

# After 20 years of transition in Ukraine, will the market find a way? – Focus on agriculture

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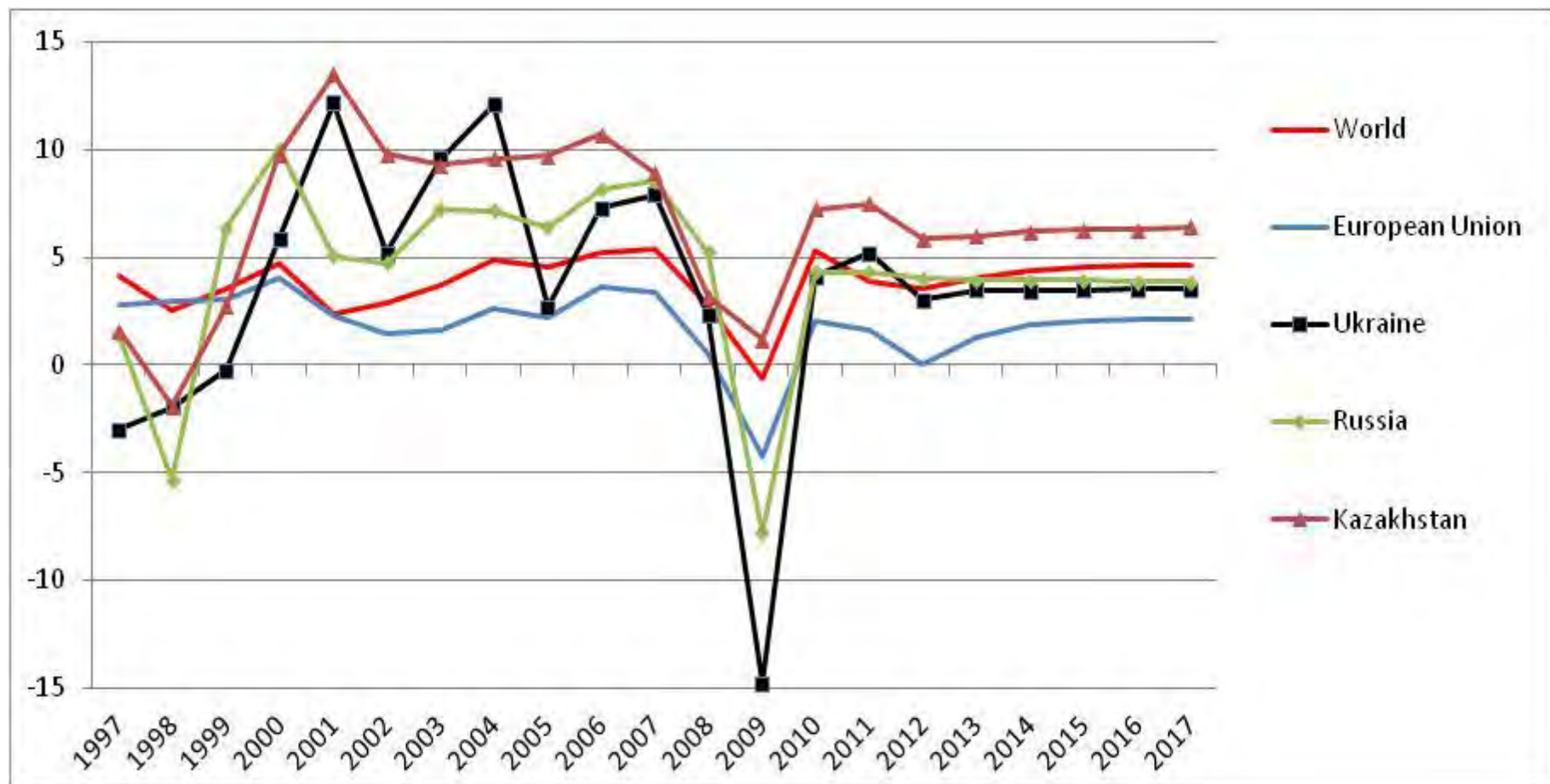
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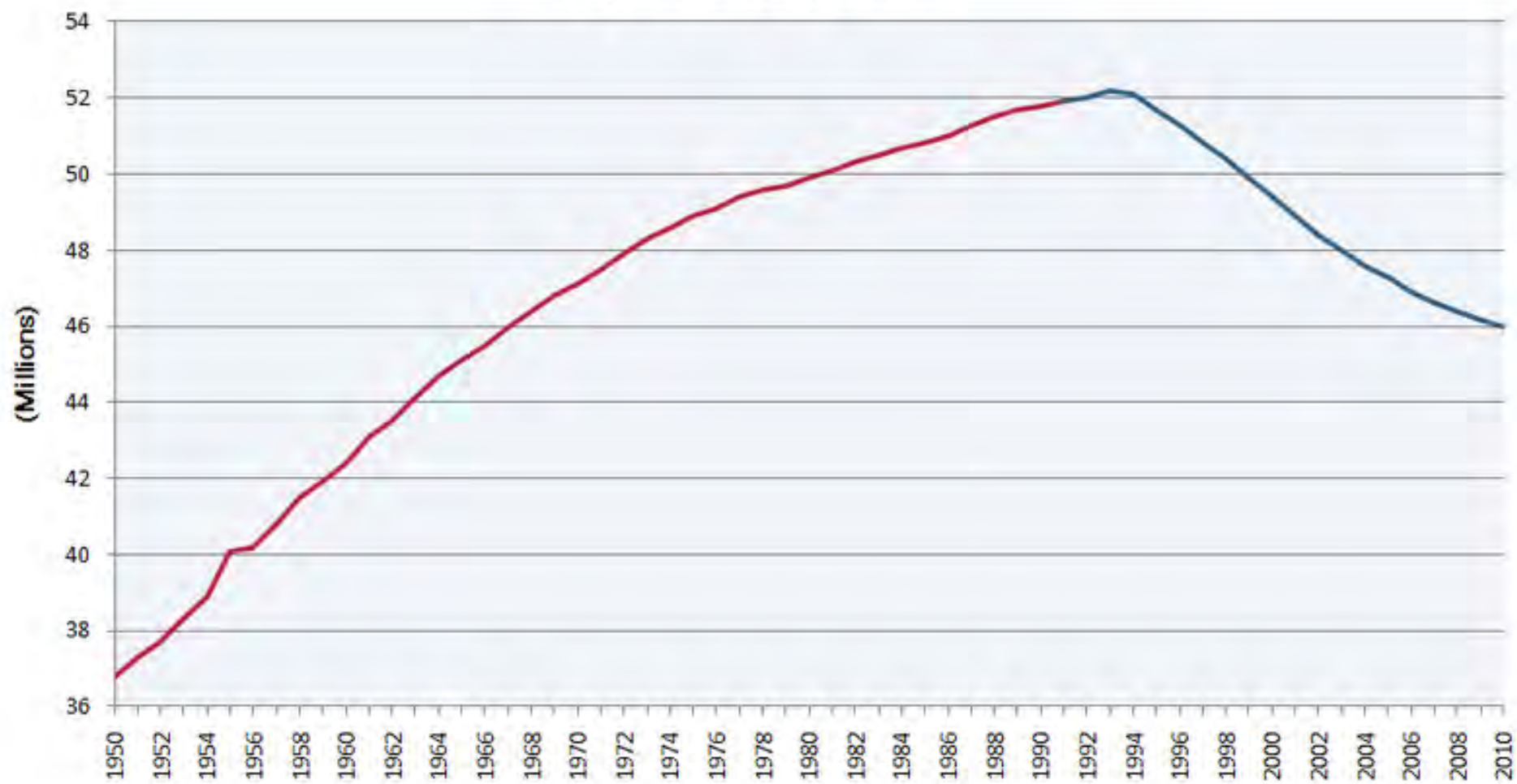
# OUTLINE

