Essay on Development Policy

Sustainable impact of organic market development and posts of contribution of development cooperation to organic market development

Tetiana Sigg

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1. Introduction

Ukraine was the second largest economy during the Soviet Union era with a very important agricultural component due to the country’s fertile soils and large land areas. With the dissolution of the Soviet Union and transition of its planned economy to a market economy the country passed through a very difficult transition process. This had a negative impact on important components of the national economy, in particular on the agricultural sector. As a result, the majority of the population plunged into poverty, especially in rural areas.

At the same time, the agricultural sector in Ukraine remains one of the leading sectors in the national economy, as 70% of the country’s total land area is dedicated to agriculture (The World Bank 2007: 1). As of 2012, it accounts for 5.6 % of employment in the agricultural sector, which contributes 9.9 % percent to the GDP. (CIS 2012)

There is also a negative side of organic agriculture. It is estimated that the contribution of Ukraine’s agricultural sector to serious soil erosion and deterioration, loss of biodiversity and water contamination accounts for 35-40%. This is the result of many years of intensive production. The other problem is that a quarter of agricultural lands in Ukraine contaminate by pesticides and stockpiles of obsolete pesticides that may cause serious health issues. Additionally, the catastrophe at Chernobyl Nuclear Power Plant lead to exclusion of 8% of fertile arable land, pastures and forest containing radiation from use (The World Bank 2007: 1-5).

Based on the above-described situation, it is evident that new solutions need to be found in order to solve existing problems and to develop agricultural sectors. One such solution could be organic agriculture, which is based on promoting and enhancing the biodiversity, biological cycles, soil biological activity and nonuse of chemical pesticides. (FAO 2013) Its implementation can bring positive impact on economic, social and environmental aspects of the country. Here are the most important aspects (Kilcher 2007: 31-50):

- Organic agriculture improves soil fertility, sustainable agricultural production and conservation of biodiversity through adaption of production methods to local conditions. These are based on traditional and endogenous knowledge,
modern agro-ecological research and avoidance of usage of chemical inputs. Organically managed soils have a high potential to neutralize the process of soil degradation as they are more resistant to nutrient loss and water stress;

- **Organic producers produce more products and of better quality on the same area as before.** The yields usually decrease after renounced usage of synthetic inputs, but after the organic management systems are completely implemented and the agroecosystem is renewed the yields increase and become steady. The reasons for this are: the risk of yield failure because of pest damage or drought is lower due to improved soil fertility; efficient use of local available resources (e.g. seeds, manure, irrigation water etc.) etc. This in combination with fertile sols and large arable land area would give Ukraine an opportunity to deliver large volumes of yields (UNEP 2011: 40);

Furthermore, a study conducted in Ukraine in 2010 showed that the yield decreases up to 20-30% within 2-3 years of its conversion period. But after this period the professionally managed organic farms have the same yield as the conventional farms in the same region (UNEP 2011: 36).

- **Organic agriculture enables access to healthy and safe food for population** with either no or very limited contamination\(^1\) of pesticide residues than conventional; has positive impact on environmental situation, water purification and animal welfare; (UNEP 2011: 37) **Organic producers enter new attractive international and local markets and generate higher incomes** through price premiums due to production of better-quality products than conventional. In the case of Ukraine, the country could increase its competitiveness as organic producer on the international markets;

- **Development of organic agriculture creates new employment opportunities** due to: first, use of more labor than in conventional agriculture; second, new jobs in the value chains, e.g. processing, packaging, which according to EU and other organic regulations must be implemented separately from conventional production, in order to avoid the pollution of organic products with pesticide contamination from conventional products; and finally, organic farming is knowledge - intensive and needs qualified specialist in certification

\(^1\) Due to many factors beyond the control area of organic farmer (e.g. pesticide spray drift from neighbouring conventional fields, irrigation water contamination etc.), organic products are not 100% pesticide free. (Killicher 2007 : 43).
services, production experts etc.; development of new business areas e.g. eco-tourism (UNEP 2011: 37-38).

