



UkrainianAgribusinessClub



DOING AGRIBUSINESS IN UKRAINE

2015



Dear ladies and gentlemen!

We are sure that each of you personally experienced and overcame the difficulties of 2014. However, despite the problems in the country, the economy and the agricultural sector specifically, Ukrainian farmers were able to demonstrate significant industrial and economic potential. In particular, in 2014 the record amount of grain crops was harvested — 63.86 million tonnes. The share of agricultural products in exports has increased by 4 points to 30,9% and the trade surplus amounted to 10.6 billion USD — 20.4% more than in 2013. Last year agri-food sector became the sector with the largest foreign exchange revenues and provided more revenue to the state budget, than other areas of economic activity.

We can say that the current government understands the importance of stability of the agri-food sector not only for farmers but also for the country as a whole. Therefore, we can note certain steps the government and parliament have made on their way to simplify the conditions of doing the agricultural business. In particular, a long-awaited bill No. 1580 "On Amendments to Certain Legislative Acts of Ukraine regarding simplification of the business environment (deregulation)", which abolishes mandatory development of crop rotation projects that were a source of corruption, sets the minimum term of the land lease period 7 years long and significantly reduces the number of permits, has been adopted. In addition, mandatory quarantine certification for grains and oilseeds has been abolished, the period of issuance of phytosanitary certificate has been reduced from 5 days to 24 hours and agricultural land leasehold registration procedure has been simplified.

However, despite some positive changes, fundamental reforms in agricultural sector have not been completed, and problematic issues still exist. Thus, land reform has not been completed in the part of agricultural land market. The necessary regulation of the legal status of unclaimed land shares and field roads has not been implemented. In addition, businesses need long-term decisions concerning the VAT system. Agricultural science and education also require reformation.

We have always declared the readiness of business to help with and promote the implementation of reforms on all levels and in every possible way. After all, in current circumstances the only possible way for Ukraine to overcome the crisis is through the implementation of structural reforms and the willingness to change. The association "Ukrainian Agribusiness Club" has always been and will be a connecting link between the agricultural sector and the state authorities, as well as a platform for constructive dialogue between the investors, agricultural producers and food processors. I wish you all a successful year, real implementation of the reforms, high yields and multivalued investments!

*President of the Association
"Ukrainian Agribusiness Club"*

Alex Lissitsa

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INSTITUTIONAL ENVIRONMENT OF AGRICULTURAL SECTOR

POWER STRUCTURE AND AGRICULTURAL ADVOCACY

In modern democratic world every member of the society has the right to expect the protection of their own interests. Naturally, it is difficult to expect the government's attention to everyone personally, so a significant role in this case is played by the civil society institutions.

Lobbying, or as it is commonly called advocacy, in positive meaning is a vital tool for a democratic process, because it is a system of institutionalized representation of the various interest groups, the form of accessible legal influence on management decisions of public authorities, aimed to satisfy interests of certain social structures (organizations, regional consolidations and associations, segments of the population, etc.).

Advocacy is usually represented in spheres, which are the most important for both state economy and society in general. Nowadays there are all prerequisites for positioning Ukraine as a world leader of production and export of agri-food products that can provide food to about 500 million people. Undoubtedly, along with the growth of production capacity of agriculture it is worth to pay special attention to the issues concerning protection of the public interests. Citizens of Ukraine have all the rights to expect the formation of the state agrarian policy so that in addition to providing food and social security, it will also take into account historical, cultural and national

interest, further development of national consciousness and self-identity, as well as preservation of basic Ukrainian values (originality of rural areas, self-identification with the farmer status, close mental connection with the land, etc.).

One of the indicators of the importance of different sectors of the economy is the number of members of parliament in respective parliamentary committees. Based on this indicator, we can confidently conclude that the agricultural sector plays a significant role in the Ukrainian economy because the agrarian committee of the Verkhovna Rada of the 7th convocation consists of remarkable 30 MPs. The President of Ukraine also has an experience of doing agribusiness, which means that he understands the urgent needs of the industry. As a result, we get quite qualitative representation of experts that are able to provide necessary conditions for the development of the sector.

The tasks to be completed through agricultural advocacy do not differ from those faced by other sectors of the economy. They include preservation of tax incentives for efficient producers, focus on global food security issues, formation of principles of compliance with quality and safety standards, and understanding of the value and role of consumers both locally and internationally.

In addition, it is necessary to have a clear understanding of the levels of influence and responsibilities in the reform process.

The Cabinet of Ministers of Ukraine is, as usual, at the top of the executive power pyramid. Recently the greatest influence on agricultural environment belonged directly to the following ministries: the Ministry of Agrarian Policy and Food (along with subordinated central executive authorities (CEA) — State Veterinary and Phytosanitary Service of Ukraine, State Land Recourses Agency, State Forest Resources Agency, State Agricultural Inspection of Ukraine, State Agency of Fisheries; the Ministry of Economic Development and Trade of Ukraine (jointly with the following CEA: State Inspection of Ukraine for Consumer Rights Protection, National Agency of Accreditation, Standardization, Metrology and Certification); and the Ministry of Health Protection (jointly with the State Sanitary and Epidemiological Service of Ukraine, State Medical Drug Service, State Service of Ukraine on AIDS and other socially dangerous diseases as well as their other subdivisions aimed at assuring quality and safety of food products to be presented on domestic market and exported abroad).

General subordination scheme of the Ministries and CEA

The Cabinet of Ministers of Ukraine	Ministry of Economic Development and Trade of Ukraine	State Inspection of Ukraine for Consumer Rights Protection
		National Agency for Accreditation
		Centers of Standardization, Metrology and Certification
	Ministry of Agrarian Policy and Food of Ukraine	State Veterinary and Phytosanitary Service
		State Agency of Land Resources
		State Agency of Forest Resources
		State Inspection of Agriculture of Ukraine
		State Agency of Ukraine for Fisheries
	Ministry of Health of Ukraine	State Sanitary and Epidemiological Service of Ukraine
		State Service of Ukraine on Drugs
		State Service of Ukraine on HIV and AIDS and other diseases
		Other departments



The Cabinet of Ministers of Ukraine	Ministry of Economic Development and Trade of Ukraine	State Inspection of Ukraine for Consumer Rights Protection
	Ministry of Agrarian Policy and Food of Ukraine	State Veterinary and Phytosanitary Service
		State Inspection of Agriculture of Ukraine
		State Agency of Ukraine for Fisheries
	Ministry of Health of Ukraine	State Sanitary and Epidemiological Service of Ukraine

Subordination scheme of Ministries and CEA in the field of safety and food quality

Decree of the Cabinet of Ministers of Ukraine No. 442 "On Optimization of System of Central Executive Authorities" was the most remarkable document pursuant to which the State Service of Ukraine for Food Products Safety and Consumer Protection has been established while the State Agricultural Inspection was abolished. This Decree entailed reorganization of the public administration system with a view to upgrade the effectiveness of the executive vertical in the sphere of industry regulation along with simplification of regulatory procedures and improvement of business climate.

The most noticeable changes being anticipated in the nearest future refer to transfer of a series of functions that influence directly or indirectly agricultural and food industries. Thus, the functions regarding registration and record keeping of transport (in the first place agricultural machinery) are delegated to the Ministry of Internal Affairs. The functions regarding public surveillance (control) related to operation and technical condition of vehicles are delegated to the State Service for Safety at Transport. Seeds and planting materials certification is delegated to the State Service of Ukraine for Food Products Safety and Consumer Protection. The functions of public surveillance and control over compliance with land legislation, use and protection of all types and ownership types of lands and soil fertility are delegated to the State Ecological Inspectorate.

The Cabinet of Ministers of Ukraine	Ministry of Economic Development and Trade of Ukraine	State Inspection of Ukraine for Consumer Rights Protection	merge
		National Agency for Accreditation	
		Centers of Standardization, Metrology and Certification	
	Ministry of Agrarian Policy and Food of Ukraine	State Veterinary and Phytosanitary Service	merge
		State Agency of Land Resources	
		State Agency of Forest Resources	
		State Inspection of Agriculture of Ukraine	
		State Agency of Ukraine for Fisheries	
	Ministry of Health of Ukraine	State Sanitary and Epidemiological Service of Ukraine	merge
		State Service of Ukraine on Drugs	
		State Service of Ukraine on HIV and AIDS and Other Diseases	
		Other departments	

Scheme of future subordination of the Ministries and CEB in the area of safety and quality of food pursuant to the Resolution of the Cabinet of Ministers of Ukraine of 10.09.2014, No. 442

At the same time, the State Service of Geodesy, Cartography and Registry is intended to ensure maximum transparency and effectiveness of land record keeping and document flow systems. The functions on implementation of the state policy performed by the state authorities to be liquidated (apart from animal breeding, labour hygiene as well as functions regarding public surveillance (control) with a view to observe requirements on the formation, establishment and application of the state regulated prices) have been delegated to the State Service of Ukraine for Food Products Safety and Consumer Protection as well. It should be noted that this Service will be most probably directly subordinated to the CMU. Particular attention should be paid to the land protection functions delegated to the Ministry of Agrarian Policy and the State Ecological Inspectorate.

Scheme of future subordination of the Ministries and CEB in the area of safety and quality of food pursuant to the Resolution of the Cabinet of Ministers of Ukraine of 10.09.2014, No. 442

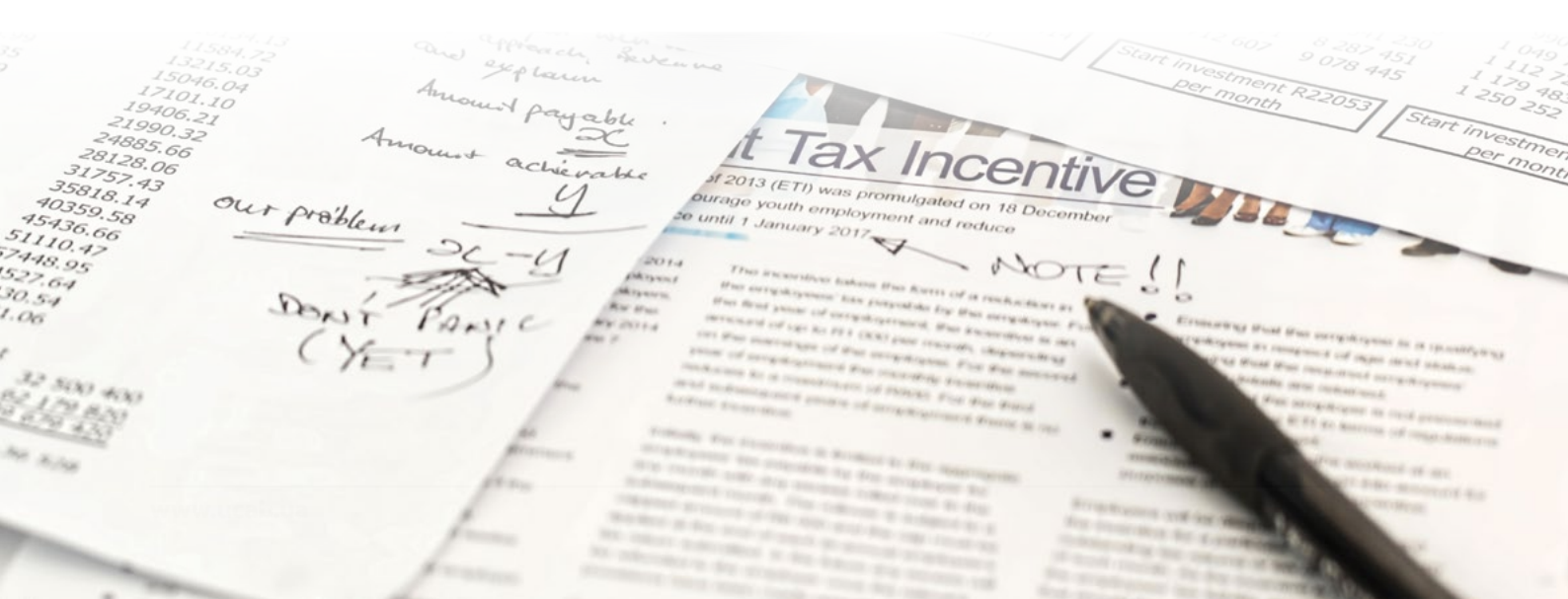


In general, several important factors should be noted. First of all at present time the Ministry of Agrarian Policy and Food, following the changes in functions delegation and in view of the attitude of the CMU and the Ministry of Finance, is performing mostly representative functions. We all vividly experience it through impossibility to gain those preferences that the industry had only yesterday. It means that all our requests, initiations, requirements and proposals will be concentrated not at the level of relevant ministry but higher. The result may be observed in the nearest future.



Scheme of future subordination of Ministries and CEA in the sphere of land relations pursuant to the Resolution of the Cabinet of Ministers of Ukraine of 10.09.2014, No. 442

The Cabinet of Ministers of Ukraine	Ministry of Justice of Ukraine	State Registration Service	cooperation
		Public and private notaries	
		Ukraine State Service of Geodesy, Cartography and land registry	
	Ministry of Agrarian Policy and Food of Ukraine	REORGANIZATION	
		The State Veterinary and Phytosanitary Service	
		The State Agency of Land Resources	
State Agency of Forest Resources			
	State Agricultural Inspection of Ukraine		



LEGAL FRAMEWORK: RECENT DEVELOPMENTS AND INITIATIVES

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The year 2014 was full of important events for Ukraine. The EU-Ukraine Association Agreement along with the presidential and parliamentary elections have dramatically changed the political and legal landscape and development prospects for Ukraine. The changes have also affected the legal regulation of the agricultural sector. Some current trends are outlined below.