- **Socio-economic context**
  - **Demographic and economic troubles**
  - **Policy uncertainty**
  - **Poorly developed or lacking market institutions**
- **Obstacles on the way**
- **Positive developments and the future**

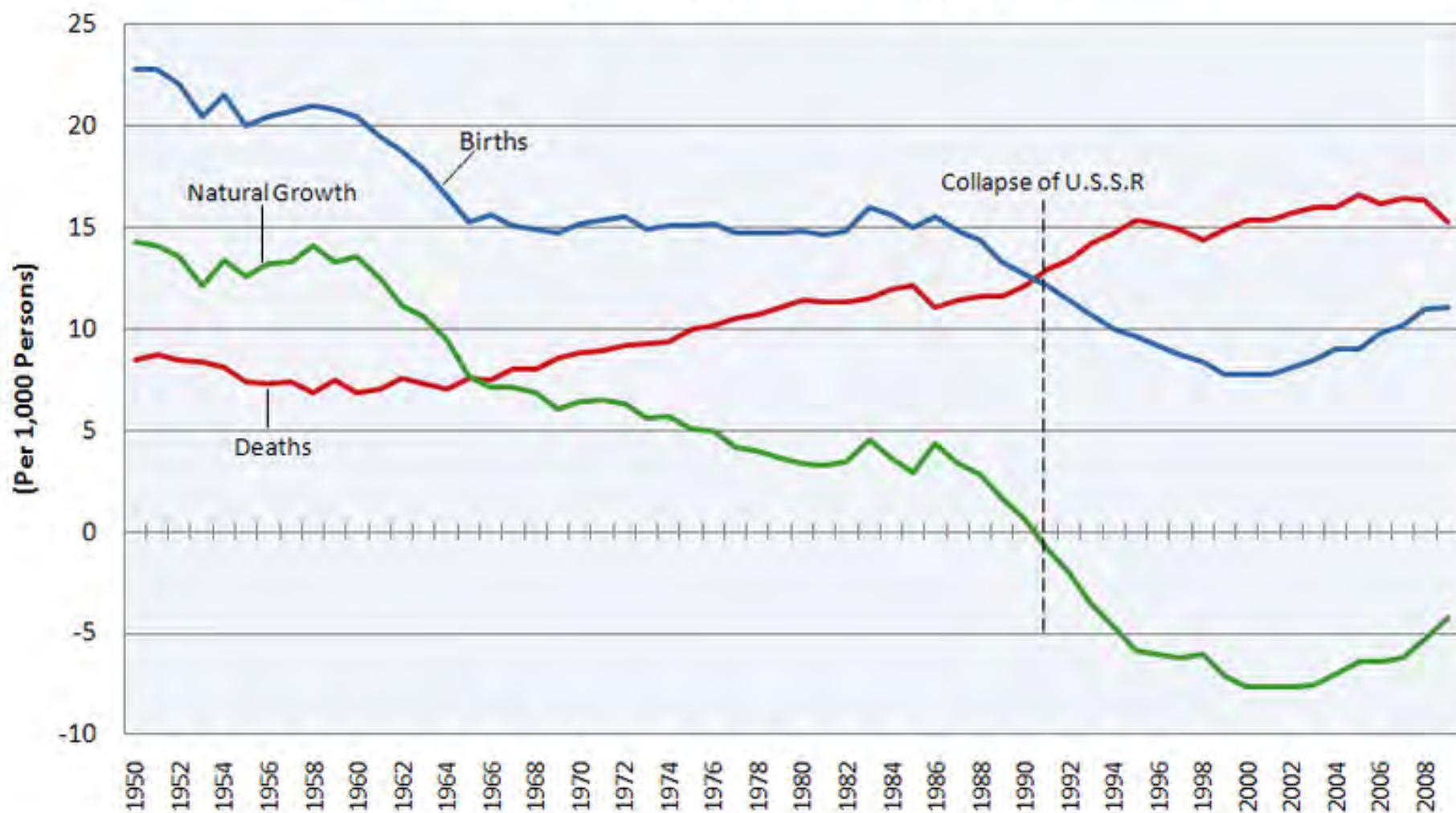
# Real GDP % change, IMF 5/2012



## Population of Ukraine



## Natural Population Growth of Ukraine



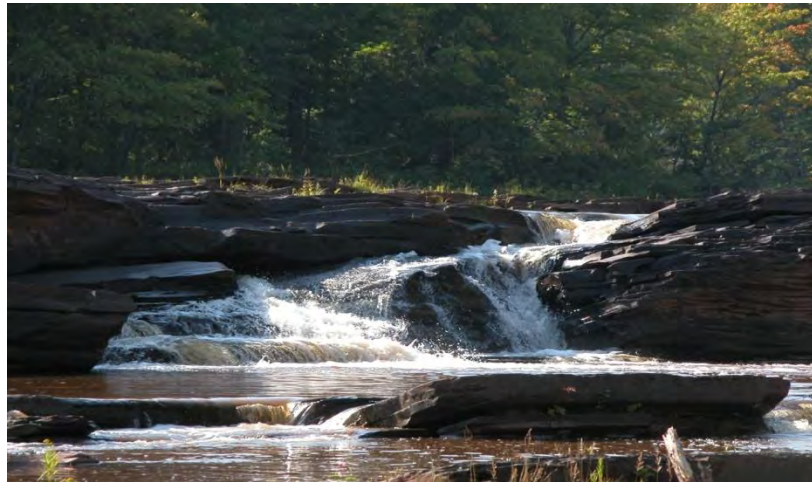
# Role of Agriculture

- Agriculture, value added (%of GDP) = 10
- Employment in agriculture = 16% (2008)
- Arable land = 32.6 mil ha (home to 1/3 of the world's most fertile soils ("black soils"))
- PSE 2010 = 4.46
  - More distorting = 84%
  - Highest – (40-60%) sugar, pig meat, poultry
- Ag export = 25% of total



# Can the market find a way?

- Think of a market as water flowing down a stream or through a field.
- When it reaches an obstacle, it flows around it or over it.
- The larger the obstacle, the more it diverts or slows the flow of water.
- Sooner or later, faster or slower, the water finds its way downstream to its destination, whether that be a river or sea or ocean.



