

Madeline Meyer
Ionia High School
Ionia, Michigan
Ukraine, Factor 20: Farm to Market

Agricultural Concerns in Ukraine

The Ukraine is an Eastern European country with a total area of 603,628 km² (233,062 sq mi), making it the largest country entirely within Europe. It borders Russia, Belarus, Poland, Hungary, Romania, Moldova, the Sea of Azov, and the Black Sea. Ukraine is blessed with rich farming and forestry resources; 71 percent of the country's surface (41 million hectares) is used for agricultural activities. About 56.1% percent of the agricultural area is arable land, and two-thirds of it is rich "black soil" (chernozem). This beautiful top soil can be up to 18 inches deep and stretches for miles and miles without any interruption. This is mainly because before Ukrainians were freed from the Soviet Union in 1991, each person owned only about an acre, so none of them lived on farmsteads; instead, they were all centralized in the village. Ukraine has a diverse climate, compared to most other European countries. The winters are cold, while summers can be very warm and dry. Large chunks of land are covered by forests that receive heavy rains, while the fertile grassland steppes where grains are grown are drier and usually need irrigating to guarantee decent yields.

Ukraine's main crop is wheat, and it has long been known as the "Bread Basket of Europe". Besides wheat, the country also produces corn, rye, barley (of which they are the top exporter in the world), potatoes, sugar beets, sunflower seeds, and flax. One quarter of Ukraine's workforce is employed in agriculture, and agriculture accounts for 8.2% of the GDP. Large-scale commercial agro-enterprises generate approximately 45% of the total agricultural output, and a large number of family farms that emerged after the collapse of the Soviet Union make up the rest. In recent years, Ukraine's agriculture has become productive enough to attract attention from some of the nation's biggest oligarchs. They have begun to notice that agriculture could offer them greater profits than Ukraine's heavy industry and metallurgy - the two pillars of their business operations, which are currently suffering from the effects of the recession, unlike agriculture. In fact, one of the reasons that Russia invaded Ukraine was because they too realized how valuable its agricultural commodities were, and didn't want to lose those commodities to the European Union (EU) if Ukraine decided to join it.

The average Ukrainian subsistence farm family consists of 6 people, who own a hectare of land (or 2.47 acres) on which they keep a cow and grow their own fruits and vegetables. Even those that could afford to buy their food at a supermarket prefer to grow their own. The diet of an average Ukrainian usually includes: kovbasa, sauerkraut, varnyky, holubtsi, studel, breaded meats, fruit, and dairy products. Every Ukrainian has an outstanding access to education, and their literacy rate is 99.8%. Access to healthcare in Ukraine is very poor, though, especially in war zones, where 5.1 million people are trapped by fighting and can't get to hospitals. Family farms help to keep agriculture sustainable in Ukraine, because they can feed themselves. However, for those farmers who may have more land, say up to 100 hectares, they are usually unable to expand because of the large companies that rent 80% of the country's land. The smaller farmers have to rely on their larger neighbors for equipment renting- especially combines for the harvest season, and crop storage. As for employment, that is the great thing about family farms: family members work their own farms, or are hired by other farmers, so people involved in agriculture are not very negatively affected by the poor economy, and they don't have to worry about going hungry. For all of the urban poor, though, this is not the case. The urban poor are greatly affected by the war, and it is hard for them to get adequate nutrition and a living wage.

Infrastructure is one of the largest factors that is holding Ukrainian agriculture back. The transport network of Ukraine is dominated mainly by railways, which total 23,350 kilometers (14,510 miles), and

9,752 km (44.3%) of these rails are fully electrified with the use of the overhead wire. Roads make up less than 10 percent of freight traffic (in ton-kilometers), but this is changing quickly, which is leading to capacity constraints on roads that are very aged and broken, making transportation unsafe. According to 2005 data, about 13 percent of the state network was in poor or very poor condition, and about 26 percent of the state network was in fair condition, still needing to be upgraded to European technical and safety standards. That was *ten* years ago, so just imagine how much worse the roads have become in a decade. Road safety is a serious issue in Ukraine, and they have one of the worst records in the Europe and Central Asia (ECA) region in terms of road accidents and fatalities.

