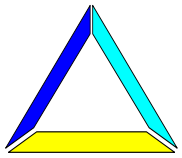
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Comments on the draft Law of Ukraine "On Major Principles of Public Agricultural Policy" prepared by the Cabinet of Ministers of Ukraine (received by the Verkhovna Rada on Feb. 5, 2004)

Confidential

The Cabinet of Ministers of Ukraine has drafted a strategy for the development of Ukraine's agricultural policy up to 2015. This law is intended to be approved as a law by the VR of Ukraine. We would like to comment on this agricultural strategy, both dealing with the overall policy goals and the means which are intended to be used to achieve these goals.

1. **Distingiush overall goals from specific measures:** We agree that the overall agricultural policy goals of a country should be determined in the form of a law. But it is generally not useful to overload a law with programmatic content and detailed procedures, as this only leads to legislative chaos. Laws in the realm of economic policy should say what **overall goals** policy is pursuing. As long as Ukrainian agricultural policy is in the process of finding out what measures are best suited to achieve these goals, the **priorities** should be laid down in programmes of the government coalition. Detailed **measures and procedures** are to be laid down in administrative regulations which are under the responsibility of the Ministries in question. This is a more efficient way to pursue policy than to bother the Parliament of Ukraine with such details. The Parliament should control the performance of the individual ministries in a more general way. We believe that the prepared draft law could thus be simplified to a wide extent

2. **Mind policy constraints:** Sector-specific economic policy cannot be designed independently from other higher-ranking policy goals. One of these goals for Ukraine is **WTO accession** within the next one or two years. This means that price support is simply not an option for Ukraine when it is exporting the products in question. These exports would then have to be subsidized down to the world price level. Second, Ukraine cannot afford to provide agriculture with significant budget support. **Maintaining macroeconomic stability** is a clear priority, and to do this, budgets must

remain responsible, as they have been in past years. This precludes new, expensive support programs for agriculture. Instead, the money that is there has to be spent carefully and efficiently. Furthermore, agriculture already receives significant support in the form of tax preferences and exemptions. They mean that agriculture is already receiving a great deal of *implicit aid* from the taxpayer. Against this background, proposals that call for a further explicit expansion of state aid to agriculture are not realistic.

3. **What is agricultural policy about?** The draft law perpetuates the belief that the agricultural sector is basically the same as the rural economy. However, this view is antiquated. Agriculture is just one *economic sector* among many others, whereas 'rural area' is a *geographic* concept. Thus, agricultural policy should not strive to assume responsibility for very broad issues of rural development such as the social situation in rural areas, rural infrastructure, medicine, schools etc. This is primarily the task of other Ministries (Economy, Infrastructure, Education, Social Policy). The MAP should rather focus on its core competences, because this will make successful work much more likely. However, this does not mean that experts from the MAP should not collaborate in inter-ministerial working groups on, for instance, food security. But the MAP should not over-burden itself with tasks for which it is not ready, or which are simultaneously carried out by other Ministries as well.
4. **Policy goals:** The strategic objectives of public agricultural policy (Section 2) should be formulated in a way that reflects the overall economic policy approach in a country. In the case of Ukraine, the goals should not be in conflict the general principles of a market economy. Four strategic objectives are foreseen in the draft law. We will shortly comment on each of these strategic goals:

   A. Ensuring food security in the country

   Here, a definition of the country's food security should be provided. It should mean not merely production of farm products and sufficient domestic food supply in the country (i.e. physical availability and accessibility of food), but also the economic affordability of food for the population expressed in its purchasing power assessed by the price level and population's income. There is no sense to determine that food consumption should correspond to the rational consumption standards (Section "Implementation of public agricultural policy during the period till 2015 and criteria for its assessment"). It is impossible to force people to consume food according to "rational standards", because those standards are personal and depend on traditions, tastes, sphere of labour activity, and the income level. It should be noted that this view is also shared by the FAO. As Ukraine has recently joined the FAO, it might draw on the FAO's expertise in this area with little effort. To ensure food security, keeping a public reserve for grain in the magnitude of 2-3 m MT

is possible. The purchases to the reserve should be transparent and made at current market prices (both for purchase and sale).

B. Transformation of the agricultural sector into a highly efficient sector of the national economy, competitive both in the domestic and foreign markets

We strongly support this goal, as it is connected with the core competences of the MAP.

C. Preservation of peasantry as a carrier of identity, culture and spirituality of the nation

It is understandable that Ukrainian policymakers, particularly those who have strong ties to the countryside, wish to preserve or even revive the peasant society. There are similar attempts in Western countries, e.g. France or Germany, to preserve the 'family farm' as an ideal basis of rural communities. However, the achievement of this goal is has basically failed in both countries, even though billions of Euros have been poured as subsidies into the farm sector. Policy may formulate such goals, but disappointment is very likely. Young people are leaving rural areas primarily for economic and not cultural reasons. Providing them with **economic perspectives outside agriculture** is the first step to keeping them in rural areas where they can assume the task of keeping rural culture alive in Ukraine.