# Can the market find a way?

- In a mature and well-functioning market, goods flow smoothly and efficiently from the source to the destination (farm to port, farm to fork, etc.).
- In Ukraine the market economy is barely 20 years old and is not yet a well-oiled machine - more obstacles and inefficiencies in the marketing channels.



# Some of the obstacles

- Moratorium on land sale → disincentive to invest in land improvements
- Policy uncertainty (i.e. export restrictions)
- 
- Lack of credit access
- Low level of spending on R&D
- Efficiency of markets - relatively high farm to export costs depress farm production incentives
- Slow seed certification processes

# Ownership Structure for Agricultural Land

## Land leasing

- Lease model is simple and functions effectively;
- Terms typically range from 2 to 25 years; average is 5-15 years; under the law lease term cannot exceed 49 years;
- Annual lease rates typically range from \$40-\$100/ ha, often paid in kind (crops) (2009 est.)

## Land ownership

- Moratorium on purchase and sale of agricultural land in place
  - For the first time moratorium was introduced in 1992 as a part of the Land Code
  - In 2001 it was introduced as a separate law till January 2005
  - However, since 2004, it has been extended for every 2-3 years. Last time in November, 2012.

# Moratorium on Land Sale

Differences in land reform implementation in the Eastern European countries

Country	Small farms dominated before the USSR	Land restitution to former owners	Land distribution to farm workers	Land market functioning as of 2005	Land market restrictions as of 2005
Albania	yes	no	yes	yes	moderate
Belarus	no	no	no	no	substantial
Bosnia & Herzegovina	no	yes	no	yes	moderate
Bulgaria	yes	yes	no	yes	minimal
Croatia	no	yes	no	yes	minimal
Czech Republic	no	yes	no	yes	minimal
Estonia	yes	yes	no	yes	minimal
FYROM	no	yes	no	yes	moderate
Hungary	no	yes	yes	yes	minimal
Latvia	yes	yes	no	yes	minimal
Lithuania	yes	yes	no	yes	minimal
Moldova	no	no	yes	yes	moderate
Montenegro	no	yes	no	yes	moderate
Poland	no	yes	no	yes	minimal
Romania	no	yes	yes	yes	minimal
Russian Federation	no	no	yes	yes	moderate
Serbia	yes	yes	no	yes	moderate
Slovak Republic	no	yes	no	yes	minimal
Slovenia	no	yes	no	yes	minimal
Ukraine	no	no	yes	no	significant

Source: Compiled by the authors from Wegren (1998), Lerman et al. (2004), Mathijs and Swinnen (2000), and Gerber and Giovarelli (2005)

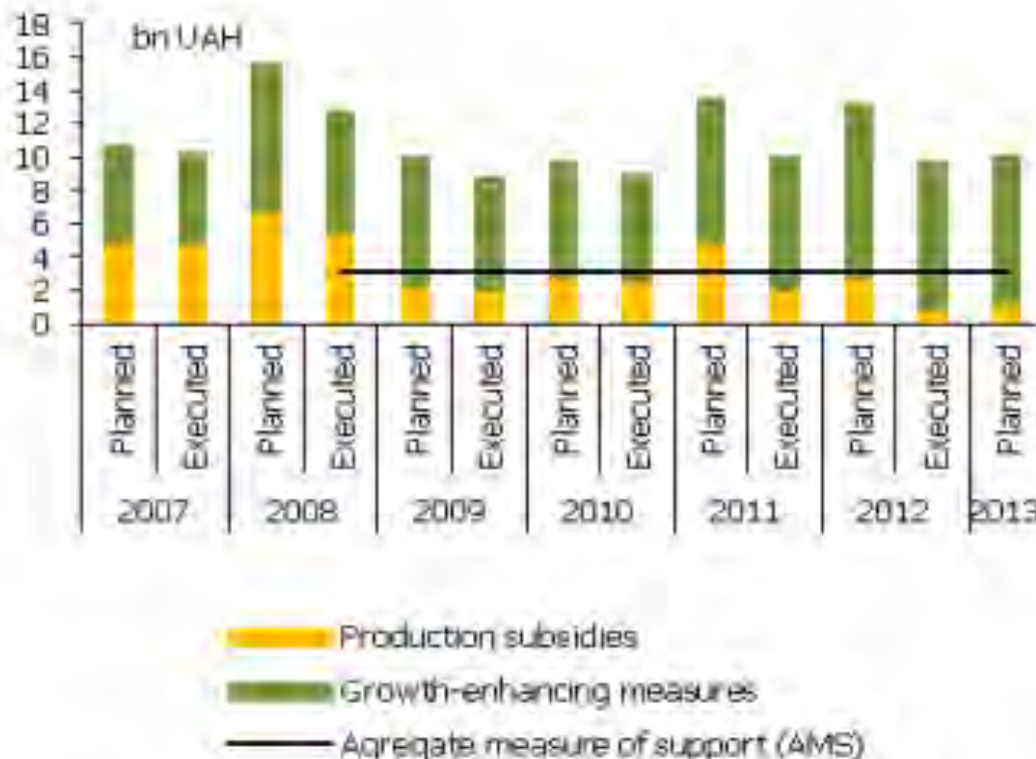
# Infrastructure

- **Roads**
- **Shortage of railcars** – role of political connections
- **Ports** – current capacity is at 24-26 million tons
- **Storage/Drying** – current capacity is estimated at 30 million tons