In 2009, the first “Road and safety Improvement” Project was established, which improved the condition of the M-03 road between Boryspil and Poltava, as well as forming a contract with the state road agency UKRAVTODOR to manage and maintain the main road network, so that future problems will be eliminated. In 2012, the Second part of the project was created as a continuation of the first. Its goals are to improve more of the M-03 road, especially since 64 percent of the road doesn’t meet strength requirements. This project is scheduled to end in December of 2016, but all that it has accomplished so far is getting contracts secured. Also, the World Bank Group paid for an “Urban Infrastructure Project” which improved water and wastewater facilities in ten major cities. Both of these projects are headed in the right direction, but Ukraine will need to do more than this to better their infrastructure.

The last time their overall infrastructure received much government attention was in the 1990s. Since that time period, Ukraine has drastically increased their agricultural exports. From 2000 to 2005 they doubled their wheat output, and then they rose by another 50 percent by 2010. Following this 2015 harvest season, they plan to double their output again by 2020. “Ukraine is one of the few countries in the world that is in a position to significantly increase grain net exports, due to its strategic location and agro-ecological potential of its soils.” states the European Commission. If Ukraine’s government realized that now is the time to step in and fix their country’s infrastructure again since agriculture is flourishing, they could greatly increase their output and help to feed this growing world. Because farmers have limited means of moving their products, though, as well as having nowhere to store it, product goes to waste, when it could be being used to feed hungry families in Ukraine as well as throughout the rest of Europe and the world.

According to the World Bank, “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”. Today, agriculture makes up less than 10 percent of GDP; back in the 1990s it made up 20 percent. Although agriculture has had its ups and downs since the breakup of the Soviet Union, it has at least remained stable, while all other industries struggled. In fact, agriculture is the *one* thing that kept Ukraine’s total exports from turning into a decline in 2013.

The low prices of agricultural production coupled with a crisis in all sectors of the economy after 1991, has distinctly reduced the income of the rural population of Ukraine. Declining living standards and the rapid degradation of the countryside has translated into a more pronounced crisis than ever for the urban areas. The typical family has managed to remain stable, but some could be better, especially those affected by war zones. Because infrastructure is so poor, it is hard for families in different villages to safely reach each other. It also makes it difficult for agricultural goods to move across the country. This prevents families from having as much diversity in their diet as they could potentially have.

There is hope, however. The European Union has started a project called “Improving International Cooperation and R&D Road Infrastructure Strategy for Ukraine”. They are also upgrading Ukraine’s Shulgin State Road Research Institute (DNDI) and integrating it in the European Research Area (ERA) to help Ukraine develop plans to fix their roads, and how to maintain them once they are repaired. Although Ukraine is *not* a member of the EU, they have a solid relationship with them. Ukraine was supposed to have become a member of the EU back in November of 2013, but then President, Viktor

Yanukovich, refused to sign the papers (which later led to his and his government's removal after the 2014 Ukrainian Revolution). So instead of being a full member of the EU, Ukraine is currently part of the European Neighborhood Policy and the Ukraine- European Union Association Agreement. The economic and political parts of these agreements have been signed, and the now President, Petro Poroshenko's goal is that their application for membership into the EU will be ready by 2020.

The EU-Ukraine Dialogue on Agriculture and Rural Development have held nine meetings since their formation in October 2006. The most recent one was held in March 2014, and some of the main issues discussed were: development of rural areas in Ukraine, land reform in Ukraine, access of Ukrainian products of animal origin to the EU market, and reform of the Common Agricultural Policy (CAP). Currently, Ukraine has the rights to export animal products such as fish, poultry, seafood, honey, etc. They are still working on gaining the rights to export raw milk and milk products to EU.

I think that one of the best ways for the EU to help Ukrainian Ag with their current struggle, and something that should be discussed at the above mentioned meetings, is help for Ukraine to find new markets outside of Europe. For example, Egypt has recently agreed to export Egyptian cotton to Ukraine in exchange for importing Ukrainian wheat. That proves that there is interest in Ukrainian goods outside of Europe, but the government's hands are too tied up in the war to take the time to go looking for new trade partners. Ukrainian Prime Minister, Arseniy Yatseniuk, has predicted that Russia will impose a full embargo on Ukrainian agricultural exports in 2016 when the free trade zone agreement with the EU comes into force. So, if the EU can come in and help Ukraine gain access to new markets, it could greatly help them get past the hit that they will take if and when their economic ties with Russia are cut off.

