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THE UKRAINIAN AGROCULTURAL SECTOR AND ITS MAIN PROBLEMS

Abstract *All agricultural markets will be negatively affected by the poor macroeconomic fundamentals in Ukraine. There will be limited investment into the country over the coming quarters given the unstable situation, which will affect agricultural production over forecast period. Russia's ban on imports from Ukraine will weigh on production for the dairy and livestock industries, as Russia represents one of Ukraine's largest agricultural export markets. Furthermore, significant currency depreciation will limit imports, hitting input usage and domestic investment.*

Key words: *agricultural sector, agricultural enterprises, agro-industrial complex, land, agricultural markets, agricultural production.*

Introduction. Ukraine is blessed with rich farming and forestry resources. Agriculture has traditionally been one of the most important sectors of the Ukrainian economy, given the high quality and availability of fertile land. More than two thirds (71,2%) of the total land area is agricultural land, compared to only 13,2% in Russia and 44,3% in the EU. Arable land at 32,5 million hectares has the largest area in Europe after Russia, accounting for 56,1% of the total land area – the highest percentage in Europe after Denmark.

So, about 80 percent of the agricultural area is arable land, two-thirds of it the agriculturally rich "black soil". The primary food harvest products are barley, maize, potatoes, rice, soybeans, sugar beets, and wheat.

Results. In recent years, agricultural production has declined drastically because of a decrease in the number of tractors and combine harvesters in working order and to the lack of fertilizers and pesticides. These shortfalls in agricultural inputs reflect declining investment in agriculture, and feed directly into declining production.

In general, the agricultural sector is experiencing serious internal difficulties, due to the transitional nature of the economy. A new policy and direction for Ukraine's agricultural sector is necessary. Agriculture poses the greatest challenge

to the survival of Ukraine's political leaders, because almost half of the Ukraine's population live in rural areas [2].

In 2014 Ukraine total grain crop was estimated to be record 64 million metric tons, however as several regions are claiming their independence due to the War in Donbass and the Crimea Crisis the actual available crop yield was closer to 60,5 million metric tons [3].

So, as we can see, Ukraine's economy is on his knees after 20 years of neglect and robbery. But there is one sector that is already flourishing and could be an engine of recovery [4].

As farming is a low-margin, labour-intensive business, the sector was largely ignored by the incumbent oligarchs, who preferred to pick off the easy-to-steal metal plants and simple-to-run banks.

Living closer to the EU is obviously a good thing for Ukraine's farmers. However as be reported, under the terms of the free trade and association deal signed this year with the EU access for Ukraine's agricultural products to EU markets is actually limited to begin with, in order to protect the EU's own agricultural production. About 40% of the EU budget goes on farm subsidies, whereas only 1,8% of Ukraine's budget is spent this way. But we need to understand, if we move closer to the EU, we will not only change the market, we will change fundamentally the way they work.

While the task of reforming the country's agriculture sector looks daunting, there is actually a lot of money about given the pressure on the global food supply from the rising population.

Agriculture could provide the impetus for sweeping investment and reforms across the entire economy.

Putting more investment into leading agricultural companies is pointless unless it is accompanied by associated investment into the supporting infrastructure.

One key change for the agricultural sector is to finally push ahead with land reform. Ukraine has some 20mn hectares of arable land, of which 10mn hectares belong to the government, which could be sold off.

However, no one is expecting this to happen quickly; the privatisation of land remains one of the most politically charged issues that any country has to deal with.

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In general, Ukraine has tremendous agricultural potential but this potential has not been fully exploited due to depressed farm incomes and a lack of modernization within the sector. Insecure land ownership and an inefficient registration system have also held back Ukraine's farming sector, but it has improved in recent years.

Ukraine should become attractive to foreign investors, get complex tax codes, laws and regulations, poor corporate governance and weak enforcement of contract law make doing business within the country difficult.

The World Bank ranked Ukraine 137 out of 183 economies in its Doing Business Report in 2013. Many foreign financial institutions have left the Ukrainian market, according to a February U.S. State Department report [7].

So, the main problems that we can identify in the sector: credit problems, problems of employment, lack of improvement of mechanisms of state regulation of agricultural sector's development of Ukrainian economics, investment climate, property rights, corruption, obsolete machinery and inadequate on-farm storage, shrinking livestock inventories, lack of full implementation of agrarian reforms, complicated, ever-changing schedule of charges in the tax system of the country.

Theoretically speaking, a sensible Ukraine land reform could set off an agricultural boom in a country commonly known as the "breadbasket of Europe."

The efficiency of agrarian reform largely determines the overall course and results of market transformation, since the agrarian sector accounts for 32% of Ukraine's population, almost a quarter of production assets and close to 14% of the annual output of goods and services. The documents that determine the strategy of

reform in Ukraine point out that agricultural policy should be the "key element, stimulating factor" of accelerated market transformation of the economy.

The necessity for deep reform of the agrarian sector flows from not only the systemic nature of socio-economic transformation that Ukraine is presently undergoing, but also by the critical state of agriculture as such.

The documents that determine the strategy of the state policy define the goal of transformation in the agrarian sector of Ukraine's economy as follows: "The strategic goal of the agrarian policy lies in formation of a true owner and master of land, social and economic progress of the countryside, resolution of the food problem, and raising the agricultural sector of Ukraine's economy to the world level. Agrarian reform encompasses all basic elements of the agricultural sector: production or property relations, social structure, production technology, management, legislative support for all processes and results of reform.

Therefore, agrarian reform has a comprehensive, systemic character and should be pursued with account of the requirements of co-ordination and balance of the changes in each of the above aspects.

The Government of Ukraine has set the goals of agrarian reform along the following five directions:

land reform and reform of property relations in the agro-industrial complex; establishment of new business entities on the basis of collective agricultural enterprises, employing private property and land ownership, widely relying on leasing;

formation of a market infrastructure in the agro-industrial complex;

modernization of production, establishment of competitive enterprises;

perfection of the mechanisms of state regulation in the agricultural sector.

All state support to agriculture could be structured in big blocks: VAT exemption for farming industry, direct subsidies, general services, fixed agricultural tax.

The negative actions come through two ways: absence of VAT refunds and export quotas and duties. Of course, there are many small positives and negatives coming from the state policy but they are relatively immaterial.

Excessive taxation of agriculture exports: absence of VAT refunds on grain exports and export quotas and duties.

Conclusions. The following subsections present the results of analysis of the main gains and deficiencies of reform in the agro-industrial complex along the above directions.

Further progress toward improved efficiency in Ukrainian agriculture requires continued restructuring of farm enterprises into smaller autonomous units based on private ownership of land and assets, clear formulation of procedures that allow exit of individuals and small groups with shares of land and assets, development of land markets, and establishment of functioning market infrastructure for competitive input supply, marketing services, and financial services.

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