Deregulation. On February 12 2015, the Ukrainian Parliament adopted the Law of Ukraine "On Amendments to Certain Legislative Acts of Ukraine for Simplification of the Conditions of Doing Business (Deregulation)" (the "**Deregulation Law**"). The Law abolished the requirement to obtain a number of permits and approvals, including those in the agricultural sector, in particular: a product export permit, an operational permit for the production of milk, raw dairy and dairy products, an opinion on compliance of commodity markets with requirements for supplying the services of the execution and registration of agreements for sale and purchase of agricultural products and foodstuffs for state and local needs. The Deregulation Law also abolished mandatory certification of plant protection agents, including pesticides and agricultural chemicals, technical equipment for the use of pesticides and agricultural chemicals, and quality examination of special food products.

In addition, on March 2 2015, the Law of Ukraine "On Licensing Business Activities" became effective, introducing a new licensing system and abolishing trade licenses, in particular for pesticides and agricultural chemicals, and animal breeding licenses.

The law on deregulation took effect on April the 5th, 2015, and the entry into force of the Law «On licensing of economic activity» is expected on June the 28th, 2015.

Implementation of EU legislation. The EU-Ukraine Association Agreement provides for the adaptation of the Ukrainian legislation to that of the European Union. Such adaptation is particularly required in the following spheres:

- quality and safety of agricultural products and foodstuffs,
- organic farming,
- genetically modified crops,
- biodiversity,
- marketing standards for plants, seeds of plants, products derived from plants, fruits and vegetables,
- marketing standards for live animals and animal products, etc.

Some of the requirements set out in the Association Agreement have already been complied with. However, there is still much work to be done by the lawmakers to approximate the Ukrainian legislation to the EU standards.

Taxation changes. The taxation system underwent significant changes in 2015. The changes in the agricultural sector particularly included the abolition of a fixed agricultural tax and its replacement by a single tax now payable by the taxpayers at higher rates. The government also abolished VAT refund to exporters of grain and technical crops, while retaining the special VAT regime is available to agricultural companies. It was, however, changed in respect of the procedure for VAT administration now to be done through special VAT accounts.



State regulation and control. A two-year moratorium was imposed on the inspections of small and medium-sized businesses whose annual gross income is less than UAH 20 mln. (with some exceptions).

In late 2014, the Cabinet of Ministers disbanded a number of inspectorates, including the State Agriculture Inspectorate, the State Price Control Inspectorate, and the State Environmental Investment Agency. The State Service of Ukraine for Food Safety and Consumer Protection was created replacing the following three services: the State Veterinary and Phytosanitary Service, the State Inspectorate for Consumer Rights Protection, and the State Sanitary and Epidemiological Service.

It is expected that during 2015 there will be further reduction in the controlling functions of government institutions and enhancement of the efficiency of their activity, and delegation of some state functions to self-regulatory organizations and local self-government authorities.

The Ministry of Agrarian Policy and Food intends to optimize the operations of Agrarian Fund PJSC and State Food and Grain Corporation of Ukraine PJSC.

Land matters. The Deregulation Law imposes a minimum period of seven years for lease of agricultural land plots, cancels the requirement of annexes as integral parts of a land lease agreement, and narrows down the essence of such agreement to the following three terms: the land plot (its cadastral number, location, size), the lease period, and rent. The Deregulation Law also exempts business entities from mandatory development of land management plans in respect of crop rotation.

Discussions are currently underway with regard to the management of state-owned lands, including agricultural lands. At present, lands outside populated settlements, other than privately and municipally owned lands, are managed by executive authorities: agricultural lands are managed by bodies of the State Agency for Land Resources of Ukraine, and other lands are managed by local state administrations. Over the past few months, there have been registered several draft laws suggesting various approaches to the re-distribution of powers over management of state-owned lands, including delegation of powers to manage state-owned agricultural lands outside populated settlements to local councils.

In 2015, the Ministry of Agrarian Policy and Food intends to implement a range of measures with respect to land matters, such as:

- simplification of procedures for registration of lease rights to agricultural land plots;
- completion of inventory and demarcation of state, municipally and privately owned agricultural lands;
- determination of the legal status and regulation of the procedure for managing collectively owned lands and heirless lands;
- nationwide standard monetary valuation of agricultural lands;
- simplification of the procedure for using agricultural lands for construction of agricultural outbuildings, etc.

Other plans of the Ministry of Agrarian Policy and Food. The Ministry has worked out a special action plan for 2015 on implementation of the Action Program of the Cabinet of Ministers and the Coalition Agreement for 2015, including, in addition to the above-mentioned objectives, the following:

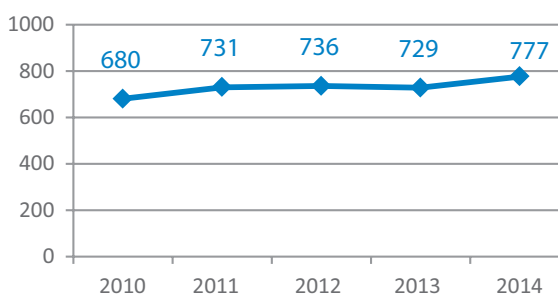
- improvement of the system of state support for the development of agricultural production;
- adoption of the Law of Ukraine "On Local Agricultural Markets";
- preferential lending for small and medium-sized agricultural enterprises;
- legislative regulation and practical implementation of financial instruments in agricultural product markets (agricultural warrants, futures and forward contracts);
- privatization of state enterprises subordinated to the Ministry of Agrarian Policy and Food;
- transition from export restrictions to the formation of a state mobilization food reserve to ensure national security;
- promotion of domestic producers to foreign markets, etc. ■

INVESTMENT CLIMATE: EXPECTATIONS FOR 2015

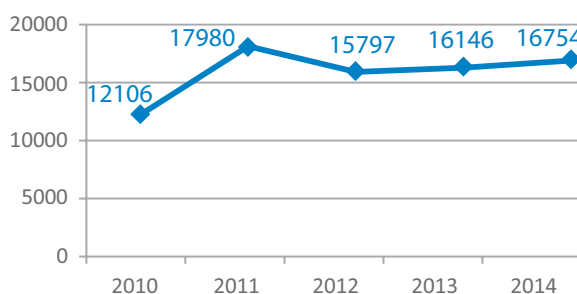
INVESTMENT ATTRACTIVENESS OF AGRICULTURE IN UKRAINE: POLICY FRAMEWORK ANALYSIS BASED ON ORGANIZATION OF ECONOMICAL COOPERATION AND DEVELOPMENT (OECD) METHODOLOGY

Investment in agriculture is crucial for the economic development and food security of Ukraine. Today agriculture is one of the most promising sectors of the country's economy: it is a notable player on the global agricultural market, a source of foreign currency inflow to the country, 8% of the GDP and formal employer for 15% of the population of Ukraine. Global food crisis is also favorable for investment in agricultural production in Ukraine. However, apart from the natural resource abundance and increasing demand for food in the world, is Ukraine a really attractive country for investments? Was there an effective regulation of the sector established to create a positive investment climate in Ukraine? The article presents a comprehensive assessment of the legal framework for investments in agricultural sector of Ukraine based on the OECD methodology, which is widely used by international community and investors.

*Direct investments into
agriculture, fishery and
forestry in Ukraine,
mln. USD*



*Capital investments into
agriculture, hunting and
related services in Ukraine,
mln. UAH*



Source: State Statistics Service of Ukraine

According to the OECD standards, an analysis of the investment environment in the agricultural sector consists of 10 components:

1. Investment policy,
2. Investment promotion and facilitation,
3. Infrastructure,
4. Trade policy,
5. Financial sector development,



6. Human resources, research and innovation,
7. Tax policy,
8. Risk management,
9. Responsible business conduct,
10. Sustainable use of natural resources and environment management.

Compliance of the investment climate in the agricultural sector of Ukraine with the basic OECD criteria of investment attractiveness is given in the table below, comments are provided in the article.

Investment activity is regulated in Ukraine with numerous laws and amendments¹, nevertheless the legal regulations are imperfect. Ukrainian legislation de facto establishes a national treatment regime for foreign investors, i.e. neither foreign nor domestic investments are prioritized, however, the greatest shortcoming of the investment regulation in Ukraine is an absence of state protection guarantees for foreign investments. Unilateral changes of the legislation, instability of legislative base, unclear legal definitions and declarative character of laws and state programs of the agricultural sector development, as well as imperfections of national statistical data also create obstacles for the investment activity in Ukraine.

Few positive changes in investment regulation in Ukraine took place over the recent times. Signing of the Association Agreement with the European Union opened an access to European markets for Ukrainian agri-food products. Harmonization of the Ukrainian legislation with the European one is expected to intensify international trade in Ukraine. However, harmonization requires stricter regulation of trade with agricultural products by private households, which might negatively affect private households in a short-term perspective. For example, according to the EU standards, slaughter of cattle for sale must take place only at certified slaughterhouses. Lack of slaughterhouses in Ukraine might restrict private households in sales of meat products. Liquidation of quarantine certificate and reduction of the issue period for the fito-sanitar certificate from eleven to five days is another positive introduction, which is supposed to contribute to the inner trade development.

Financial system of Ukraine is in a very critical condition. Lack of liquidity of financial institutions, poor diversification of financial products, high interest rates and collateral requirements, absolute underdevelopment of financial institutions create unfavorable conditions for investors and agricultural producers. Financial institutions in Ukraine officially do not prioritize any type of investors in access to credit funds, however, SMEs do face difficulties in access to finance. According to the survey of small and medium agricultural producers conducted by the AgriSurvey agency in 2014, access to credit funds was the major obstacle for 41% of agricultural producers in doing business with only difficult access to forward purchases ahead (59%) Non-bank financial institutions are absolutely underdeveloped in Ukraine. Only few of them function according to the legislation and provide qualified financial services. They do not compete with banks and cannot serve as a reliable source of external finance for agricultural producers and investors. Regardless available legislative base and market infrastructure, capital market of Ukraine is also extremely underdeveloped and lacks capitalization and liquidity. Local investors lack understanding of investment possibilities on equity market. Besides, some

¹ Laws on "Investment activity"; "Regime of foreign investment"; "Banks and banking"; "Securities and stock market"; "Protection of foreign investment"; "Foreign economic activity"; "General principles of creation and functioning of special (free) economic zones"; Economic Code of Ukraine, Civil Code of Ukraine etc.

legal provisions of foreign currency regulation restrict investors in operations with securities of foreign parties at the territory of Ukraine.

Another shortcoming of the investment climate in Ukraine is an absence of a sound risk-management system. In the framework of state program for agricultural development, the state accomplishes forward purchases of grain from agricultural producers (regardless the size of specialization of ag.producers), however taken that forwards contracts comprise no more than 1% of all purchasing contracts on grain in Ukraine, this assistance hardly can be considered as significant. Strategy for mitigation of risks caused by currency fluctuation, weather conditions and diseases is also absent. Insurance in agriculture is also unpopular practice because of the lack of functioning mechanisms, incomprehension of insurance benefits, lack of trust to insurance companies etc. State support of collective investors is reflected only in the Law on joint-stock companies, however its imperfections create lots of space for shareholders' rights violation and conflicts around the corporate governance of joint-stock companies.

Restrictive fiscal policy, which is being applied in response to the current economic crisis in Ukraine, is not favorable for investment in the agricultural sector of the country. Firstly, the new regulations of 2015 abolished VAT returns on exports of grains and oilseeds (which will reduce funds available for s/d manufacturers 1 billion. Dollars) to agricultural producers and increased the land lease tax on the lease by 25% for agricultural land and by 10% for the land, which is not aimed for agricultural use. These regulations affect profitability of agricultural producers. Secondly, cancelation of the VAT accumulation for agricultural producers was announced for the 2016. It was an efficient mechanism of financial support to agricultural producers, which amounted to USD 19.1 bln. in 2014. This fiscal measure will result in profitability decline by 10-12% and particularly affect the livestock industry, which will become unprofitable after this measure is applied. In addition, since the beginning of 2015, the single fixed tax for agricultural units has been applied. It shifted agricultural producers into the 4 flat tax with a 20% higher tax regime. Ironically, due to the tax reform of 2014 (which reduced number of taxes for SME to 9) Ukraine ranked 96 of out of 212 countries in the Doing Business Index 2015, whereas by the category of favorable tax system Ukraine jumped from 157 to 108 position. On the contrary, the quality of the tax reform is not high, and overall in has negative consequences for doing business and investment climate in Ukraine.

Infrastructure development rates of Ukraine have been traditionally high in international development ratings, as water, gas and electricity supply to rural areas (crucial issued for many developing countries) was established during the soviet times in the country. On the contrary, Ukraine's recent achievements in agricultural infrastructure development are questionable. For example, Ukraine ranks 185, out of 189 countries, by the factor of accession to power the supply network² (number of procedures duration and costs of accession). In addition, the state's report³ on the results of the States program of the rural area development by 2015⁴ claims its failure to meet the program's goals: "...the Programme did not provide a comprehensive approach to the problems of the sector, which resulted in unsolved issues of improvement of the infrastructure of the agricultural sector, provision of agricultural machinery, and mitigation of the risks related to social development of rural areas".