- **Organic agriculture generates higher incomes as mentioned above, which stimulates the farmers to stay and to invest in agriculture as well as to find investors (FiBL: 46).** The study of Food and Agriculture Organisation (FAO), conducted in 2009, concluded that organic farmers are more profitable than conventional farmers due to: first, predominantly lower production costs, which also vary among organic farms and depends on type of crop, labour use etc.; second - premium prices. Certification costs are an additional expense, which is usually included in premium prices (UNEP 2011: 36-37).

However, organic agriculture is a new sector of activity in Ukraine and is in the process of development. Only 0,66% of total arable land in Ukraine is managed organically (FiBL & IFOAM 2014: 43) and the available range of organic raw materials and processed products is still very meager. Up to now, the Ukrainian Government has had very limited involvement in different processes of organic farming. In 2007 the Government published the State Program of the Ukrainian agriculture development, which foresaw the achievement of organic production by 10% until 2015. However, this Program is still not implemented. Organic farmers in Ukraine do not get any subsidies or any other additional support from the Government. (EcoConnect 2011: 6) During a very long time there was no law on organic and the term „organic“ was not legally protected. For this reason, the Ukrainian producers operate mainly within EU law. In September 2013, after many years of discussion and veto of previous versions of the law, the law on organic was adopted. This can be seen as a positive stage of development of organic agriculture and the overall organic sector. However, this law still needs to be improved in order to harmonize it with the EU law on organic agriculture and should come into force during 2014 (Organic Market Info 2014).

At the moment, foreign donors, in particular Swiss and German, play a very active role in the development of the organic sector (UNEP 2011: 27) and implement the projects within the development and cooperation program. In 2007, with the help of the Swiss-Ukrainian technical assistance project, the first and the only Ukrainian certification body was established. Its staff was educated and got know-how from certification body IMO, Switzerland. The first Ukrainian certification body successfully operates within the Ukrainian organic market according to EU and other international
organic certification standards. It is in the official list of recognized certification bodies in the EU and Switzerland (Organic Standard). The other 14 organic certification bodies, operating on the local market, are international certification bodies\(^2\), which are approved by the European Commission (Organic Business Directory 2013: 134). The purpose of this essay is to discuss the role of development and cooperation in organic sectors in Ukraine and how it can positively contribute to sustainable development of the organic sector. The emphasis is on the main production activity of organic agriculture in Ukraine: organic arable crops production for domestic and export markets.

2. General overview of arable crop sector in Ukraine

The organic movement in Ukraine began in the 70s with small farms, managing 5-20 ha of land. These small farms arose in the early 90s from dissolved collective farms (Kolkhozy) and waived the use of pesticides and mineral fertilizers during the times of breaking-down of equipment supply and marketing structures. However, only few of these pioneers, who increased the size of the farms up to 500-1000 ha, entered the commercial organic market. Later, large established agrarian companies with foreign capital appeared, which produced exclusively for export on farm sizes of about 5 000 ha, offering subcontracts to the small farmers. Due to the farms’ lack of financial means, these companies covered the costs for certification exclusively carried out by international certification bodies as there were no local certification bodies in Ukraine at that time, and reserved exclusive rights on export. This meant that the subcontracted Ukrainian farms were not permitted to sell the harvest to other interested buyers at higher prices or to enter the international markets individually. Now is the phase when local producers are converting to organic production and training to take good positions in local and international markets. (EkoConnect 2011: 3) IFOAM and FiBL present statistical data on development of organic agricultural land in Ukraine and other countries for the period 2009-2012. (IFOAM & FIBL 2014: 48-52) The table below displays some of them.