D. Development of rural areas, and solution of social problems in the countryside.

As mentioned above, this goal looks over-ambitious. MAP can contribute to rural development, but should not strive for the sole responsibility. If current demographic trends continue, Ukrainian rural areas will face serious depopulation problems, which will make rural development a very difficult task, if possible at all. This task should definitely become a responsibility of a cross-sectoral Ministry like the Ministry of Economy. The solution of social issues should be the responsibility of the Ministry for Social Affairs.

Generally speaking, there are some conflicts between the goals. For instance, preserving peasantry in its current form may not contribute to the efficiency and competitiveness of agriculture. It may also not contribute to the modern development of agriculture. If such conflicts between goals cannot be avoided for political reasons (preferences and expectations of the electorate and the legislative branch), then they should be smoothed by setting priorities. Regarding the current situation of the Ukrainian economy, increasing the economic efficiency and competitiveness should be top

priority. The policy task is then to maximise efficiency under certain constraints dictated by other policy goals. The result will be a **compromise** with a focus on efficiency.

Due to our concerns about some of the policy goals stated above, we would like to suggest an **alternative set of agricultural policy goals**. Agricultural policy support should enable agriculture to:

1	Contribute to economic growth by creating net value added,
2	Increase its competitiveness on domestic and international markets,
3	Supply food products in best quality,
4	Meet ecological and ethical requirements in production,
5	Contribute to preserving nature and landscape.

All these goals are compatible with a market economy, which Ukraine claims to be. They do not force agricultural policy makers to support agricultural producers in a way which finally leads to excess surpluses and consequent conflicts with international trade partners. But it should be noted that also among these goals there are conflicts which have to be overcome through compromises. Efficient production and competitiveness eventually runs into conflict with ecological considerations. A compromise can be reached by setting certain ecological minimum standards and supporting the competitiveness of organic farming in Ukraine.

5. **Priorities over the next decade:** Article 3 ("The basic priorities of a state agricultural policy") defines 12 major priorities of public policy in the area of agricultural policy. Some of these priorities are necessary without doubt, but others are too ambitious or misguided. We will briefly quote the priorities and comment on them in the appendix of this paper.

6. Section 4 highlights the **measures to implement the major priorities** for public agricultural policy embracing the directions of its development to a significant extent. However, the diversity of these directions is present here as well, and it won't contribute to achieving the main objective of agricultural policy, stated in Section 2. We suggest setting the following main specific priorities and corresponding **measures for the implementation of an agricultural strategy**:

   a) **Ensuring sustainable lasting productivity growth in agriculture**. In order to achieve the most important strategic objective of agricultural policy, inefficient, non-market costs like price support should be

cancelled, and measures maximizing long-run benefits for agriculture should be extended. The main feature of these measures is that they do not lead to or minimize distortions in market mechanisms for production or trade on the agricultural market. The measures should be funded from the state budget programs, namely:

- Improving plant and animal pest and disease control and prevention systems;
- Food inspection as for its influence on human health, food safety and compliance with established standards;
- Governmental programs for crop insurance;[1]
- Support to programs aimed at restructuring of marginal lands through its exclusion from agricultural commodity production, its preservation and transformation into other types of land as far as appropriate;

b) **Development of market infrastructure,** stating that agricultural policy should provide integrity of markets for farming products and food, thus preventing food shortage on the regional level and increasing competition between regional producers in order to lower prices for food and increase income stability in agriculture. In order to damp the fluctuation of prices, marketing transaction cost should be reduced throughout the marketing chain from the field to the final consumer. This can be achieved only through better conditions for investments into infrastructure development. The MAP should support the development of:

- Support modern system of warehouse certificates for farming products;
- Support future and advanced spot commodity markets;
- A competitive transport system which makes traders less dependent on the railway monopoly for grain and other bulk transports;
- A competitive elevator service sector, instead of trying to preserve old monopolists in this area.
- Support the build-up of leasing of agricultural machinery and equipment for processing of farming products.

c) **Development of competitive markets for farming products** as key factor in ensuring availability and economic affordability of food. In order to support agricultural producers and strengthen the capability of the agricultural market for self-regulation, agricultural policy should:

- guarantee competition between the market agents on the regional level through removal of regional and export barriers;
- prevent formal and informal interference of regional authorities in product sales;

[1] These insurance programmes should be either made functional, or the obligation for farmers to insure crops should be abandoned

- stimulate the creation of a state system for price monitoring, analysis and forecasting of markets for farm products and food, and support the distribution of this information among agricultural market agents;
- ensure the harmonization of national quality standards for farming, fishery products, and food with requirements of the World Trade Organization.

d) **Development of the market for farming land and mortgage**
The development of the land market aims at transforming owned land into capital that can be used as credit collateral for farms. To achieve this:
- both a system of both cadastre and ownership registry has to be established as soon as possible;
- the moratorium on land sales should be abandoned as soon as the institutions for the registration of ownership and land property transactions are functioning.

e) **Development of a public advisory service in agriculture**
- Establishing a public advisory service in Ukrainian agriculture is an important challenge. Many newly established farms and household producers lack the income to finance private advice.
- However, the regulations relevant for public advisory services should not apply to private advisory services.

f) **Development of agricultural science and education**
One of the main tasks should be improvement of agricultural education. Agricultural education is a public good that cannot be supplied in sufficient quantities by private agents and thus, there is a call for government involvement in the form of budget financing. Important measures:
- To adapt Ukrainian higher education to the requirements of a market economy the curricula should be re-considered.
- The government should improve financing of higher education institutions and colleges, increase wages of lecturers and renew material and technical basis of the institutions, and, in particular, ensure better computerization and improve access to Internet.
- In order to address the training needs of newly established farmers, the focus on the training narrowly-qualified 'specialists' should be replaced by a more comprising approach to train farmers in production technology and all aspects of farm management. The German 'dual system' of combined school and on-farm training could serve as a model.