² Doing Business Index 2015

³ http://www.ac-rada.gov.ua/doccatalog/document/16741939/Selo_2015.pdf

⁴ <http://zakon2.rada.gov.ua/laws/show/1158-2007-%D0%BF>



Legislation regulating the use of natural resources and efficient energy consumption in Ukraine lacks elaboration and stability. Before March 2015 it was more or less favorable to investors, because the law stipulated such privileges as: zero rate excise duty; partial taxation of return on of energy-saving equipment sales; tax exemption for biofuel producers, partial taxation of profits from the sale of energy-saving settings in the customs territory of Ukraine and others. However, in March 2015, the National Commission for State Regulation of the energy and communal public services reduced tariffs for electricity generated by "green" enterprises by 50%, which threatens with bankruptcy to green industry investors. In addition, the state does not provide financial support to alternative energy producers: "Financing of activities to stimulate the production (extraction) and consumption of alternative fuels is undertaken at expense of enterprises, institutions, organizations, regardless of type of ownership, state and local budgets and other unprohibited legal sources".⁵ At the same time, Ukraine faces with a problem of environment pollution caused by excessive use of natural resources and the relevant environmental legislation is only at the stage of development⁶, just as the legislation on responsible business behavior.

Finally, R&D effectiveness in the agricultural sector is significantly limited by the lack of funding, new technologies and knowledge of their capabilities. In addition, there is a shortage of skilled workers of industrial specialties, especially among youth, which questions effectiveness of agricultural universities in Ukraine. There is no single mechanism of cooperation between business and R&D institutes and universities. The research activity and training of agricultural workers is performed by agricultural enterprises solely by their own initiative and expenses, without state support. IPR legislation is at the infancy stage of development. Ukrainian system in this regard is not effective. State strategy of the agricultural sector development has declarative character. Research potential in the area of agricultural technologies in Ukraine is significant, but not realized.

Thus, despite the developed system of legal regulation of AIC of Ukraine, the current system does not provide favorable conditions for investment in Ukrainian agriculture: the state does not guarantee protection of investments and existing laws and government development programs often have a declarative nature. Restrictive fiscal policy and unfavorable for farmers tax system are a significant drawback of the investment climate in 2015. The situation of agricultural infrastructure and promotion of energy efficient technologies is slightly better. However, the investment attractiveness of the agricultural sector in 2015 is significantly affected by political and economic instability in the country. And while the East is trying to restore peace and the state budget lacks money even for social benefits, the benefit should use available time and resources and change the "rules" of agrarian business: design and clearly prescribe effective laws, creating a favorable legal framework that can be applied to the first signs of political stability.

⁵ Law on "Alternative energy sources" <http://zakon1.rada.gov.ua/laws/show/1391-14>

⁶ Laws on "Environmental protection", "Ecologic expertise", "Ecologic audit", "Ecological network of Ukraine"

INVESTMENT POLICY	INVESTMENT PROMOTION AND FACILITATION	INFRASTRUCTURE DEVELOPMENT	TRADE POLICY	FINANCIAL SECTOR DEVELOPMENT	HUMAN RESOURCES RESEARCH AND INNOVATION	TAX POLICY	RISK MANAGEMENT	RESPONSIBLE BUSINESS CONDUCT	ENVIRONMENT
<p>■ 5/7</p> <p>Available state agricultural investment strategies and sectoral policies are well aligned with agricultural investment strategies</p>	<p>■ 1/4</p> <p>There is institution(s) in charge of investment promotion and facilitation</p>	<p>■ 4/8</p> <p>Infrastructure policies are aligned with agricultural investment objectives</p>	<p>■ 1/5</p> <p>Absent administrative, fiscal or regulatory barriers to the movement of agricultural commodities across the country</p>	<p>■ 0/4</p> <p>Accessibility of financial services to investors (different by size of investments; region, territory etc.)</p>	<p>■ 1/8</p> <p>State plan for development of research and human resources in agricultural sector is established</p>	<p>■ 0/4</p> <p>Tax system does not create obstacles for agricultural investments</p>	<p>■ 0/6</p> <p>Availability of laws and government strategy to prevent and reduce risks that are associated with weather conditions, diseases and price fluctuation</p>	<p>■ 1/4</p> <p>Availability of laws that stimulate an appropriate business behavior, regulate worker rights at agribusiness, ownership of natural resources and prevents corruption</p>	<p>■ 1/4</p> <p>Available laws do an effectively regulations of using natural resources and environmental security in the country</p>
<p>■ Government ensures availability of laws, regulations and policies for agricultural investment and their implementation and enforcement accessibility and transparency</p>	<p>Effective measures are applied to promote and facilitate investment in agriculture, including by smallholders</p>	<p>Responsibilities for infrastructure project design, provision and maintenance are shared between central government and sub-national authorities</p>	<p>■ Government undertaken efforts to facilitate cross-border agricultural trade, in particular by reducing regulatory and administrative border procedures</p>	<p>Active role of non-bank financial institutions (credit-unions, micro-finance institutions, informal lending etc.)</p>	<p>Education institutions are able to address the needs of agricultural sector in qualified specialists</p>	<p>Tax system neutral in its treatment of foreign and domestic agricultural investors as well as large versus small investors</p>	<p>State support of the insurance programs in the agricultural sector</p>	<p>Effective implementation of legislation about an appropriate business behavior and provide rights of susceptible groups that investment activity in agribusiness can have an effect at (women, sheep farmers, community)</p>	<p>Effective implementation of environmental legislation</p>
<p>Government ensures implementation, enforcement accessibility and transparency of investment laws</p>	<p>■ Independence and marketability of agricultural market and instrumentality of agricultural production</p>	<p>■ Clear guidelines and transparent procedures for the disbursement of public monies for agriculture-related infrastructure</p>	<p>Existing tariff and non-tariff barriers to trade do not hinder access to agricultural inputs and services or raising their cost</p>	<p>State contribution to the development of financial sector and facilitation of access to financial services</p>	<p>Effectiveness of national research institutes; their proper funding and supply with technical equipment</p>	<p>Tax administration system have sufficient capacity to develop and implement tax policy in a transparent and efficient manner</p>	<p>Competition at the agricultural insurance market</p>	<p>Government provide the compliance of appropriate business behavior between investors</p>	<p>■ Available legislation stimulates the access to energy efficiency green technologies and stimulate its spreading between large and small farmers</p>
<p>■ No restrictions specific to foreign investment</p>	<p>Effective investor-state dialogue mechanism is in place</p>	<p>Clear state strategy for irrigation infrastructure development</p>	<p>Export restrictions related to agricultural or agri-food products are absent</p>	<p>Development of national and regional capital markets</p>	<p>■ Established priorities for R&D in agriculture</p>	<p>Taxation is effectively administered and co-ordinated between the central government and sub-national authorities</p>	<p>Mechanisms of support of forward contracting and futures market</p>	<p>International experience of appropriate business behavior that is spreading in the country</p>	<p>Stimulate the investment in processing the biomass into biofuels</p>
<p>Secure land tenure</p>		<p>■ Developed transport infrastructure</p>	<p>Effective bilateral and regional trade agreements</p>		<p>Government taken specific measures to promote linkages between agricultural extension and R&D</p>	<p>State support of the risk management of collective investor</p>			
<p>■ Access to water is secured</p>		<p>■ Access to reliable and affordable energy supply in rural areas</p>			<p>Effective mechanisms of intellectual property rights protection</p>	<p>Government encourage diversification, including diversification in production, practices, marketing and income sources, as a risk management instrument</p>			
<p>■ Initiatives to improve investment legislation from non-government organizations</p>		<p>■ Use of renewable energy sources</p>			<p>Mechanisms to encourage investor into R&D among investor and ag-producers</p>				
		<p>Government provides timely and accurate information on agricultural markets</p>			<p>Mechanisms to encourage investors to train their employees and agricultural workers</p>				

TAXATION OF AGRICULTURAL COMPANIES

In order to support the agrarian sector of the economy and to reduce the fiscal burden upon agricultural producers, the laws established special taxation regimes for agricultural companies:

- a 4th group unified tax;
- VAT special regime.

4th group unified tax

The 4th group unified tax is a tax, which is collected in relation to a unit of land area as percentage of its regulatory monetary value. Payment of the 4th group unified tax replaces the following taxes and charges:

- corporate profit tax, including advance payment due to distribution of dividends;
- land tax for land used for agricultural production;
- charge for special use of water resources.

All other taxes and charges are paid on the general basis, including a single social contribution.

The eligibility for the 4th group unified tax is subject to the following conditions:

- manufacturing of agricultural products and/or fish farming and fishing in lakes, ponds and artificial water reservoirs, processing of such products with the use of own or leased facilities, including tolling-based operations
- use of agricultural lands (owned or leased);
- the share of agricultural production in the previous year is at least 75%, with the share of the agricultural production equalling the share of the income of the agricultural producer, derived from processing and sale of his own production and derived products, in his aggregate income.

The following companies may not pay the 4th group unified tax:

- those that earned over 50% of their income from selling ornamental plants, wild animals and birds, fur products and fur (with some exemptions);
- those that produce and/or sell excisable goods (except for sale of grape wine-making materials by companies engaged in primary wine-making);
- those that have tax indebtedness (arrears) as of January 1 of the reporting year, except for bad tax indebtedness which arose in the result of force majeure.

Tax authorities closely scrutinize whether a company has met the requirements to pay the 4th group unified tax. In particular, they rigorously verify whether the company's production is agricultural and on what basis the company uses the land (e.g. whether there is a registered lease agreement).

The following types of agricultural land used by agricultural producers are subject to the 4th group unified tax:

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- arable land;
- hayfields;
- pastures;
- perennial plantations;
- lands of water resources (internal water basins, lakes, ponds, water storage reservoirs).

Rates of the 4th group unified tax

Types of land plots	Rates of the 4th group unified tax (% of the regulatory reference value)		
	general	in mountain areas and in the Polessia region	for protected grounds
Arable land, hayfields and pastures	0,45	0,27	3,0
Perennial plantations	0,27	0,09	-
Lands of water resources	1,35	-	-

The 4th group unified tax is calculated on the basis of the regulatory monetary value of one hectare of agricultural land, which will be subject to indexation starting from 1 January 2015 in accordance with the rules set for the land tax.

For the purposes of the 4th group unified tax a calendar year is defined as the basic reporting period. The tax is calculated by taxpayers as of January 1 of the current year.

The accrued amount of the 4th group unified tax is broken down by quarters as follows:

- I and II quarters — 10% each;
- III quarter — 50%;
- IV quarter — 30%.

The quarterly tax is paid within 30 calendar days after the end of the respective quarter to the appropriate account of the local budget where the land plot is located.

VAT special regime (in force until January 1, 2018)

Any company operating in the fields of agriculture, forestry or fishery may choose a special regime of application of the value added tax (VAT) provided that:

- the principal activity of the company is the supply of agricultural goods or/and services produced on its own or leased facilities, including tolling-based operations;
- the share of agricultural goods and/or services makes up at least 75% of the total value of all goods and/or services supplied during 12 preceding consecutive reporting periods in the aggregate.

In case this special regime is selected, the company transfers the due amount of the value added tax from its VAT account to a special bank account rather than to the budget. This amount may be used by the company as a tax credit according to a general procedure; the remaining sum, if any, is not transferred to the budget but may be used for other production purposes.

Exemption of supply of grains and industrial crops from the VAT

The following transactions are released from the value added tax: supply of grains of commodity items 1001-1008 (save for commodity item 1006 and commodity sub-category 1008 10 00 00) and supply (export) of industrial crops of commodity items

1205 and 1206 (per the UCGFEA), except for the supply of such grains and industrial crops by producers and companies, which purchased such grains and industrial crops from producers.

Export of such commodities is not subject to taxation.

The tax credit with regard to the acquired and/or manufactured non-current assets, which are simultaneously used in VAT taxable and VAT non-taxable transactions referred to above is to be formed to the full extent. The rule about proportional formation of the tax credit, as provided for by Article 199 of the Tax Code, will not apply in such cases.

Transfer pricing

The rules of transfer pricing are in effect in Ukraine, and they are applied for the purposes of the corporate profit tax (general basis) and value-added tax. Starting from January 1 2015, the transfer pricing rules (establishment of a market price) are applied to controlled transactions if the aggregate annual income of the payer and/or related persons exceeds UAH 20 mln (VAT exclusive), while the volume of transactions of the payer and/or related persons exceeds UAH 1 mln (VAT exclusive) or 3% of the payer's income for the respective tax year. The following transactions are deemed to be controlled:

- transactions with related non-residents;
- sale of goods through non-resident agents;
- transactions with non-residents from offshore jurisdictions.

For the tax accounting purposes in controlled transactions tax payers shall apply only the methods of setting the price as described in the Tax Code of Ukraine (in particular, the methods of comparable uncontrolled price, profit split, net margin, cost plus, resale price), as well as submit annual reports on controlled transactions to tax authorities, and, upon request of such authorities, all documents confirming regular level of prices and the actuality of the transaction.