\(^2\) At the moment in Ukraine operate 13 international certification bodies and one Ukrainian. Near OS (Ukraine), also IMO (Switzerland) and ETKO (Turkey) dominate the organic market in Ukraine. The others have a very limited number of clients. (Organic Business Directory 2014 : 14-15).
This table shows that the level of development of agricultural land in Ukraine is much lower, only 0.98% during the mentioned period above, while its neighboring countries Poland and Czech Republic, which have similar environmental conditions for agriculture but smaller area of arable land than Ukraine, show much better results, 80% and 22.7%. The difference is that organic farmers in Poland and Czech Republic get support (subsidies) from the government, meanwhile in Ukraine a Law on organic was newly adopted and still not in force. (FiBL and Bioinstitut 2013: 55-72)

According to IFOAM and FiBL, there are 59 organic processors and 164 organic producers in Ukraine cultivating with inclusion of in-conversion areas 272850 hectares. This constitutes 0.66% of total agricultural land in Ukraine (data 2012). According to data from the Swiss-Ukrainian project published in the organic business directory, the total number of organic producers in Ukraine is 124, and 81 other organic operators (non-producers) (Organic Business Directory 2014: 398). Organic Standard Ltd. estimates to certify more than 50% of organic operators; whose activities in 2012 were predominantly focused on organic crop production in Ukraine (104 operators, 73 of them are organic crop producers) (Organic Business Directory 2013: 8). The international certification bodies do not share their information on the organic operators and the respective land cultivated in Ukraine.

According to research by EkoConnect, grains (70%) and oilseeds (25%) dominate the variety of organic products produced in Ukraine. The top 10 certified organic products are wheat, oats, barley, vetch, rey, spelt, millet, buckwheat, soya and sunflower. (EkoConnect 2011: 4) Export market is a driver for today’s organic agricultural production in Ukraine, which determinates the strong focus on crops

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3 There is no official and reliable statistical data on the number of organically certified operators and organic agricultural land in Ukraine. Therefore, I refer to the annual publication of FiBL & IFOAM. (FiBL & IFOAM 2014 : 39, 43, 65).
mentioned above. (UNEP 2011: 28) The most important import countries are Germany, Switzerland, Netherlands, Austria, Italy, Poland, and USA (Organic Business Directory 2013: 8). Many producers visit or participate in the annual BioFach fair, the largest organic fair in the world, in Nuremberg, Germany. At the fair, the producers find their international buyers mostly on a permanent basis. Such strong orientation to European Union Markets can be explained through little demand for organic products in the Commonwealth of Independent States (CIS) and in the local markets the products are sold on a small scale. At the same time, it is important to mention that the local organic markets are developing rapidly (UNEP 2011: 29).

3. Development trends of international and local market in Ukraine

According to the project data „Organic Market Development in Ukraine”, during the 2008 / 09 harvest season, Ukraine acted as one of the top three conventional grain exporters in the world for the very first time. The situation with organic crops, however, is quite different. Despite huge potential, the country’s export and domestic markets for certified organic crops remain weak. (FiBL 2012: 7) Usually international buyers are interested only in certain organic types of crops (e.g. oil seeds). As a result, many organic producers are forced to sell the other crops, demand for which is weaker, as conventional. It is estimated, that depending on the crop and the market, up to 90% of organic harvest volumes are sold as conventional (EkoConnect, 2011: 11). Such situation on the Ukrainian organic export market is also caused by the other factors, which are not less important than the demand for products. Here are the most important of them:

- Western European markets have a large demand for organic grain but Ukrainian farmers lack foreign business contacts and knowledge of export procedures (e.g. delivery to foreign buyers, including logistics, forwarding cargoes, cooperation with transporting companies, administrative issues, languages etc.) directly from the farm to the buyer in Western Europe. (UNEP 2011: 42) In addition, lack of knowledge of foreign languages is a big barrier for development of export relations to Western European countries. On the local markets, the demand for organic crops is quite low which force the
Ukrainian farmers to sell their organic products at conventional prices; (FiBL 2012: 7)

- Organic products supplied by Ukrainian producers do not always meet the quality requirements of international standards for human consumption (e.g. too low gluten content, insufficient cleaning, contamination etc.); (FiBL 2012: 36)