In the section "Implementation of public agricultural policy" or "Measures to implement the agricultural strategy", we suggest introducing two subsections - **"Legislative support to the development of the strategy for agricultural**

policy” and **“Objectives of the executive power in implementation of the strategy for agricultural policy”,** where specific steps and time-frames for corresponding measures on implementation of the agricultural policy are to be defined.

We have outlined the main features of the draft law to be enhanced and elaborated only on some of them. The draft law should be further improved and discussed in wide circles of interested agents – public authorities, non-government organizations, scientific circles, and the media.

SD, AK, Lector SvC-T

June 2004

Appendix :

Specific Comments on the Priorities of Agricultural Policy as Stated in the Draft Law

Article 3: Priorities of Agricultural Policy until 2010

1. Creating of conditions for realization of rights of peasants on land, formation of market land relations in protection of lands;

   This is a very reasonable priority. Functioning land markets are a prerequisite for rural finance and will provide rural pensioners with additional income from land lease payments.

2. Intensifying of social protection of rural population, supporting of a wages and provision of pensions for workers in agriculture not below than average level in other industries of a national economy;

   Social policy should be taken care of by the ministries of economy and social affairs. Agricultural policy does not and should not have the responsibilities and resources to pursue social policy.

3. Creating of equal conditions for functioning of different forms of farm organization in agricultural sector which help to harmonize of interests of employers and employees;

   Ensuring equal competitive conditions for small and large, old and new farms alike is a very reasonable goal, as long as it is pursued through setting reasonable rules, and not through subsidies. The purpose of referring to the relation between 'employers and employees', however, remains unclear.

4. Development of state and regional programs of complex development of rural areas, improvement of state support to small business development to solve the problems of unemployment in a rural area;

   As mentioned in the main text, agricultural policy should not assume the sole responsibility of regional and rural development. It should rather contribute to inter-ministerial efforts. Pursuing a completely own rural development agenda is too ambitious for the MAP and involves the danger of conflicting policy approaches between ministries.

5. State support to development of a competitiveness of agriculture on the basis of cooperation and integration;

   A very reasonable goal, but the reference to cooperation and integration needs further explanation.

6. Implementation of modern mechanisms and methods of formation of the transparent agriculture and food markets, capital and labour;

   This is a reasonable goal as long as not more state intervention and control is meant. The government should set a sound legal framework for market actors, but the executive branch should not interfere with markets all the time, even though it may very much like to do this. Moreover, a legal framework for markets should not be developed for the agricultural sector separately. Rules for market participants should be the same across all economic branches.

7. State support to the subjects of agricultural sector by concentration of state resources on priority directions, formation of favorable price, financial and credit, insurance, tax and budget policies, maintenance of rational intraindustry and inter-sectoral economic relations;

   This 'priority' is too complex to be understood without further explanation. But as it does not seem to add a lot to what has already been stated in previous articles, it could perhaps be dropped.

8. Formation of favorable conditions for realization of export potential of agriculture;

   A very reasonable goal, which should have the marketing costs in mind that are burdening agricultural trade and depress producer prices.

9. State support to preparation, retraining and improvement of professional skill of agricultural specialists, providing of scientific researches for agricultural sector;

   On of the most import priorities: Ukrainian agriculture currently lacks the skills to profitably compete on the international market in the longer run. However, the education and training system in agriculture is still too much focused on producing 'specialists'. What is needed on the newly established private farms, however, are generalists in agricultural production and farm management. This broad training approach is currently not provided by the public agricultural education system.

10. Formation of conditions for attraction of qualified specialists to countryside in the fields of agricultural, education, culture, public health services and consumer services;

    This priority should be dropped. Once the other priorities are properly pursued, qualified people will automatically stay in agriculture, as this will earn them a decent income.

11. State support to farmers which use irrigated lands, in particular concerning maintenance of equipments and payment for electric power which is spent for water delivery for watering;

    The reconstruction of the irrigation system is definitely a great task which the MAP should support at its best. However, the problems are not so much the prices of electricity, but the problem of granting equitable access to irrigation systems. Western consultancies offer a lot of expertise in establishing user groups which self-manage such irrigation systems. The MAP should think about applying for technical assistance from donor countries or organisations to start this process.

12. Improvement of system of public governance, effective combining of national and regional policy in agricultural sector.

    A very useful goal, the achievement of which should be supported by cooperating with the EU of TACIS-Twinning projects.