Any violation of the transfer pricing rules may trigger accrual of additional tax liabilities based on regular prices and application of penalties by tax authorities:

- a failure to submit a report on controlled transactions — a penalty in the amount of 100 minimum wages;
- a failure to disclose information about controlled transactions — 5% of the amount of the controlled transaction;
- a failure to submit documents substantiating the prices in controlled transactions — 3% of the amount of controlled transactions, however not more than 200 minimum wages.



PRODUCTION RESOURCES

FINANCIAL RESOURCES

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Lack of funding is the traditional problem for the Ukrainian agricultural sector, but this year the question is especially critical because in connection with the events of 2014, the ongoing crisis in the economy and a threat of the continuation of the armed conflict in the East of the country, the current credit resources proposals are rather lacking than limited (certainly with some clauses).

At the same time, the need for external financing remains consistently high. Thus, the Ministry of Agrarian Policy and Food estimates the shortage of funds for this year spring sowing campaign at the level of UAH 10-15 bln. (such a large gap is related to the situation on the currency market, because most of the components of the prime cost are one way or another tied to the exchange rate).

In this article we will consider the options of raising financing available for farmers, taking into account the current realities and mechanisms of its stimulation, such as agricultural receipts, which are currently used in a test mode.

In total there are several groups of financial instruments:

- Traditional bank lending
- Bills financing (trade credit)



- Agricultural receipts
- Leasing
- Public funding (system of forward purchases to Agrarian Fund and the State Food and Grain Corporation of Ukraine (SFGCU))
- External borrowing (IPO, euroissue, attracting loans from non-resident banks, etc.).

Traditional bank lending

Today, bank lending is the most common, but not always the cheapest way to attract funding. However, if before 2014 the number of banks that gave credits to farmers, estimated in tens, this year just a few banks, which have relied on long-term business construction in the sector — such as Raiffeisen Bank Aval, Credit Agricole Bank, First Ukrainian International Bank and ProCredit Bank — actively continue to work on the market. Several significant events led to such situation in the industry last year: providing temporary administration in the number of banks that had been previously engaged in agricultural lending (VAB), bankruptcy or defaults of a few large borrowers (such agricultural holdings as Mriya, TAKO, Agroton), and speculations with the taxation of farmers (export VAT refund, increase of rates of fixed agricultural tax, negotiations with the IMF about the possible abolition of preferential treatment of VAT imposition, etc.).

Seasonality and riskiness of agribusiness, lack of liquidity in the market and political processes in the country reasoned the conservative lending policies in 2014-2015, as well as increased requirements for borrowers and pledges. In 2014-2015 banks with Ukrainian capital have been suffering from a lack of liquidity, the limits of banks with Western capital are covered by the parent companies because of the insurance risks, and originally Russian banks, for understandable reasons, are in no hurry to increase their loan portfolios and invest surplus funds in the Ukrainian economy.

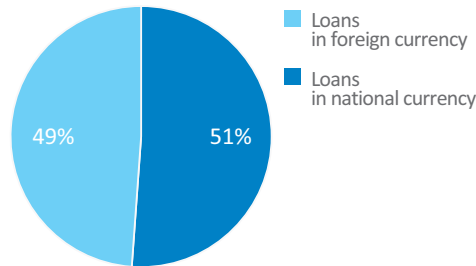
Loud defaults such as listed above lead to the fact that the creditor banks continue to tighten their requirements for borrowers, as well as try to diversify their portfolios by establishing specific limits for large borrowers. A year ago banks that gave credits to farmers could bet on poaching customers and offer more favorable terms to large corporate borrowers, but now the importance of risk management procedures and the desire to avoid a situation where the creditor bank has no mechanisms to protect itself against intentional bankruptcy of the borrower, as in the case with Mriya, are growing. Bankers realize that each loan might become default for various reasons, which are often impossible to control. Of course, Western banks are in the most difficult situation as they have to comply with both the requirements of the National Bank of Ukraine and often more stringent regulatory requirements of countries where the parent banks are located.

The overall situation in the credit market dictates new rules of the game: the bankers avoid the implementation of new financial instruments, extremely reluctant to lend on security of future crops, and also pay more and more attention to the development of uncertificated forms of lending instead of traditional loans (see “Debt financing via promissory notes and guaranteed payments” section).

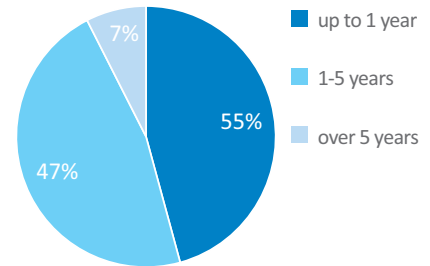
Among positive news in the market there should be noted the recent changes to the state budget for 2015 with respect to the allocation of additional UAH 550 mln. to support the agro-industrial complex, and about UAH 300 mln. of this sum are contemplated for compensation of the interest rate. Bankers expect the revival of medium segment lending and micro-lending through the implementation of this mechanism.

According to the National Bank of Ukraine, only at the end of February 2015 there were granted loans in the amount of UAH 68 bn to finance the agricultural sector. The structure of the loan portfolio is as follows (NBU Statistical Bulletin, February 2015):

Distribution of bank loans, given to farmers, according to currencies

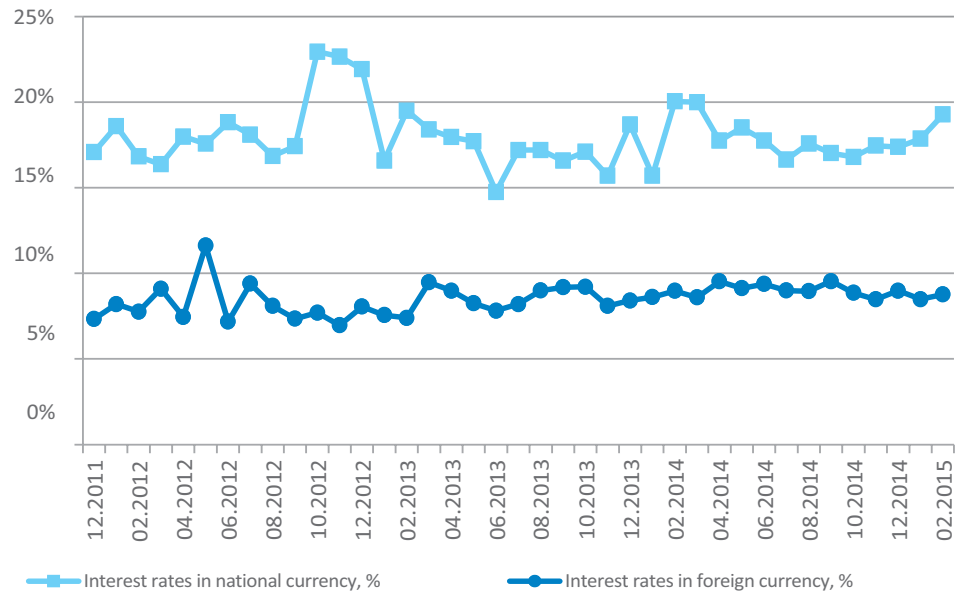


Period of repayment of bank loans given to farmers



The loan portfolio of the farmers, according to the NBU, was as follows in 2011-2015:

Dynamics of interest loans given to farmers in 2013-2015



The most popular products offered by banks, oriented to work with the agricultural sector, are:

1. Loans for financing current assets: seasonal loans ranging in duration from 6 to 36 months. The average life of the loan is 6-12 months and, as a rule, credit is given for the needs of two periods — spring and autumn. Interest rates in local currency are ranged from 28% to 31% (beginning of 2014: 17-25%) and repayment schemes are adapted to the needs of enterprises that obtain credits: the schedule of payments is prepared according to the expected timing of cash inflows.

Loans in foreign currency have a lower interest rate, but the requirements for borrowers are higher (availability of foreign exchange earnings), as in a volatile situation with the exchange rate such categories of transactions are classified by banks as transactions with a high level of risk. It should be noted that these loans are beneficial for the companies only in case of a balanced foreign exchange position when the foreign exchange earnings cover credit costs; otherwise the company will bear additional currency risks. Moreover, all interviewed bank experts commented on a certain distrust to the foreign currency lending on the part of farmers, who are willing to pay substantially higher interest rates on hryvnia loans in order to avoid currency risks.



Loans for current assets can be narrowly targeted, for example, provided solely for the purchase of fuel and fertilizers, salaries or rent for the units. Targeted use of such funds is verified by the bank.

In addition, borrowers can also take advantage of short-term overdrafts to solve liquidity problems, but such financing will be costly and therefore not intended for financing long-term needs.

2. Investment loans for the purchase of equipment or financing long-term projects (for example, the construction of elevator capacities). Life time of such products is longer (from 3 to 8 years), but there are also shorter programs, which can also be offered, depending on the specifics of the client's business. According to industry experts, a burst of activity in this segment has been existing lately and it is related to the willingness of enterprises to protect previously accumulated funds against devaluation via investing them in the purchase of equipment, especially if the seller can offer special programs or fixed exchange rate for assets that were imported to Ukraine in the first half of 2014. The active client in this segment will be a small farm that has up to 15 thous. ha, which in contrast to large agricultural holdings previously has not carried out extensive capital investment programs and due to this fact has a certain amount of available funds that can be used to purchase equipment.

Financing loans and leasing for the purchase of agricultural machinery with interest rates far below the average market level through additional subsidy from the suppliers can be seen as part of special investment programs. As usual, such programs are actively promoted by global producers of agricultural machinery — John Deere, CNH, Claas etc.; at the same time such leasing companies as Raiffeisen Leasing Aval, Unicredit Leasing and others are actively developing such partnership programs on behalf of financial institutions.

Usually bank customers are divided into several groups:

- Large agricultural holdings: over 50 thousand ha (a systematic approach and customized solutions are used for them)
- Mass market: from 3-10 to 50 thousand ha (all standard product line)
- Farmer households: from 400 ha to 10.3 thousand ha (loans for current assets financing, including overdrafts and medium-term investment loans)
- Small farms: up to 400 ha (served as clients of the retail sector with higher rates and the lack of specialized products for farmers).

In local environment bankers increasingly rely on a diversified business that is able to provide a consistent development (and thus, consistency of cash flows to repay the loan). Monocultural business is no longer interesting for banks as for the credit committee that makes a decision on lending, the presence of several segments, such as production of grains, oilseeds, livestock, elevator business, each of which can work depending on market conditions, is a guarantee of success.

Moreover, starting from 2014 the bankers rely not only on the mass market, but also on the farm enterprises, which are more flexible in negotiations with banks and value their credit history. Typically, these customers have a cohesive team, whose members are usually the owners of the company, and they have much to lose in case of non-compliance of their obligations, as opposed to large holdings, which owners own several businesses.

Among other criteria, which are now used to estimate farmers at the stage of making a decision on lending, can be separated the following:

- The presence of “high quality” assets for the pledge
- The presence of established business processes and business management systems, as well as well-grounded plans for its development
- Qualified management.

Availability of financial statements prepared in accordance with IFRS, together with the independent auditors’ report, greatly simplifies the work of banking specialists in the assessment of the financial condition of the borrower, in particular, affects the term of making a decision on lending, the limits of allocated funds, and may also affect the interest rate that is offered to clients, as more transparent and understandable business entails less risk. Bankers are interested in such indicators, used in reports of landowners, as EBITDA, EBITDA per hectare, debt service coverage ratio and the total amount of credit debt of the company or group of companies. In addition, the assets that are available to the group are visible in the reporting structure and that means you can define your own assets, which represent the greatest value for the collateralization, rather than getting scattered information from the representatives of the client. Users treat the revaluation of biological assets with great caution considering the fair value, which is indicated in the financial statements, as overpriced and prefer to either completely remove the reassessment for the purpose of calculating the coefficients, or prepare any correction factors and make a decision already on the basis of the corrected figures.

In most cases, bankers complain that it is extremely difficult to obtain reliable financial information about the new mid-level borrowers, because accounting records made in accordance with Ukrainian standards are conducted not in full compliance with the standards requirements and the basic principles of accounting and often agroteams of a lending bank have to go to a place to collect data that is often scattered and only from the operating account. However, bankers need to understand the prospects for business development — the forecast of its ability to service the interest and the body of a credit — and this information can be obtained on the basis of cash flow projections according to the operating account.

Banks are willing to take the already mentioned “quality” assets (real estate, equipment (preferably not old), deposits and participatory interests as collateral for loans. Reserves in storage (grain stored on the certified stock) are now popular guarantees with the use of the double warehouse certificates. Herewith loan term cannot exceed the shelf life of grain, therefore, as a rule, this type of pledge is collateral for short-term loans. As it was already mentioned, the future harvest is reluctantly taken as pledge, due to the increased risks associated with this type of guarantee. Most banks are considering this type of pledge as additional — as a tool for reducing redundancy of debt on loans for financial reporting purposes.

It is also important to note that, despite the crisis, in 2014-2015 the bankers are still focused on the development of long-term partnerships with customers, which also include an educational function — conducting the trainings for customers, together with well-known suppliers of equipment and other resources (fertilizers, plant protection products, seeds, etc.). Moreover, banks that rely on loans to agricultural companies, have specialized teams that serve primarily to the companies from agricultural sector. Building long-term trust relationships with the bank, farmers can count on the best financing conditions (including lower interest rates) and increased credit limits.