- Lack of research on product quality and demand on international markets and limited knowledge of methods for implementing research results in practice make it impossible for farmers to supply products that are in demand on the international markets. Reliable continuity and standby for product delivery is also a problem; (FiBL 2012: 36)

- Bad image of the Ukraine on an international level as an exporting country due to Chernobyl (1986) which is seen by the international buyers as additional risk factor in relation to biosecurity and quality; (EkoConnect 2011: 17)

- On the one side, the European Union sets high tariffs on organic wheat, barley and rye in order to protect EU domestic producers. However, import of organic Durum wheat, quality wheat, maize, oilseeds and pulses is tax-free, which allows to increase the export volume, which also is influenced be the level of prices in the EU markets (EkoConnect 2011: 7). On the other side, there is a risk of export quota system, placed by the Ukrainian government (e.g. export quotas on maize and wheat in 2010 and 2011) which can result in unstable supply (EkoConnect 2011: 17).

Not only difficulties related to access to international markets but also the situation on the domestic market hinders the development of the organic sector as the demand for organic crops on the domestic market is still relatively low. This situation can be explained through many factors. First, an insufficient awareness of the local population on organic food, its quality and provenance and positive impact on health and environment in general. Second, lack of information on how to distinguish organic food from pseudo-organic (e.g. labelling, certification etc.) within a big variety of labelled products in the shelves, e.g. GMO free, ecologically clean, natural, bio etc. Third, low paying capacity of the population for niche market products with up to 100 % price premiums compared to conventional food
products. Finally, underdeveloped organic processing industries caused by limited demand and availability of raw materials. (FiBL 2012 : 36-37)

There are also several reasons why many Ukrainian farms are kept out of conversion from conventional into organic production, which in turn hampers the development of the organic sector in Ukraine. The most important ones are:

- Organic agriculture is not widely discussed at a governmental level and still remains a topic of little interest in groups of organic operators and associations at local levels. As a result, knowledge of organic production technologies and their adaption to local climate conditions is quite limited. It is also very difficult to find professionals with good and valuable theoretical and practical knowledge of rules and technologies of organic production. Now, usually big organic producers use the services of international experts due to lack of experts on the local labour market. There are no or very limited numbers of educational programs with emphasis on organic production in Ukraine. At the moment only a few agricultural universities in Ukraine offer courses and modules for Organic farming; (FiBL 2012: 36)

- Insufficient investments and the absence of government support in the organic sector in a form of subsidies, research or advisory services hamper the development of the organic sector. As result, due to a lack of financial resources and know-how, many farms in Ukraine still use quite simple techniques, sometimes based only on traditional machineries from former Soviet time, which are not always sufficient for effective organic production. At the same time, the level of mechanization is differing very much from farm to farm, only few farms are able to invest in Western agro-technique without requiring additional support from outside. (FiBL 2012 : 42-43)

- During a very long period, there was no Law on organic agriculture. For this reason, Ukrainian organic operators operate mainly with EU law. Also due to absence of organic law in Ukraine the term “organic” was not legally protected, this lead to appearance of pseudo organic products called “biological” or ”ecological” in the shelves of the shops, deception of consumers and unfair competition. (FiBL 2012 : 36)

After more than 10 years of preparation, the Law on Organic Agriculture was adopted in September 2013. It is expected that the law will come into force in
2014. (Organic Market Info 2014) On the one hand, the introduction of the this law has been met with a very positive reaction from the organic sector, the public and regional authorities as the law acknowledges organic agriculture as an integral part of Ukrainian agrarian agricultural policy, protects the term “organic” and even speaks about the possibility of subsidies, the need for research, education and information. This should help to solve existing problems in the organic sector (e.g. to reduce the production costs and stimulate demand). The opinion of market players is that without state support, specified through the law, perspectives of organic production development are limited. On the other hand, there is a danger that such a law might create new corruption mechanisms in case of creation of national certification bodies and the problem of organic products falsification might become more serious. The reason for this is the fact that the scope of the law is similar to that on organic agriculture legislation of the EU but in the first phase there is also a risk of its negative impact on domestic organic market due to lack of clarity or absence of detailed implementation rules, which should be resolved by legal norms such as directives, regulations or guidelines. The law also contains several sections, which are in conflict with valid European rules. (Jiri Urban 2014: 1-2)

In spite of many problems, which hamper the development of organic sector in Ukraine, there are a lot of strengths, which justify its development with the expected positive and sustainable influence on social, economic and environmental factors.

