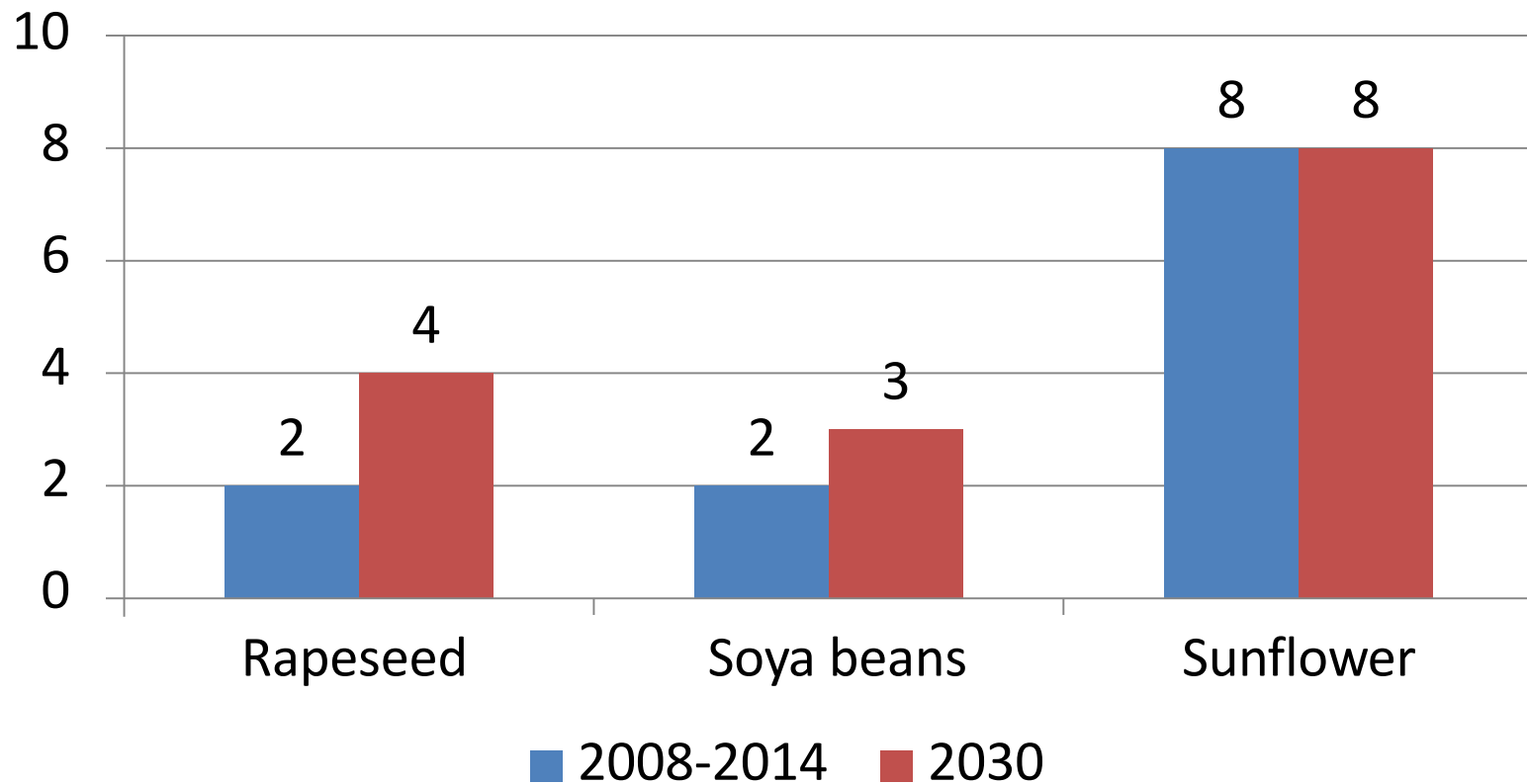


Public enterprises in Ukraine



\*in 2030 in comparison to average value in 2008-2014

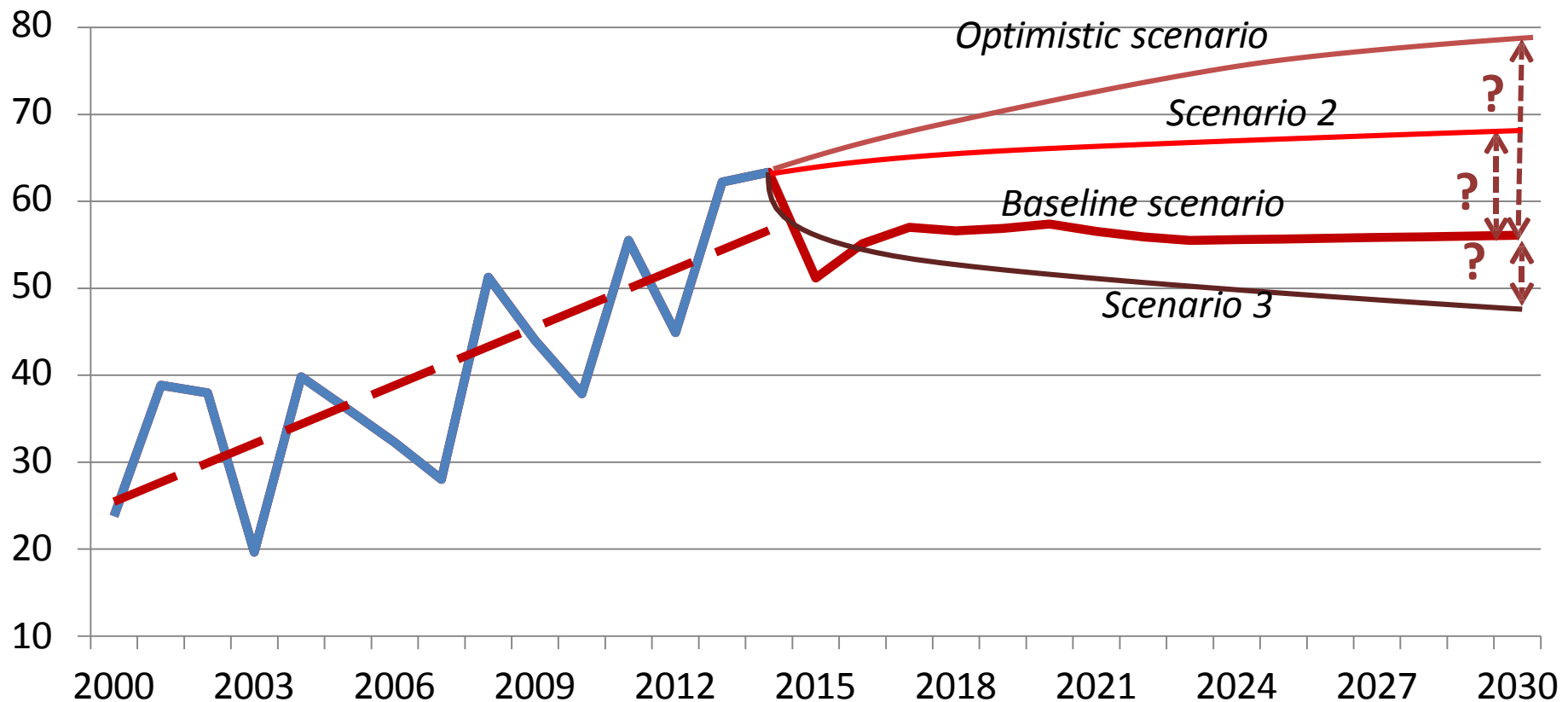
## Oilseed production in 2008-2014 and 2030, Mio t



## Analysis of policy scenarios:

- Optimistic – *stable international and domestic policies that positively affects the economy in general. These lead to increase of investment into the agri sector*
- Public support – increase of support of agricultural production
- Deregulation – update of regulations in agricultural sector
- Privatization of public enterprises of agricultural production
- Abolishment of moratorium on selling of agri land
- Abolishment of common tax for agri producers

## Example: Effects of policy scenarios on grain production, Mio t



- Model transfer to Ukrainian partners (on the basis of contract with AGMEMOD-consortium): public organizations, science, business

## **Transparent use of the model!**

- ☐ Training of expert team in working with AGMEMOD-APD