Debt financing via promissory notes and guaranteed payments

In 2013-2014, financing promissory notes gained the highest popularity among the new instruments on the debt market — it provides certain freedom to agribusinesses,



banks and intermediaries (distributors) and also to input producers (machinery, seeds, agrochemicals, etc.). Promissory notes are normally issued on the most favorable terms within cooperation programs with the largest input producers, but may also be issued under standard documentary operations programs offered by banks to their customers. A note-based financing scheme operates as follows: a farm procures inputs from a distributor against a promissory note (when concluding agreement, the parties shall discuss the distributor's readiness to accept the promissory note as payment), which is avalized by a bank acting as the guarantor of the repayment of the note. Subsequently, the distributor, in turn, transfers the note to a manufacturer, thus eliminating any risks it may face. The period of financing normally does not exceed 12 months but more short-term notes prevailed in 2014-2015, starting in spring and due December 1st of the respective year.

If applied within the scope of programs of cooperation with large producers, such product is quite beneficial for all parties and first of all — for the agrarians: a promissory note is cheaper than a bank loan (average rate varies from 2.7% to 4.5%); the buyer may expect extra discounts on products purchased via notes; the loans are not pegged to foreign currency exchange rates (all currency risks are born by the manufacturer, although such risks are most probably incorporated into the selling price), and there are other non-monetary benefits (such as training of personnel and guarantees of timely delivery of materials and supplies, etc.) Banks can also benefit from such transactions by charging commissions and also due to the so-called "non-resource" or non-monetary form of the promissory notes (no liquidity issues).

The bankers we interviewed emphasize that the note-based scheme of financing is gaining a larger share of credit portfolios – from 20-25% in 2014 to 40% in 2015 (targeted level) in all large banks specialized in crediting of agriculture. The total volume of note portfolio is estimated at UAH 6-7 bln. (more precise statistics are absent because the data of the National Bank of Ukraine does not cover note-based debt financing).

Agrarian receipts

Apart from financing based on promissory notes, farmers lay hopes on such instrument as agrarian receipts that have been formally introduced in March 2013, when the law on agrarian receipts came into force. The law had been drafted based on positive experience accumulated by Brazilian farmers who had been actively using the receipts as an instrument of their settlements with suppliers. Basically, such receipts represent the collateral of future harvest and are issued to obtain required resources when needed. There are commodity receipts (commitments to deliver specific goods) and financial receipts (payment obligations), and all such papers are subject to mandatory notarization. The requirement of the notary certification hindered the promotion of this instrument in the country: a law was necessary to establish a single registry of agrarian receipts as well as there was a need to train notaries and test the registry. Besides, in order to introduced the full-fledged mechanism of agrarian receipts, it is necessary to conduct explanatory and consulting work with agricultural enterprises and notaries, including, first of all, a general tax explanation that would enable correct tax accounting of operations with agrarian receipts as well as the explanation of the mechanism of collateral monitoring and compulsory withdrawal in case of default of the receipt-issuing company.

Currently, agrarian receipts are registered by the state enterprise "Agrarian registries" that is subordinated to the Ministry of Agrarian Policy and Food of Ukraine. The pilot project on implementation of agrarian receipts has been already initiated in Poltava region where, according to the publicly available information of the registry, the first commod-

ity receipt for sunflower was issued by LLC "PKZ-AGRO" in February 2015. The receipt is valid by November 2015. As of date of this publication, the number of active registered receipts is miserable. Analysts expect that this instrument will be fully operational only in the second half of 2015. However, despite the late start, the Minister of Agrarian Policy and Food of Ukraine Oleksiy Pavlenko expects that agrarian receipts will help producers to raise additional financial resources of up to UAH 5 billion in 2015.

It is also noteworthy that agrarian receipts have a number of advantages in comparison with other instruments: first, partial debt repayment is possible; second, there is a single registry of receipts; third, it is possible to repay the debt with commodities; and fourth, only one document covers both debt obligation and collateral. All these factors may facilitate expansion of the agrarian receipts mechanism in Ukraine.

Leasing

Agricultural leasing programs are offered both by the banks crediting agriculture and by specialized leasing companies, often jointly, which boosts sales for the bank/the leasing company as well as for the machinery supplier, as the latter obtains access to the points of sales and the banking sales staff, and the banks, in turn, earn fees from servicing their clients and, in addition, receive commissions from lessors and machinery suppliers. According to the Ukrainian Lessors' Association, by the end of the 2nd quarter of 2014, agricultural sector accounted for 23% of the total amount of financial leasing contracts (vs. 17% in the same period in 2013).

One of the advantages of leasing is lower interest rates. Furthermore, leased assets could not be subject to foreclosure or enforcement of property, as the title to such assets may be transferred to the lessee only after completion of the final settlement. In addition, the leasing company or the bank involved into the deal can control the machinery supplier's compliance with its warranty or maintenance obligations. Leasing products are being standardized (one can lease the whole range of machinery offered by large and medium manufacturers), and decisions on such loans are taken very quickly, often within several days. However, the lenders grant loans only for the amount not exceeding 80% of the price of the leased equipment, which is linked to the internal evaluation of the collateralized items carried out to assess impairment losses.

As in the case of traditional loans, the repayment schedules are designed considering the seasonality of the agricultural business. This makes it possible to prevent outflow of funds that could be used to finance a sowing or harvesting campaign while the lease costs may be repaid using profits generated by the machinery.

Disadvantages of the leasing schemes include hidden machinery insurance premiums and hidden peg of the payables on the loan to the exchange rate of UAH to USD or EUR depending on the country of manufacturer. Pegging payables to foreign exchange rate works as follows: debt service payments or commissions are linked to the exchange rate ruling on the date of the invoice or on repayment date, often in one-way direction, i.e. in case of UAH devaluation below the rate fixed in the contract, the lessee is required to reimburse the difference to the lessor; on the contrary, repayments are not reduced if UAH appreciates. In practice, with the outbreak of the crisis of 2008, many debtors refused to pay foreign exchange differences going to court and claiming that repayments be fixed in UAH according to the original exchange rate or claiming invalidity of such contracts, both of which became a popular way of evading contractual commitments. Moreover, in 2013, there were certain rulings of courts of different instances in favor of lessees. Taking into account the new cycle of devaluation

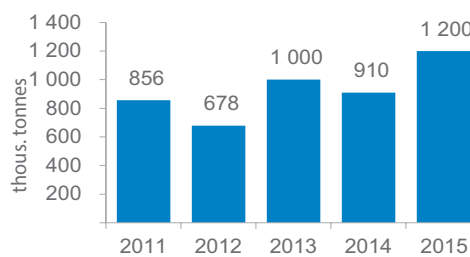
of UAH in 2014, the lessors foresee growing numbers of similar cases, which might cause systemic crisis in the industry.

In 2014-2015 new leasing programs are practically absent and there are very few companies at the market of agricultural leasing programs. As well as in the banking sector, the market is characterized by lower liquidity levels / availability of resources. Devaluation also affects financial reporting of leasing companies because the financial base of the majority of lessors involves foreign currency loans from parent companies; whereas, not always the hidden peg of the payables on the assets to the exchange rate (the so-called currency derivatives) can be correctly accounted for in the balance sheet. Therefore, the majority of the leasing companies reported losses and capital deficits due to one-time devaluation effect in 2014. At the background of current political and economic events in the country, such financial situation guarantees a highly conservative policy of the leasing companies and threatens the further development of the sector. Experts emphasize that the development of traditional leasing programs on a wide scale is doubtful in the upcoming years.

Public financing (forward purchases by the Agrarian Fund and State Food and Grain Corporation of Ukraine)

The Agrarian Fund is actively promoting forward contracts system which allows accessing the funding required for sowing and harvesting campaigns for agricultural businesses of any size.

The Agrarian Fund pays an advance of 50% of the contract amount calculated based on minimum intervention price for respective type of grain specified in the forward contract. The final price is assessed based on the weighted average price quoted during three trade sessions held by the Agrarian Exchange



*Purchases of grain
by Agrarian Fund
in 2011-2015*

or other commodity exchanges accredited by the Agrarian Exchange as of the date of execution of the grain purchase contract, net of the downpayment received and credit commission fixed based on the average weighted interest rate as determined with reference to the statistical data of the National Bank of Ukraine. It is expected that during 2015 the Agrarian Fund will purchase 1.2 million tonnes of grain under forward contracts. However, in the nearest future, the Agrarian Fund will change the forward pricing mechanism based on the current USD exchange rate and will increase the level of advanced payment up to 65%.

According to the statements of the State Food and Grain Corporation of Ukraine (SFG-CU), the Corporation does not intend to use forward contracts in 2015. The reason for this moderate policy is, again, devaluation. Obligations of the Corporation are fixed in foreign currency and, under the conditions of hardly forecastable exchange rate, the Corporation cannot offer fixed rate to agricultural producers for five to six months. Management of the Corporation comments on this decision quite explicitly as the SFGCU's goal, in contrast to the Agrarian Fund, is not to make state interventions on the market but to make profits. At the same time, if additional resources are available from the state budget, it is not impossible that the SFGCU will reintroduce the practice of forward contracts.

External borrowings (IPOs, Eurobonds issue, loans from non-resident banks, etc.)

The year 2014 turned out to be an extremely uncertain period for Ukrainian agrarian companies listed on international stock exchanges. The shares of the majority of Ukrainian

agriholdings have plunged against a background of the escalating economic and political crisis in Ukraine, publication of periodic statements about defaults of such companies as, for example, Mriya and Agroton, and the reduction of global prices for agricultural commodities.

After the events of 2014, which resulted in deterioration of the economic environment and downgrade of Ukraine's sovereign ratings, it is predicted with a significant degree of certainty that international capital and debt financing markets are closed for Ukrainian companies in the upcoming years. Experts indicate that 2017 is going to be the earliest year when new borrowings become possible whereas, currently, new defaults are probable due to misbalance of the currency position of the majority of the listed agriholdings.

Agrarians may choose another option — attraction of less expensive credit resources from foreign financial institutions, including, among others, European Bank for Reconstruction and Development (EBRD). In comparison with traditional bank lending, loans from such institutions bear much lower interest rates (up to 12% in foreign currency although the conditions or the so-called term sheets are determined individually) and, therefore, are more attractive for the borrowers. At the same time, the cost of servicing such loans, considering, inter alia, the total restructuring of the borrower's business processes to meet the strict requirements of the lender, is significant (both in monetary equivalent and in terms of labor resources required). In addition, as mentioned before, Ukrainian borrowers try to avoid loans in foreign currency.

In 2014-2015, EBRD did not stop crediting of Ukrainian agrarians. For example, according to the press release recently published by the EBRD, in 2015 the bank granted to the subsidiaries of the Agri Europe holding in Ukraine and Serbia loans for the total amount of EUR 120 million. Besides, EBRD intends to become an administrator of the EUR 90 million credit line of the European Union aimed at support of small and medium-size Ukrainian business. The program is expected to start in summer 2015.

By 2014, it was a common practice to attract foreign credit resources against insurance coverage provided by export credit agencies (ECAs) — entities, established in countries of domicile of exporters of equipment and machinery to facilitate exports of goods. Ukrainian agrarians had access to the programs of ECAs in the USA (Eximbank), Japan (NEXI), UK (ECGD), Germany (Euler Hermes), France (COFACE), Netherlands (Atradius), etc. Advantages of such financing include lower interest rates, lower minimum volumes of financing offered (which makes such instruments accessible not only to large but also to medium-size farms), absence of collateral (which is replaced by insurance), and the option of separate financing of downpayment for up to 1 year. The amount of downpayment is normally 15% or more. The drawbacks of this option include the need to formalize warranties and guarantees, which may result in extra costs of verification and submission of the documentation, and also to have insurance payments which increase the effective interest rate. Unfortunately, starting from the 2nd half of 2014, the majority of these programs were suspended in Ukraine due to significant downgrading of the country's sovereign rating.

Conclusions

General situation with finance can be characterized as extremely difficult because additional financial resources at the Ukrainian market are either absent or directed toward other sectors that are less risky than agriculture. Against the background of closed external borrowings' markets, it is necessary for investors, agrarians and policymakers to negotiate and find common ways to solve the problem. Otherwise, credit crisis is expected to deepen and affect the whole economy as well as the global grain market since Ukraine is one of its leading players. ■

AGRICULTURAL BUDGET

The size of the agrarian budget for 2015 is fixed at the level of UAH 2.2 bn that is by UAH 4.1 bn less comparing with 2014. Main reductions were held due to decrease in administrative costs of the Ministry of Agrarian Policy and Food of Ukraine (-UAH 2.6 bn), reorganization of veterinary and phytosanitary service (-UAH 1.3 bn) as well as agricultural inspection (-UAH 146 million). New budget is aimed at support and development of forest resources.

In 2015 the expenses are provided for the following new areas:

- State Agency of Forest Resources (+UAH 458,3 million);
- Financial support measures to the agricultural sector by cheaper loans (+UAH 300 million);
- Increase of statutory capital of "Ukragroleasing" NJSC for the purchase of technical facilities for agro-industrial complex with their subsequent transfer under financial leasing conditions (+UAH 54 million).