# Financial Support....

**Figure 1. State support to agricultural sector of Ukraine**



Source: own estimation based on State Treasury Reports on State Budget Execution (2008, 2009, 2010, 2011, 2012)

## ...and Credit

- A system of warehouse receipts
- Inability to use land as a collateral to obtain bank credit
- Interest rate subsidies

# Erratic Policies

Chronology of **officially implemented** grain export restrictions, 1000 MT

Decision date	Period	Wheat	Barley	Corn
10/11/2006	10/17/2006-12/31/2006	400	600	600
12/08/2006	12/14/2006-06/30/2007	3	600	500
02/13/2007	02/15/2007-06/30/2007	3	606	30
02/22/2007	02/26/2007-06/07/2007	3	Quotas cancelled	Quotas cancelled
05/22/2007	05/22/2007	Quotas cancelled	-	-
06/20/2007	07/01/2007-10/31/2007	3	3	3
09/26/2007	01/01/2008-03/31/2008	200	400	600
03/28/2008	04/01/2008 – 04/30/2008	200	400	Automatic licensing
04/23/2008	04/2008-07/01/2008	1,200	900	Automatic licensing
05/21/2008	05/21/2008	Quotas and licenses are cancelled		
10/06/2010	10/20/2010-12/2010	500	200	2,000
12/08/2010	12/2010 – 02/2011	1,000	200	3,000
03/30/2011	04/04/2011 – 07/01/2011	1,000	200	5,000
05/2011	05/2011	Quotas are cancelled		
05/2011	05/2011-01/2012	Tariffs are introduced		
10/2011	10/2011	Tariffs cancelled, except for barley (01/01/2012)		



# Draft law “on agriculture” 1/2012

- “The key element of the Draft Law is the system of so-called agricultural passports.
- Individual agricultural passports are developed for five years and contain agricultural production standards as well as the five-year planned production and other targets.”
- “Essentially the system of agricultural passports is a return to the principles of central planning of the Soviet era.” Yulia Ogarenko, APD
- **Good news** – was not implemented

# **Strategy of development 2013-2020**

- Evolving
- Encouraging
- The Devil is in the details



# **EXAMPLE I: MARKET DOES FIND ITS WAY**

# Agricultural Enterprises by Number and Size, 2005 – 2008 - 2011

	Total, 2011	%, 2011	% change from 2008	% change from 2005	Total area sown (1,000 ha), 2011	%, 2011	% change from 2008	% change from 2005
Total number of enterprises	44,919	100.0	-6.43	-11.03	19,493.5	100.0	0.17	5.85
Including:								
Area < 50	24,464	54.5	-8.49	-14.56	536.9	2.8	0.39	-3.57
50 –100	4,236	9.4	1.46	7.68	309.7	1.6	0.98	6.61
100,01–250,00	4,582	10.2	-6.42	-5.78	749.3	3.8	-6.65	-6.36
250,01–500,00	3,199	7.1	-6.97	-10.92	1153.9	5.9	-6.58	-10.96
500,01–1000,00	2,901	6.5	-5.69	-20.54	2091.9	10.7	-5.67	-20.51
1000,01–2000,00	2,777	6.2	-6.81	-18.28	3976.9	20.4	-6.04	-17.99
2000,01–3000,00	1,322	2.9	-3.86	-2.29	3215.9	16.5	-4.26	-2.36
> 3000,00	1,438	3.2	3.20	35.02	7459.0	38.3	10.15	58.78

**Source:** State Statistics Committee of Ukraine

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# Agriholdings

- Agriholdings – large corporate farms that often cover above 100,000 ha of agricultural land and are vertically integrated with processors and/or exporters.
- Agriholdings in Ukraine differ in their location (monoterritorial vs. distributed), degree of vertical integration (the most integrated ones are in sugar industry), and number of integrated enterprises.
- The share of agriholdings in total agricultural production amounted to 17.2% in 2010

Indicator	June 2010	July 2011
Number of holdings	58	79
Land use, 1000 ha	4005	5200
Average size, 1000 ha	69	66