However, it is going to be *extremely* difficult for Ukraine to cut those ties, and to find the amount of new markets they will need to replace the enormous amount of goods that they exported to Russia last year. Yes, *Russia*, the country that they are currently *at war* with. From January to October of 2014, Ukraine exported \$8.8 billion worth of goods to Russia, while importing \$11.2 billion. To compare to this, Germany and Poland, the two countries that Ukraine's new economy will supposedly be doing a lot of trade with once they join the EU, collectively made up only \$3.6 billion worth of exports. This just goes to show how strong Ukraine's economic ties are with Russia; that even when they are getting shot at by them, they remain their single largest trading partner. Ukraine's move away from Moscow and towards the EU is a step down the right path, but it is going to be a lot harder, and more time-consuming, than they may think.

As before mentioned, Ukraine has already invested into improving its roads with the two "Road and Safety Improvement" projects. This is good, and if they make further continuations of these projects, it would help improve Ukraine's infrastructure by stabilizing that mode of transportation. Also, if the national government set goals for where they want to be in their infrastructure modernization it would motivate them to actually complete the job. For example, they could set a goal of having less than 10 percent of the roads being too weak, rather than the current 64 percent. They could also plan to repair and improve the technology of, say, 50 percent of their railroads, especially the East-West bound ones.

It is proven that railways are the more efficient mode of agricultural transportation in Ukraine than trucks, because they can go farther and faster, therefore letting less product go to waste. The Minister of Infrastructure in charge of Railways, Alexander Kawa, stated in an interview with the International Transport Journal that:

"The utilization rate of Ukraine's railroad is four times as high as that of Germany's, for instance. So demand exists. Our advantage is that we can move individual goods. We still have small shunting yards and are more competitive than trucks. We have the potential to double goods flows, or even increase them by a factor of 2.5 or so."

Kawa also spoke how on the importance of electrifying more of the railroads, since those rails are the ones that transport 90 percent of goods. Rail carries 83 percent of the goods transported throughout Ukraine, which is unheard of in any other European country. Because Ukraine already has this advantage, if they can modernize and improve the rails, they could become much more competitive with their fellow eastern European countries (Ukraine currently ranks 76th out of the 144 economies evaluated by the World Economic Forum, while Poland is 43rd, and the Czech Republic is 37th). Furthermore, they would have a larger opportunity to transport grain and other major agricultural products to sea ports and new foreign countries that are willing to pay them for their goods, and help to feed more hungry people.

The Capital investment of railways in 2015 will only come to a mere 7.4% of the required sum. In order for the rail improvements to be funded, then, the money will need to come from somewhere other than their government. One of the best options would be the Millennium Challenge Corporation. The Millennium Challenge Corporation is a U.S. Government corporation that invests money into poor countries, requiring that the money is used to promote economic growth, reduce poverty, and reinforce good governance. Back in 2006, Ukraine and the United States signed a nearly \$45 million Millennium Challenge Corporation Threshold agreement that aimed at reducing corruption. This agreement is the initiative part of the “threshold” of eligibility for the Millennium Challenge Account assistance, known as Compact assistance. The threshold assistance is used to help countries address specific policy weaknesses indicated by the country’s scores on the 16 policy indicators. As a result of reforms that Ukraine had already undertaken, MCCs Board of Directors named Ukraine newly eligible for Compact assistance. This means that Ukraine scored above the median on things such as political and economic freedom, investment in education, control of corruption, and judicial fairness- proving that they are trying to reform their country themselves and just needed a helping hand.

When MCC came back to evaluate Ukraine again in 2009 to determine if they would receive a compact, Ukraine failed the Control of Corruption indicator, which in turn made them undesirable to receive the compact. However, it is still credible to them that they completed the threshold program. Now, they just need to try again to get a Compact signed so that they can get the money. If they *do* get the money, MCC requires that it is spent in five years, which should not be a problem for Ukraine. Infrastructure will be a very costly project, so they can put the MCC money into repairing and modernizing the rails, therefore solving the issue of finding the funds to complete that task.

“The government certainly knows that agriculture will save the country from its current struggle,” Ukrainian Minister of Agriculture and Food Alex Pavlenko says. This is most definitely true, but because of the struggle of the current war, Ukraine’s national government is rather unstable. They are too preoccupied to give much attention to agriculture, so the majority of the responsibility of fixing their agricultural policies is up to the local government, the farmers, and the citizens. In order for farmers to fix their own problems though, they need higher education. A formal way for farmers to receive this education would be through an extension program.