The highest expenses reduction for 2015 as compared with 2014 is observed under the following provisions:

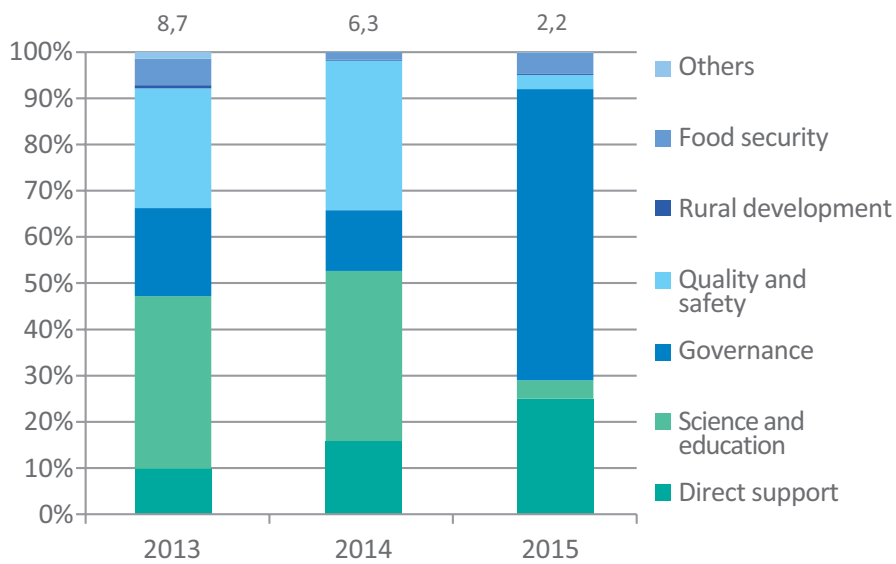
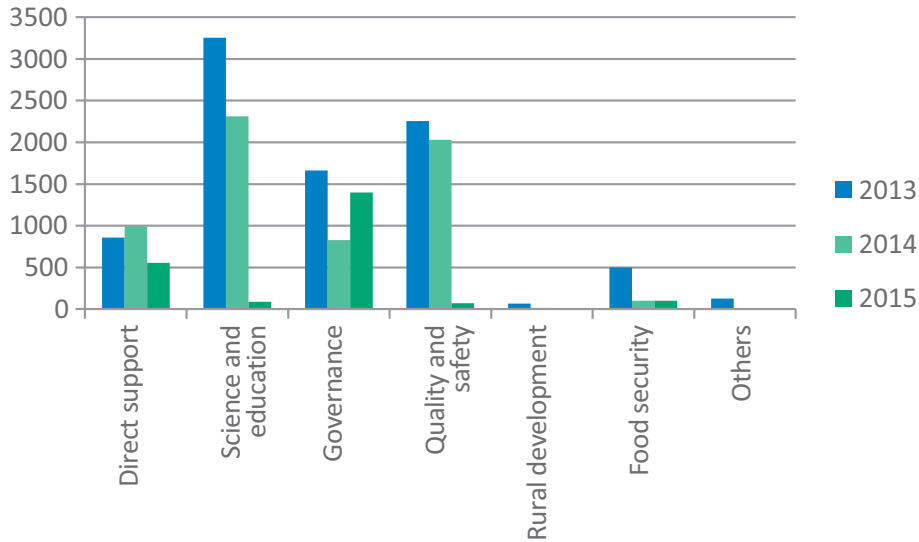
- Office of the Ministry of Agrarian Policy and Food of Ukraine — by 75%;
- State support for livestock farming — by 72%;
- State Agricultural Inspection — by 72%;
- State Veterinary and Phytosanitary Service — by 65%;
- Qualification improvement of agricultural labour force — by 26,2%;
- State Agency of Fishing — by 25%;
- Research and applied research under the state target programs and state procurement in agri-food sector — by 17,3%.

In 2015 as compared with 2014 the budget envisages increase of expenses for the following:

- arrangement of activity of fish-reproductive complexes and other state-financed institutions in fish industry — by 5,2%;
- applied research in fish industry — by 4,5 times;
- general management and control in the agri-food sector — by 13%.

In 2015 as compared with 2014 the budget does not envisage expenses for the following directions:

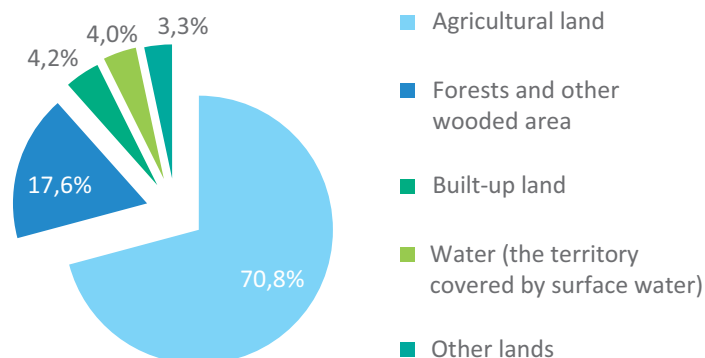
- State Agency of Land Resources (UAH 454 million in 2014);
- Training of staff for agri-food sector by higher education institutions of I, II, III and IV levels of accreditation (UAH 2,2 million in 2014);
- State support of hop sector development, planting new orchards, vineyards and berrying grounds and their supervision (UAH 100 million in 2014);
- Measures for protection against pests and agricultural plant diseases, prevention of animal diseases (UAH 3 million in 2014);
- Training staff for fish industry by higher education institutions of I,II,III and IV levels of accreditation (UAH 61,7 million in 2014).



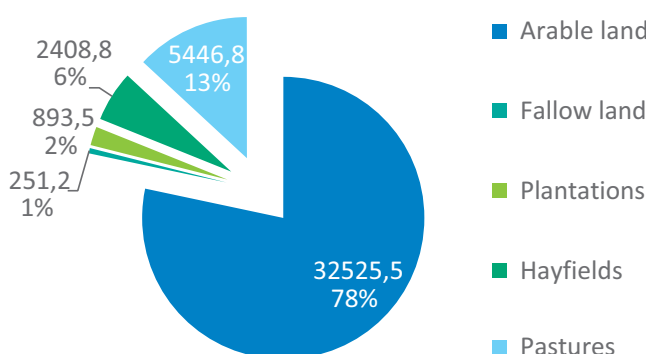
LAND RESOURCES

As of January 1, 2014, the total area of land resources in Ukraine constituted 57.9 million ha exceeding 2013 area by 0.1%.

Total area of land resources, %



Areas of agricultural lands, thousand hectares

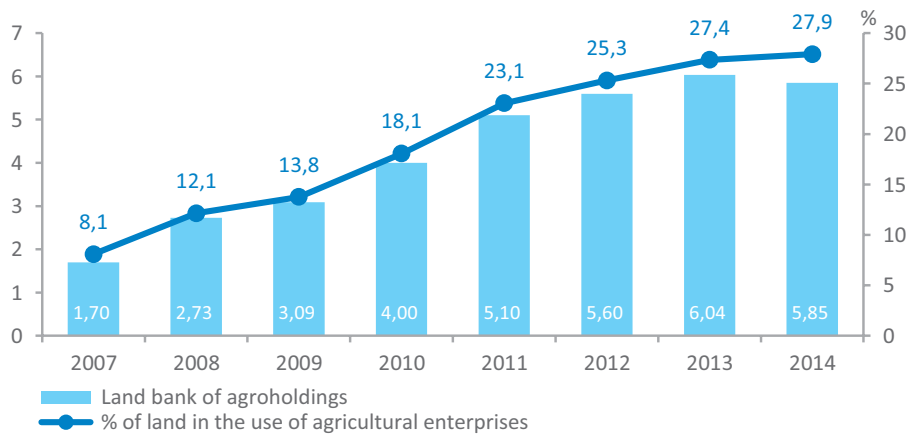


Over the period 2013-2014 the total amount of agricultural land was reduced by 11.5 thousand hectares (-69.2 thousand hectares as compared with 2010). The amount of grassland reduced by 27.7 thousand hectares (-42.9 thousand hectares as compared with 2010), while the amount of arable lands increased by 7.1 thousand ha (+47,1 thousand ha as compared with 2010). Reduction of grasslands was caused by decrease in the amount of cattle since agrarians prefer less cost-based type of activity such as crop production.

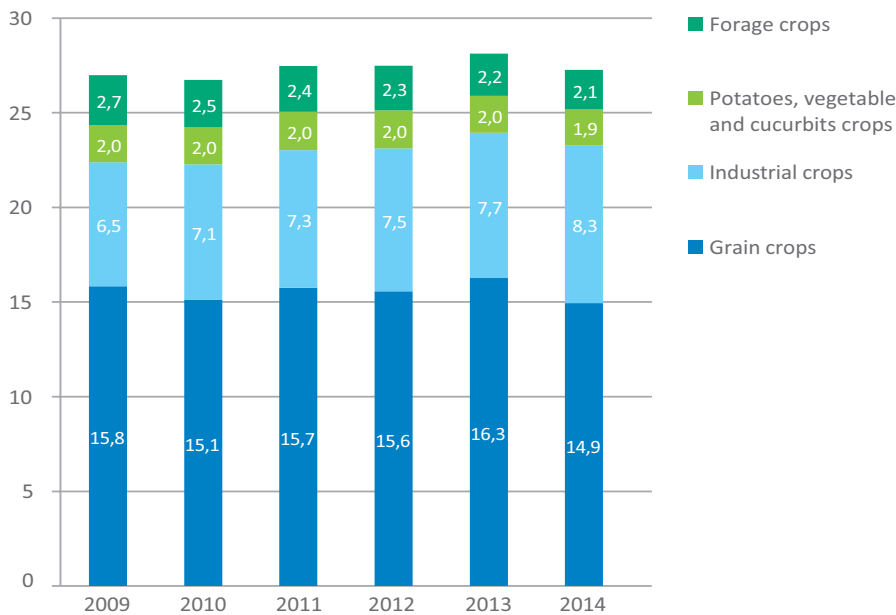
As of January 1, 2015, 4.1 million households were registered in Ukraine (that is by 104.8 thousand less as compared with January 1 2014) with total area of land plots amounting to 6.3 million ha (that is by 149.3 thousand ha less (-2%) as compared with 2014).

The aggregated land area of agricultural enterprises was 21.0 million ha in 2014 that is by 1.1 million ha less (-5%) comparing with 2013. According to "The Largest Agroholdings of Ukraine 2014" study of the AgriSurvey agency, agroholdings use ¼ of all land that is in use of agricultural enterprises.

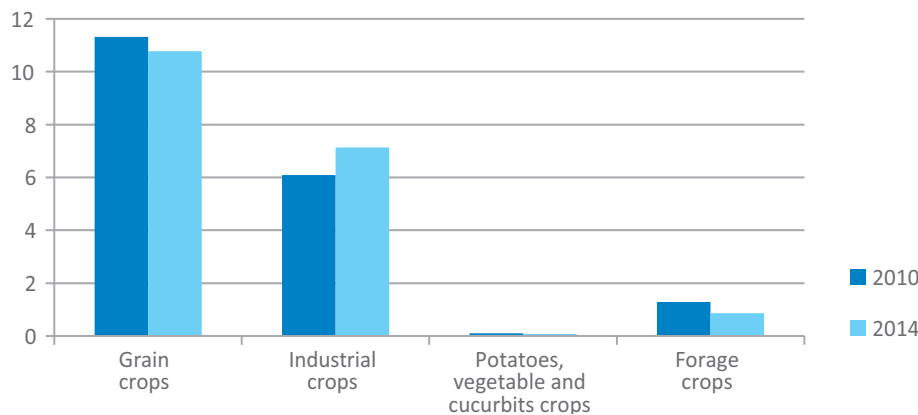
Compared to the indicators of 2013, areas under grain crops reduced by 1.4 million ha in 2014, whereas the areas under industrial crops faced an increase by 0.6 million ha as compared with 2013. Areas under potatoes, vegetable and cucurbits crops decreased by 0.1 million hectares in 2014, while forage crops keep decreasing as a result of reduction of livestock farming scope.



Land bank of agroholdings, million hectares



Dynamics of sown area, million hectares



Change of crop production by agricultural enterprises, million hectares

Since the majority of crops is cultivated by agricultural enterprises (excluding potatoes), the change of production scope is caused by 1.2 million hectares reduction of area (-5%) used by agricultural enterprises in 2014 as compared with 2010. Reduction in production of the following grain crops is observed: wheat — 550 thousand hectares (-11%), rye — 128 thousand hectares (-54%) and barley — 1,2 million hectares (-40%), whereas production of corn increased by 1.6 million hectares (+76%). With regard to industrial crops, production of sunflower increased by 610.4 thousand hectares (+17%), soybean production increased by 662.1 thousand hectares (+65%) and rapeseed production slightly decreased by 1%.

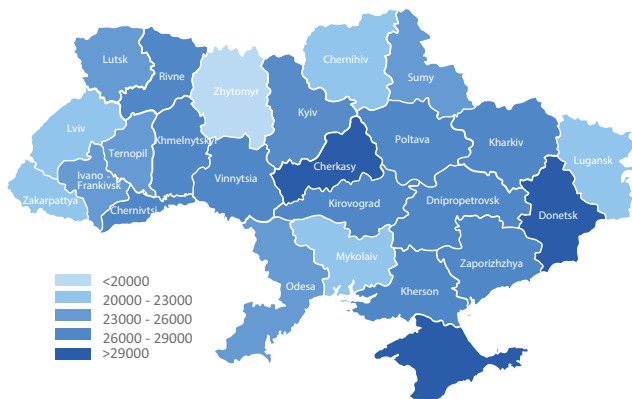
Land sales. According to the current Ukrainian legislation, moratorium on sale of agricultural lands will be lifted at the end of 2015. However, is the country ready for that? UCAB experts consider that repeal of moratorium requires interaction of several factors: legislative consistency, public acceptance and successful test bidding. The first factor means completion of land inventory, assignment of rights to land resources management to local administration, registration of all land lease contracts, biddings, determination via public discussions and legislative consolidation of critical issues such as formation of the list of persons eligible for land procurement. Public acceptance stipulates observance of regulations that are entrenched in legislative instruments. The test bidding aims to check the trading efficiency of legal mechanisms and facilitate the support of the market participants in case of positive results of the pilot projects.