Source: UCAB study: “Largest agricultural companies of Ukraine

# Nibulon's story

- Has 36 branches in 11 regions of Ukraine, and tills over 70 thousand ha of farmland from 25 thousand renters
- Production (2009/10): 100,000 MT of wheat, 110,000 MT of corn, and 20,000 MT of barley
- Owns transport and grain storage facilities of the capacity of about 1 million MT in 11 regions on Ukraine
- Nibulon's share in Ukrainian grain exports in 2009/10 accounted for 25% for corn, 17% for barley and for wheat.
- Over 18 years of existence, Nibulon has invested in the Ukrainian economy over 545 million USD
- In 2008/09 it launched a new investment process that aims at **reviving river transport in Ukraine**. Its goal is the construction of 8 inland silos and river terminals and increase company's storage capacity to 2 mln tons





## **EXAMPLE 2: MARKET DOES FIND ITS WAY**

# Recent Studies on Grain Markets

- Our results suggest that Ukrainian grain export prices are cointegrated with the world grain prices
  - Ukrainian farm wheat prices are cointegrated with the world prices as well
- In case of barley, up to 2009 Ukraine served as a price leader in the world (Goychuk and Meyers 2013a)
- Export restrictions implemented by the Ukrainian government negatively affected both long- and short-run price transmission and price volatility in terms of magnitude, however, in general Ukrainian grain prices keep following the world price dynamics (Goychuk and Meyers 2013b)
- Multiple and unpredictable interference of the Ukrainian government on the wheat export market coincided with substantially increased market uncertainty which led to pronounced additional price volatility in the domestic market (Gotz et al. 2013)