“Creating the conditions for a functioning system of both public and private extension services in Ukraine is an important element of further reformation of agriculture and rural development. Under the new economic conditions, the need for improvement of technical and managerial skills of Ukrainian farmers has increased significantly.” states the Institute for Economic Research and Policy Making in Ukraine- German Advisory Group on Economic Reform.

They also advised that Ukraine spend their limited budget money on improving agricultural productivity by furthering knowledge and education, instead of spending it on subsidies and price support. The four main groups that extension services would be directed towards helping are: large agricultural enterprises, private family farms, households, and small businesses. The existing extension programs are directed more towards the large agricultural enterprises, so the new and improved extensions should be directed

towards the private farmers and householders since they cannot afford the specialists and education that the larger corporations can. There is also a strong need for higher training and schooling of both the farmers and the specialists that will work as extension agents to commute out to the farmers and provide them with the latest information on animal genetics, farm accounting, economics, other managerial practices, and marketing skills, as well as helping small businesses get off the ground.

Another way for farmers to receive education would be to do tours, trips, or exchanges with farmers in other, similar Eastern European countries such as Latvia, the Czech Republic, and Poland. Through extension, they could replicate the Farmer to Farmer program that we have here in the United States, where farmers go to foreign countries and spend a couple of months teaching the other farmers new ways to improve their farms. Furthermore, farmers and local policy makers should be looking to private investors to help support Ukraine's Ag sector, since the national government can't help very much right now. It is hard for farmers to take time to do this too, though. If they develop better extension services, create a Farmers' Union, or some type of a Farmer's Cooperative, they would have elected individuals who would represent them to find and negotiate for the private sector investments that they need. This would help them get the cutting-edge technology that they crave, and improve the quality of their farms, without requiring them to take time away from the farm to negotiate these deals.

In conclusion, the three keys to solving Ukraine's agricultural concerns are: (1) finding the money to fix their infrastructure, especially railroads, so that they can efficiently transport products, (2) educating the farmers so that they will produce higher quality and quantities of their products, and (3) finding new markets outside of Russia and Eastern Europe to export their goods to. For the ordinary Ukrainian citizens that haven't already, they need to look at all of the agricultural statistics, and see what their country is capable of. "This is a treasure - if you know how to treat it right." the chief executive of the AgroKIM Agriculture Company said, while standing amidst one of his lush wheat fields during an interview. If citizens realized this as well as the farmers, they could do more to advocate for agriculture to show their governments what they want. Ukraine currently feeds 150 million people in the world, but they have the potential to feed 400 million, according to Agriculture Minister Oleksiy Pavlenko, and they want to increase grain production to 100 million tons; doubling exports by 2020. If they truly want to do that, to help to feed the ever-growing population, while helping their economy as well, Ukrainians need to crack down on themselves and their local governments to bring about the changes necessary to make their nation as agriculturally productive as possible.