In the early spring of 2015, the Administration of the President of Ukraine made statements concerning the need for a land market in Ukraine. At the same time, most farmers unanimously believe that permission to sell agricultural land starting from 2016 may significantly aggravate the situation in the agricultural sector, because under the conditions of financial crisis and lack of funds to purchase the land it is very likely that the preconditions for the speculating environment will appear.

Statutory and monetary assessment of lands. Statutory and monetary assessment of agricultural lands (hereinafter referred to as 'SMA') has not been adjusted including the data of the last four years, while this year it has been increased by 24.9% (inflation index) resulting in land cost increase by 5,138.1 UAH/ha to 25,773.1 UAH/ha. Hence, in 2015, the SMA increased by more than 7 times as compared with 1995.

Agrarians consider this value to be overpriced and the methodology to be inefficient. The SMA methodology is being currently improved by working groups of the Ministry of Agrarian Policy and Food of Ukraine. The draft Decree of the Cabinet of Ministers of Ukraine "On Approval of Methodology for Statutory and Monetary Assessment of Agricultural Lands" was published on the website of the State Agency of Land Resources of Ukraine on May 26, 2014. It envisages the reduction of average SMA by approximately 30% and implementation of a more reasonable approach to soil evaluation on the basis of its fertility. Based on the document, the SMA shall increase by 1.3% only in Zhytomyr region while in other regions it shall decrease within the range from 6.8% in Vinnytsia region to 47.8% in Rivne region.

Current SMA
Average value within Ukraine — 25,773.14 UAH



Draft Decree of the CMU
Average value within Ukraine — 18,067 UAH





TAXATION IN THE SPHERE OF LAND USE

Land taxes

The land tax is paid by a landowner or a land user. The payment is calculated on the following taxable basis:

- for appraised land parcels — the regulatory monetary value of the plot subject to the indexation coefficient;
- for land parcels that were not appraised — the size of a land plot.

Decisions of local councils on the regulatory value of land plots located within the boundaries of towns and other populated localities are officially published until the 15th of July of the year that precedes the one when it will be applied. Otherwise, such regulatory value will only be applied in the next year.

Rates applied to agricultural land

Tax rates are set by local self-governance authorities. However, the Land Code sets forth the following maximum rates of the land tax as a percentage of the regulatory value of the land plot:

- for agricultural land — 1%;
- for land in perpetual use by business entities (apart from state and municipally owned) — 12%;
- for other categories of land which have a regulatory monetary value — 3%.

The rate of the tax for land plots which do not have regulatory appraisal and lie outside of boundaries of towns and other populated localities may not exceed 5% of the regulatory monetary value of a unit of the arable land in the respective area.

Some categories of landowners and land users enjoy an exemption from the land tax. Among them are, first of all, landlords leasing their land (or so-called "land shares") to companies that pay a 4th group unified tax.

Besides, the land tax is also not paid for:

- agricultural land located in radioactively contaminated or chemically polluted areas;
- agricultural land under temporary conservation or agricultural reclamation;
- state seed-trial grounds stations and land plots used for testing of agricultural crops;
- land plots of agricultural companies occupied with young gardens, vineyards and berry-fields till they enter the period of fruit bearing, as well as plots taken up by hybrid plantations, seed farms and seedbeds;
- land plots and 'land shares', used by a payer of the 4th group unified tax for farm production.

Land lease

The rental fee for the use of agricultural land is determined on the basis of a lease agreement, however, it may not be lower than 3% and not more than 12% of the land value of the land. ■

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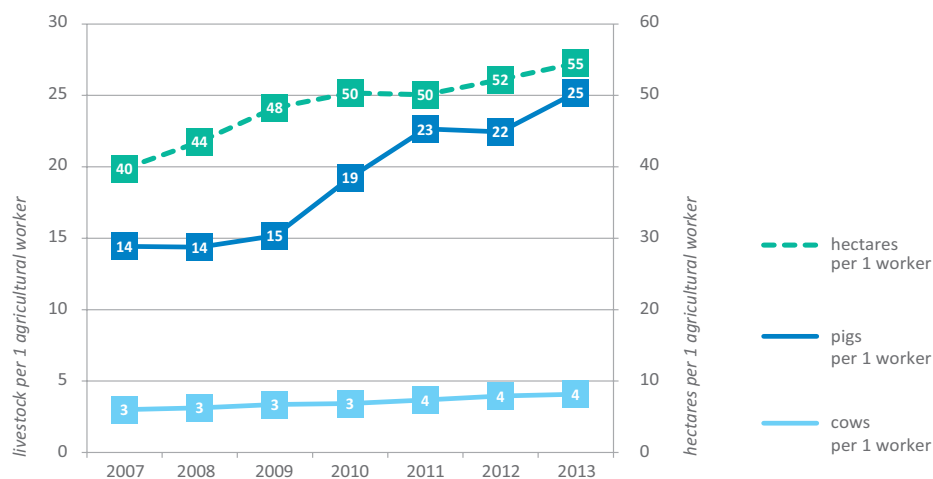
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HUMAN RESOURCES

LABOR MARKET TRENDS AND PROBLEM OF HUMAN CAPITAL FORMATION IN THE AGRICULTURAL SECTOR OF UKRAINE

Human capital is a key success factor for any business. Agricultural business makes no exception in this respect. Lack of qualified staff affects performance of an agricultural company, its profitability and competitiveness. Thus, specifics of the labor market trends and human capital formation in the agricultural sector of Ukraine should be considered by agricultural entrepreneurs and investors.

Workload of agricultural workers



There has been a clear tendency towards an increase of the workload of agricultural workers in Ukraine over the past years. Intensification of labor progresses most of all in the livestock production sector, in swine breeding in particular. Over the period from 2009 to 2013⁷, the number of pigs per employee increased by 66% and now amounts to 25 pigs per person. Intensification of labor in cattle breeding is a bit slower: over the last 5 years it has increased by 21%, which equals 4 cows per employee in 2013. The most stable is the crop production sector: an average load of arable land per 1 worker is 55 hectares, which is 9 hectares or 12% more than five years ago.

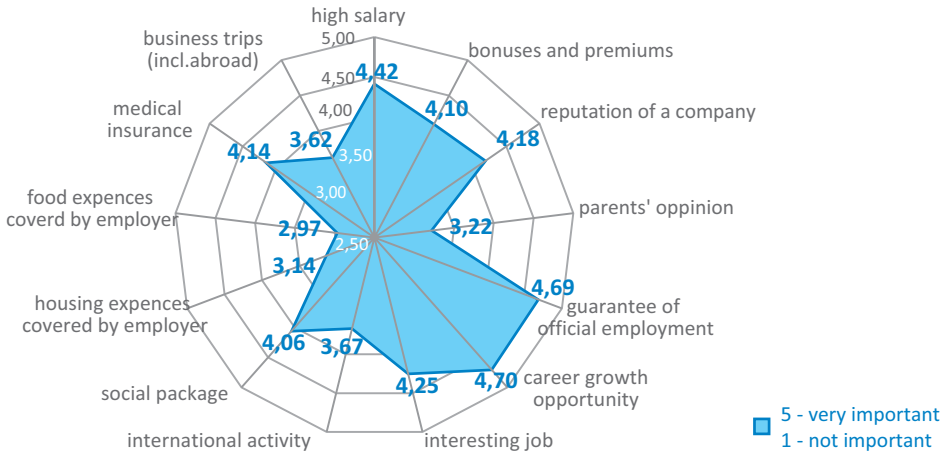
Increasing workload of agricultural workers is usually caused by modernization of agricultural technologies, which reduces exploitation of human labor. However, in Ukraine it is also related to such factors as decline of prestige of technical agricultural professions and insufficient qualifications of young professionals.

Thus, lack of skilled workers is the second problem agricultural producers face in Ukraine. According to the survey conducted by the AgriSurvey agency in April 2014, 63% of agricultural entrepreneurs complain about the lack of skilled workers of technical specialties — agronomists, mechanics, engineers, livestock experts, veterinarians and others. Nevertheless, there is almost no intention to work in the rural area among students and young professionals. Only 16% of graduates of agricultural universities are willing to work in rural area, while almost 50% of graduates of

⁷ Source: State Statistics Service of Ukraine

agricultural universities want to work in Kyiv. According to the survey results, most of students and young professionals are looking for an interesting job that would provide an opportunity for career growth and guarantee financial stability — the criteria, which in their opinion are difficult to satisfy.

Requirements of Ukrainian students to their first job

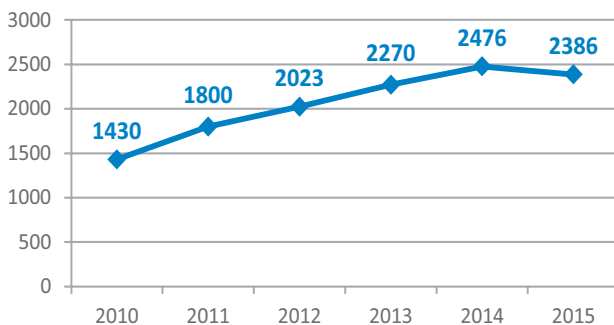


Official statistics data on wages in the agricultural sector justifies to some extent such attitudes among young people. As of January 2015, the average monthly nominal wage of an agricultural worker was 2358 UAH. According to the study by AgriSurvey, it equals the amount, which executives are ready to pay their young employees without experience/with little experience. Compared to 2014, the average salary of an agricultural employee dropped by 4%, while food prices increased by 30%, costs of housing, gas and electricity — by 35% and transport — by 42%.

Research and practical experience denote effectiveness of diversified systems of employees' motivation and trainings for young professionals as a mean for talented specialists attraction. Provision of internships and training programs for youth and future employees proved to be an effective and promising practice. It solves the problems of a company's peopeware and addresses the problem of youth employment in the agricultural sector in Ukraine.

Thus, taken the unfavorable economic situation in 2015 and reduced spendings on the agricultural machinery and equipment consequently, intensification of production via introduction of new technologies will hardly be possible. In the crisis situation, investments should be made into human capital in order to generate new ideas and approaches and maximize efficiency of available agricultural machinery and techniques.

Average salary of employees in agricultural sector, UAH





Antoine Rebillard

**Business Director
of New Holland Agriculture
in Ukraine, Moldova, the Baltic States
and Finland**

We understand that the agricultural sector of Ukraine is going through hard times. Despite this, New Holland Agriculture and its team firmly believe in the great potential of the Ukrainian lands and the country as a whole.

At the moment, the most important task of the company is to have a clear understanding of the needs of our customers. We realize the challenges that our clients have faced, so we do our best to offer the best options for their solutions.

New Holland Agriculture has entered the Ukrainian market relatively recently, but it has been able to find its niche and occupy leading positions quickly. Our harvesters are the number one brand in Ukraine, and tractors rank No.2. The secret of such success is the high performance, quality and availability of products to consumers. We try not to dictate our conditions to customers and work in partnership with them. Wide range of products allows us to deliver equipment to both large and small farms and businesses that are engaged in crop production, animal breeding, horticulture and viticulture.

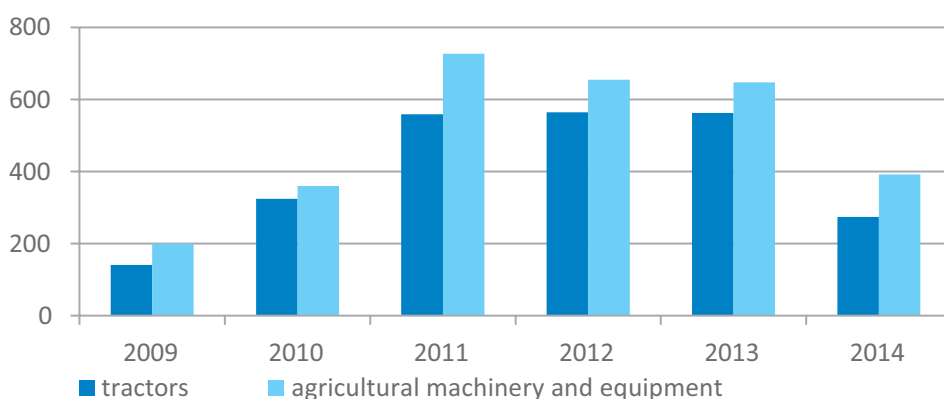
I would also like to note that this year New Holland Agriculture presents a new product line on the Ukrainian market: self-propelled sprayers Guardian™.

New Holland Agriculture continues to develop its dealer network in Ukraine, invests in the development of technical services, operation of retail financing programs and contributes to the permanent availability of spare parts at European depots. Providing customer support, New Holland Agriculture is a reliable partner for each landowner.