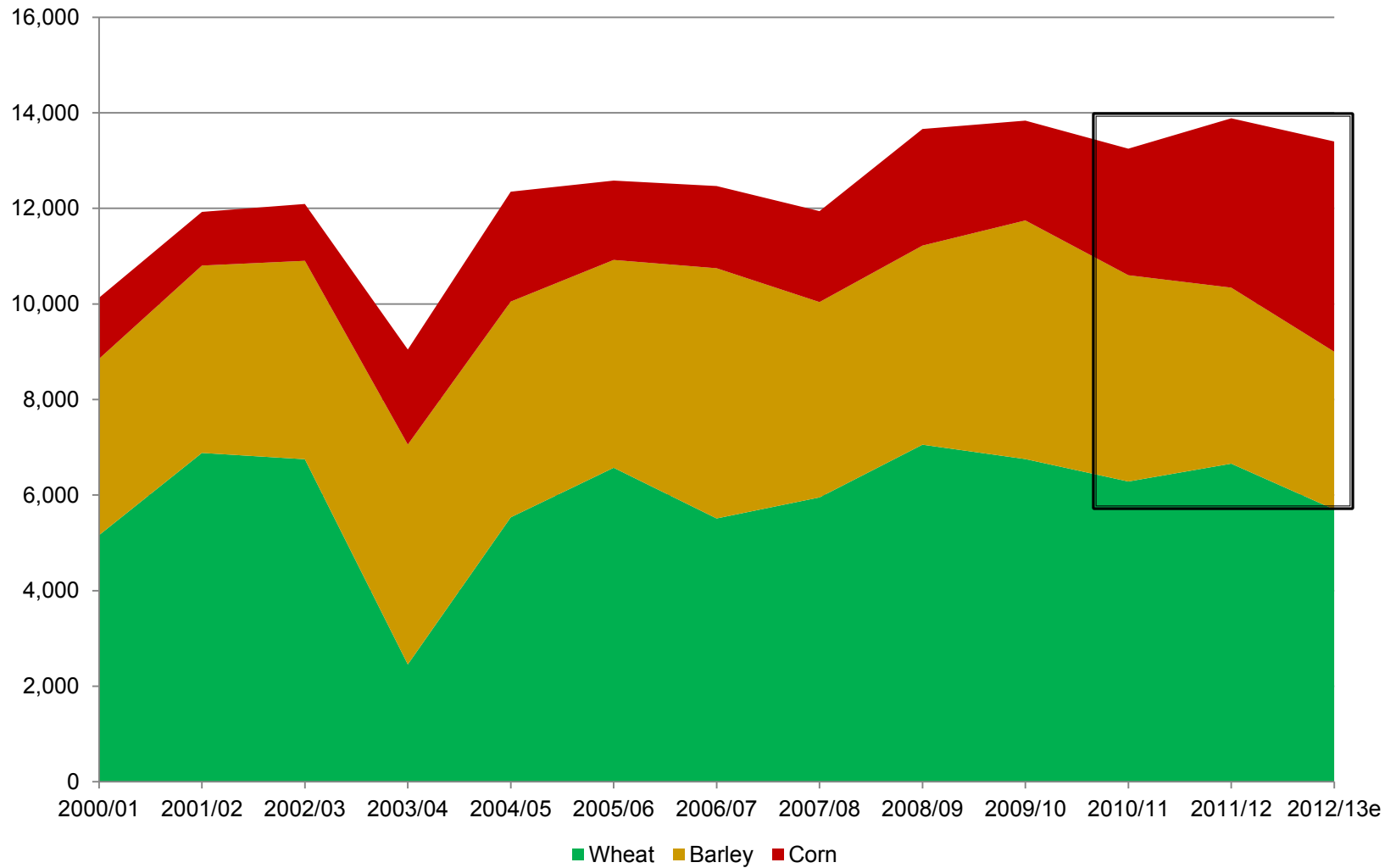


# Structural Break results

# Wheat and flour prices and quotas



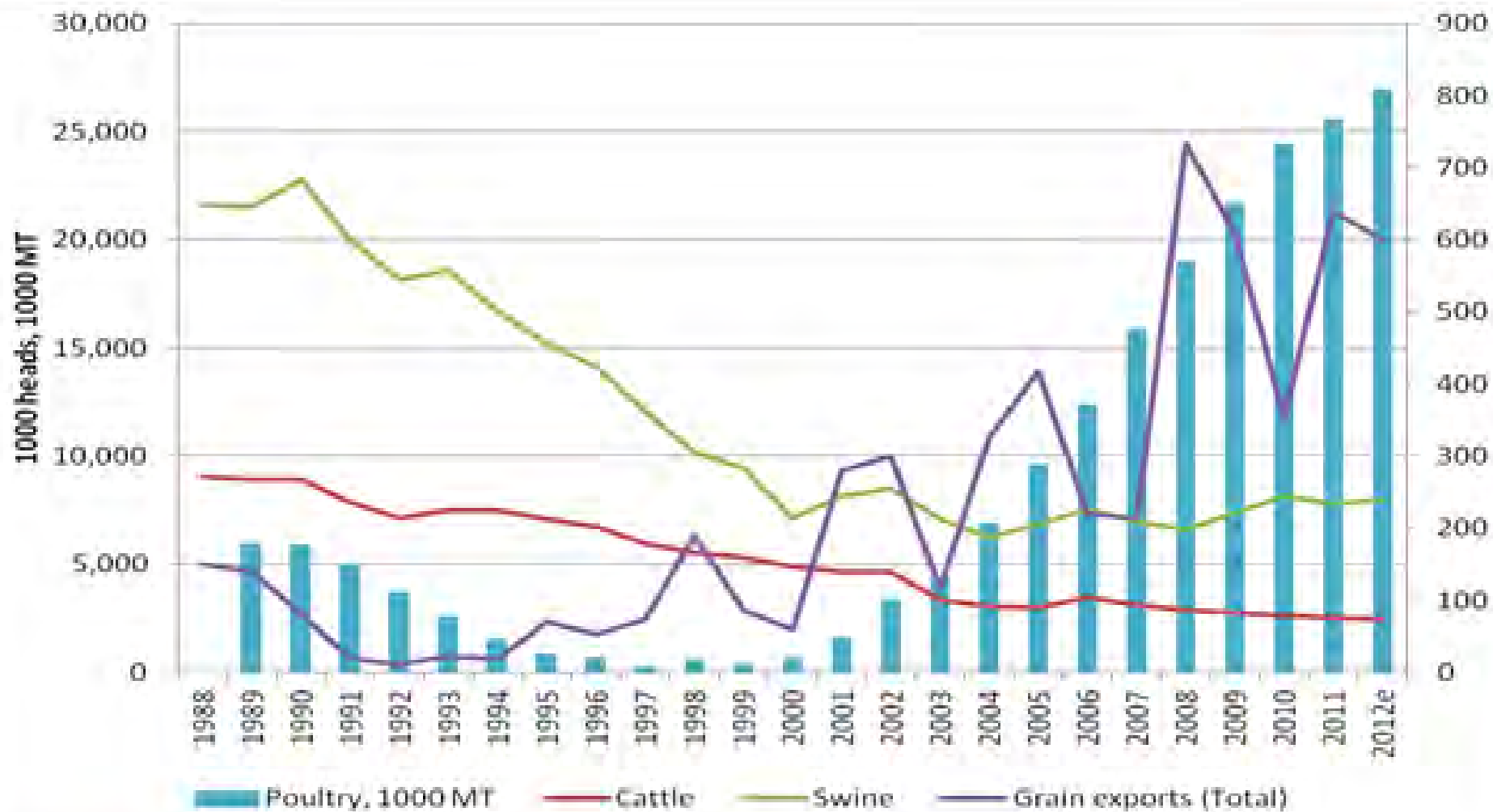
# Grain production – Ukraine, 1000 HA





# **POSITIVE DEVELOPMENTS AND THE FUTURE**

# Recovery of Agricultural Production (Swine and Poultry)

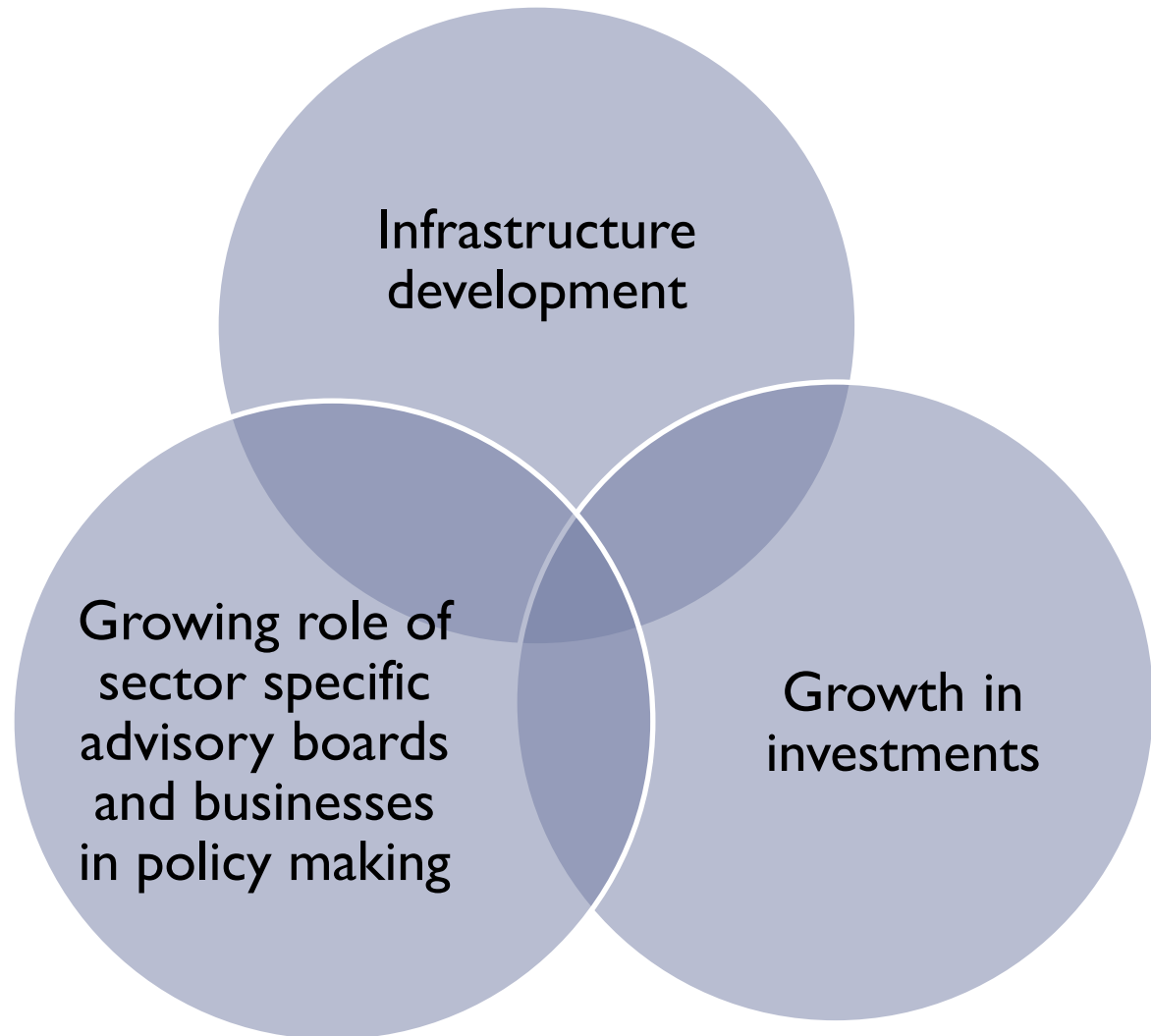




# Human capital



# **(Slow)Positive trends**



# Old style Kernel grain terminal





# Nibulon terminal opened 6/2010



# Nibulon River barge Loading 7/2012







# **SOME FINAL THOUGHTS**



# **Let the market do its job**

- Improving market efficiency is one of the most effective and low-cost means to increase farm productivity, production and income and stimulate more investment in agriculture.
- In some cases improving market efficiency means the government doing less and in some case it means doing more.



# **“Swinnen principle”**

- Give priority to policies that contribute to long-term development goals and avoid policies that conflict with long-term development
- Up to now, too much short term focus



**Thank you!**

**Questions?**