Works Cited

- Adomanis, Mark. "Russia Is Still Ukraine's Largest Trading Partner" *Forbes*. 5 January 2015. Web. <http://www.forbes.com/sites/markadomanis/2015/01/05/russia-is-still-ukraines-largest-trading-partner/>
- Balin, Andre. "The Ukrainian Railway has potential". *International Transport magazine*. 4 October 2015. Web. <http://www.transportjournal.com/en/home/regional-focus/artikeldetail/the-ukrainian-railway-has-potential.html>
- BC, Riga. "Agriculture can save Ukraine from Crisis". *The Baltic News*. 17 May 2015. Web. http://www.baltic-course.com/eng/markets_and_companies/?doc=105101
- "Cooperation in Agriculture" Web. <http://ukraine-eu.mfa.gov.ua/en/ukraine-eu/trade-and-economic/agriculture>
- "Egypt agrees to export cotton to Ukraine in exchange for wheat imports - state news agency" *Reuters Middle East*. 5 August 2015. Web. <https://en-maktoob.news.yahoo.com/egypt-agrees-export-cotton-ukraine-exchange-wheat-imports-133900427--business.html>
- European Commission. 4 July 2014. Web. http://cordis.europa.eu/result/rcn/92969_en.html
- "Extension Services Development in Ukraine" *Institute for Economic Research and Policy Making in Ukraine- German Advisory Group on Economic Reform*. Web. http://pdc.ceu.hu/archive/00001779/01/t26_en.pdf
- Hakim, Danny. "Ukraine Faces Hurdles in Restoring Its Farming Legacy". *The New York Times*. 27 May 2014. Web. http://www.nytimes.com/2014/05/28/business/ukraine-faces-hurdles-in-restoring-its-farming-legacy.html?_r=0
- Interfax- Ukraine. "Capital Investment of railways will come to a mere 7.4% of the required sum." 28 August 2015. Web. www.kyivpost.com/content/business/capital-investment-of-railways-in-2015-will-come-to-a-mere-74-of-required-sum-396744.html
- Interfax-Ukraine. "Yatseniuk predicts full Russian embargo on Ukrainian agricultural exports in 2016 due to EU-Ukraine free trade zone agreement." 21 August 2015. Web. <http://www.kyivpost.com/content/ukraine/yatseniuk-predicts-full-russian-embargo-on-ukrainian-agricultural-exports-in-2016-due-to-eu-ukraine-free-trade-zone-agreement-396274.html>
- "MCC Board Selects Countries Eligible for Compacts and Threshold" *Millennium Challenge Corporation*. 10 December 2013. Web. [Programshttps://www.mcc.gov/news-and-events/release/mcc-board-selects-countries-eligible-for-compacts-and-threshold-programs](https://www.mcc.gov/news-and-events/release/mcc-board-selects-countries-eligible-for-compacts-and-threshold-programs)
- Neisler, Gretchen. 25 August 2015. Personal Interview.
- "New Crisis is Coming". *Nations Encyclopedia*. 27 Feb. 2014. Web. <http://www.nationsencyclopedia.com/economies/Europe/Ukraine-AGRICULTURE.html>

- Nivievskiy, Oleg. "Agricultural Research and Education System in Belarus" Web.
http://www.academia.edu/7504136/Agricultural_Research_and_Education_System_in_Belarus_A_need_for_a_decentralized_and_market-oriented_approach
- Rose, Sarah. "Which Countries Will Be Selected for MCC Eligibility for FY2014?" December 2013. Web. MCA Monitor. <http://www.cgdev.org/sites/default/files/which-countries-will-be-selected-mcc-eligibility-fy2014.pdf>
- Savochenko, Oleksandr. "Ukraine: turning economic basket case into breadbasket." 9 August 2015. Web. https://news.search.yahoo.com/search;_ylt=AwrC1zF.SuJVwSUAgwPQtDMD;_ylu=X3oDMTEzajVvczlrBGNvbG8DYmYxBHBvcwMxBHZ0aWQDBHNIYwNwYWdpbmF0aW9u?p=ukrainian+agriculture&type=2button&fr=uh3_news_vert_gs&b=11&pz=10&bct=0&xargs=0
- "Ukraine" *AGRICULTURE AND TRADE BACKGROUND POLICY NOTE*. Web. http://www.fao.org/fileadmin/templates/est/meetings/wto_comm/Trade_Policy_Brief_Ukraine_final.pdf
- "Ukraine". *COUNTRY REPORT ON INFRASTRUCTURE AND FINANCE*. Web. http://www.traceca.org/fileadmin/fm-dam/Investment_Forum/101208_UKR%20country%20report.pdf
- "Ukraine's agriculture: potential for expanding grain supply. Economic and institutional challenges." *European Commission*. 4 July 2014. Web. http://cordis.europa.eu/result/rcn/92969_en.html Alyoshin,
- "Ukraine–European Union relations" Web. https://en.wikipedia.org/wiki/Ukraine%E2%80%93European_Union_relations
- "Ukraine Signs Millennium Challenge Corporation Threshold Program to Control Corruption". *Millennium Challenge Corporation*. 4 December 2006. Web. <http://www.mcc.gov/news-and-events/release/release-120406-ukrainesignsmillennium>
- "World economic Forum Global Competitiveness report" *World Economic Forum*. Web. <http://www.weforum.org/content/top-10-most-competitive-economies-europe-2>
<http://reports.weforum.org/global-competitiveness-report-2014-2015/report-highlights/>