4. Support through development and cooperation

The organic agricultural arable crops sector in Ukraine requires significant capacity at the governmental level and within the whole organic value chain in order to create sustainable impact of its development. As the government’s involvement into the development of the organic sector is very limited and the government itself does not have the needed expertise in this area, the support of development and cooperation plays a very important role, which brings know-how and qualified experts. In order to develop this sector sustainably, it is very important to follow the capacity-building concept. Capacity building is a long-term development process, which involves all stakeholders, with inclusion of governmental and nongovernmental authorities, professionals, academics etc., and consists of sharing innovative ideas and
knowledge, leadership, participation in decision making of stakeholders and structured learning processes (e.g. workshops, conferences etc.) (The World Bank 2014). In case of Ukraine, it is very important to concentrate the activity of development and cooperation projects within the capacity building on:

- Governmental level: Engagement of the government in the process of development of the organic sector through know-how transfer in policy development, consultancy services and showing best practices of other countries, which can be applied. Now the Ukrainian government needs support in improvement of Law on Organic and shifting the certification process to private companies and not to the state. This can be done with the target to make this sector independent from the state and to avoid corruption at the governmental level. Consultancy on governmental support of organic farmers also belongs to the important issues;

- Organic producers and other organic market operators’ level: The areas, where the capacity building is needed are know-how transfer in production and processing methods, inspection and certification services, research and marketing and export logistics. It should give the market players an opportunity to produce products of better quality and to improve the image of Ukraine at an international level. Capacities need to be built and strengthened among producers and processors, who need to have market chain expertise and be capable of communicating specific requirements and opportunities at national and international levels. This also includes efficient communication among suppliers and traders in order to overcome perceived and existing problems. This can be reached with the support of development and cooperation projects through promotional campaigns and the publication of information on Ukrainian organic suppliers, the creation of platforms for matchmaking and the organization of matchmaking training. Important to support Ukrainian organic suppliers in accessing the international markets, identifying the needs of potential buyers and to organize the delivery procedure.

- Promotional level: Support in awareness creation among consumers and support in promotion in order to develop local markets and to create demand for organic products. Awareness of the advantages concerning organic products among consumers in Ukraine should be increased as it increases the demand for organic products on the domestic market. It important to support
Ukrainian organic players in improving their image at the international level as reliable organic raw materials suppliers. This could be achieved through the support of organic players in launching different promotional campaigns and the participation of Ukrainian organic suppliers in international fairs (e.g. BioFach, World Food etc.).

5. Conclusions

Organic agriculture is a new area of activity in Ukraine and it is still in a development process. On the one hand, Ukraine has a huge economical potential in organic crop production due to huge arable land areas. On the other hand, it gives the country an opportunity to improve its environmental situation and the quality of life of the population, especially farmers. At the same time, there are many aspects connected to the absence of know-how, educated professionals and the “absence” of law on organic, which is already adopted but did not come into force yet. These factors hamper the further development and prosperity of this sector. The government does not support organic producers with subsidies or educational programs, as it is done by other countries. A further problem is that the government itself does not have enough expertise in this particular area. For this reason, development and cooperation can positively contribute to the development of the organic sector in Ukraine as it can bring expertise and experienced experts, who can do sustainable know-how transfer, support organic arable crop producers in market access, support at the governmental level within the capacity building strategy, which empowers the organic market players to stay in this sector with a long-term perspective. This has positive and sustainable impact on environmental, economic and social aspects.
6. Literature


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