MACHINERY AND EQUIPMENT

The situation at the domestic market of agricultural machinery began to get worse in the end of 2013, when, as a result of significant decrease of prices on basic crops, profitability of agricultural enterprises went down considerably, and sometimes was subzero. Economic and political crisis of 2014 only aggravated stagnation of the market, which, as a result, led to utterly low demand for agricultural machinery. This was confirmed by the results of the study conducted by the AgriSurvey agency in January 2014. According to AgriSurvey, 50% agrarians who at that moment were not determined about their plans to purchase machinery had to further refrain from it because of unfavorable situation at the market.

An almost complete stop of new agricultural machinery sales is related to a number of factors. Foremost, it is devaluation of hryvnia that disabled purchases of an expensive new agricultural technique (which is mainly imported). At the same time, due to the problems in the banking sector, credit organisations reduced the volumes of loans to the agricultural sector, that also had a negative influence on the machinery market. In general, unstable situation in the country, economic crisis, fast and unforeseeable devaluation of hryvnia compelled most agrarians to refrain from purchase of a new machinery or postpone it to more favorable times. Thus, there is no point to expect any improvement of the situation at the agricultural machinery market in 2015.

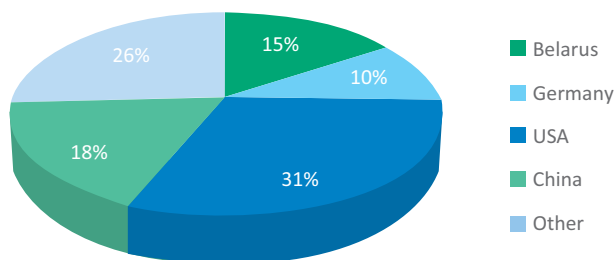


*Import to Ukraine,
million USD*

In 2014, imports of tractors and other agricultural equipment to Ukraine decreased by 51% and 40%, respectively, and practically reached indexes of 2010, when the market was just recovering after the crisis of 2008-2009. In 2015, these indexes are expected to decrease to the level of 2009, as the decrease in demand from agricultural producers is exacerbated by the government policies. The current policy of the government, directed toward stabilization of the balance of payments and national currency exchange rate, makes importers experience hard times.

Adoption of 5% duties on the imported commodities is the reason for the additional increase of prices, that have already increased because of devaluation. On the other hand, a considerable obstacle is the foreign currency turnover limitations introduced by the National Bank of Ukraine. Thus, importers often cannot purchase enough currency assets for import operations or get them with a considerable delay.

Geography of tractors imports in 2014



In 2014, import of agricultural tractors and other machinery went down from all countries except China. As a result the share of import of the Chinese machinery grew up to 18%. The main suppliers of agricultural tractors to Ukraine are the USA, Belarus and Germany. The increase of the Chinese share against the general decline of import implies that only this type of machinery is currently accessible for Ukrainian buyers. Nevertheless, the increase of agricultural machinery imports from China to Ukraine is not expected in 2015. ■





www.horsch.com

TILLAGE WITHOUT A PLOUGH IS A MILESTONE OF AGRICULTURAL ENGINEERING

Since the foundation of the company in 1984 HORSCH – like no other manufacturer – contributed to the breakthrough of tillage without a plough. These efforts were awarded with the “Milestone of Agricultural Engineering”. A lot of products like the Tiger and the Joker models and last but not least the universal seed drills Pronto and Maestro allow for farming without a plough at the highest level. According to the Federal Statistical Office by now 40 per cent of the arable land is cultivated without a plough. For wheat it amounts to even 60 per cent. 20 years ago no-one dared to believe that HORSCH played an important part in getting this far. With

this background other milestones in agricultural engineering will be developed. Thus, a HORSCH machine always meets the criteria “faster, simpler, safer”. The operation of a machine has to be simpler compared to another machine. It has to work safely and do a quality job like our cultivators and guarantee a good germination like our seed drills. Last but not least, the work the farmer wants to carry out with the machine has to be done faster than before. Only if a machine fulfills all these criteria and, moreover, is innovative and of uncompromising quality, HORSCH decides to build this machine.

HORSCH

Farming with passion

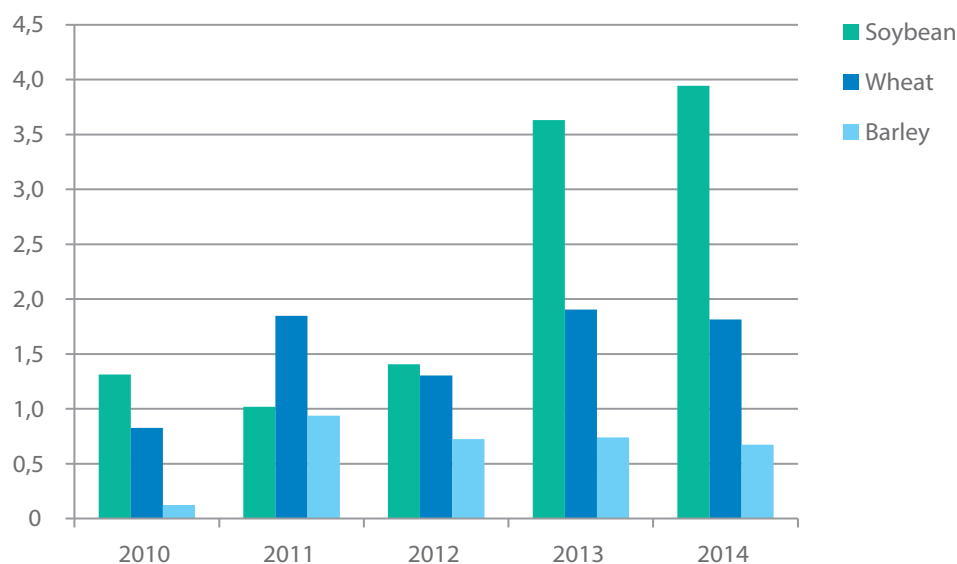
SEEDS

In the last 5 years, the Ukrainian seeds market was rapidly growing. The reason for such results was mainly stable and understandable situation in the agricultural sector. Agricultural producers had an ability to provide intensive technologies using modern high productive varieties and hybrids of crops. Also, the increase of the share of cash crops took place which led to increase of the demand for seeds.

Despite this positive trend, the demand for seeds is going to decrease in 2015. First of all, it is caused by difficult financial situation in the agricultural sector and loss of sown areas in occupied Crimea and East of Ukraine. Due to devaluation of Ukrainian currency, costs for imported resources have increased almost 2 times comparing to spring 2014, and these changes created complicated conditions of spring field works for most of agricultural producers. Fiscal burden, which consists in the increase of the fixed agricultural tax and adoption of additional duties on the imported commodities, is not favorable as well. Additional 10% duty on the imported seed, that account for about 50% of the market, will lie down exceptionally on the shoulders of agricultural producers.

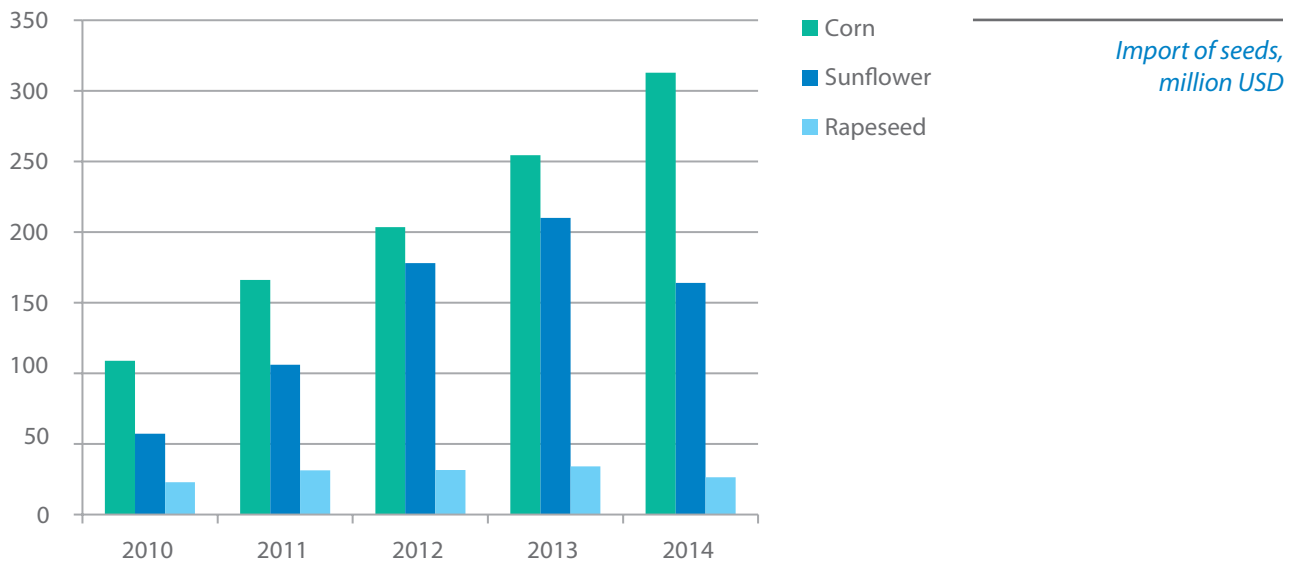
It is important to note that even in such conditions farmers are not ready to save on seeds, as they understand the importance of this resource. According to "Agrobarometr 2.0" study conducted by the AgriSurvey agency at the end of January 2015, most agricultural enterprises were not going to decrease the volumes of seeds purchase while only about 4% were planning to decrease them. Thus, in 2015 the seed companies of the so-called second echelon might reveal their full potential. They are mainly small foreign representative offices that function in Ukraine for a long time, control an insignificant market share and are able to provide the sufficient level of product quality at a lower price.

Import of seeds,
million USD





Regarding the dynamics of seeds imports, it should be noted that there was a decrease of the import values for most crops in 2014, due to an unfavorable economic situation in the country. In 2015, further reduction of import is expected.



In Ukraine there is a considerable dependence on highly productive imported seeds, as domestic genetics has considerably fallen behind. In 2014, the general demand for corn seeds, sunflower seeds and rape seeds was covered by imports by 49%, 48% and 44%, respectively. The share of seeds of foreign genetics is even higher, because many international companies actively develop their own production on the territory of Ukraine. Paternal seeds and the so-called “elite” seeds are supplied from abroad and in the future are bred and used as Ukrainian seeds. For example, in 2015 about 50 thousand tonnes of soybean seeds are to be produced out of 2.1 thousand tonnes of soybean seeds imported in 2014. This makes 22% of the current demand. ■



Ian Marioton

Sales and marketing director, "Maisadur Semences" in Ukraine



Maisadour Semences is a seed company, specialising in major crop hybrids (corn grain, corn silage and oil crops, including sunflower) and recognized for its expertise in the 3 activities of the seed business:

- *R&D: Maisadour Semences creates hybrids in 5 selection centers in Europe including Ukraine, whose elite value is approved by network of 218 test stations that represent diversity of European soils and climates.*
- *Quality seed production in France, Ukraine and Spain. Each operating zone has a producers' organization, a production plant and a quality control laboratory.*
- *Marketing of hybrids alongside with professional services in more than 40 countries for farmers and breeders: sunflower, corn grain, corn silage, rapes, alfalfa, forage crops and silo enhancers.*

Maisadour Semences is a subsidiary of the Maisadour Cooperative Group (5700 employees; a turnover of 1.50 bln Euro in 2014), a leading expert in the agricultural and food industries.

Maisadour Semences Ukraine aims to provide professional services to help Ukrainian producers to create additional value with their crops.

The potential is huge in Ukraine and Maisadour's objective is to increase yield and profitability. Regional and sales representatives of Maisadour Semences work all over Ukraine to assist in products and services adapted to each region.

Taking into account the fact that 60% of crop success depends on planting, PRECOSEM gives farmers an ability to maximise the effectiveness of plant hybrids due to recommendations on the optimal planting dates, and thus to increase the potential yield. This service is based on the unique agro-climatic analytical model.

In addition, company is also planning to go further by allowing producers to anticipate all key stages of corn and sunflower crop cycles and to forecast the optimal harvest date in order to optimize yield and crop profitability.

In Ukraine Maisadour also represents livestock program Nutriplus, which includes the exclusive services, adapted corn hybrids and integrated silage additives to increase the quantity and quality of silage.

To reach this goal, the company now is represented in all segments of seed market with one of the widest portfolio of hybrids in corn FAO from 180 to 500.

As for the sunflower, the company offers new hybrids of crops with a high content of oleic acid resistant to herbicides and imidozoline groups as well as new broomrape races.

Maisadour Semences Ukraine was established in 2008 and currently investments in the company continue to grow. Today, Maisadour Ukraine, gets advantages from the most modern seed production complex in Europe, which was built in Mohyliv, Dnipropetrovsk region, in 2010.

This powerful seed production complex can satisfy the needs of our customers in Central and Eastern Europe. In 2014 company decided to increase its production capacity to meet new and higher demands of the market.

Therefore, on August 26, 2014 in presence of numerous official representatives Maisadour Semences opened the second stage of the agricultural corn, rapeseed and sunflower seed production and storage complex. As a result, the plant capacity was doubled. So far the total volume of investment in Maisadour Semences Ukraine is 40 million EUR.

By increasing seed production capacity, launching new hybrids and innovative services, in 2015 Maisadour Semences shows that Ukrainian market is a long term and confident market.

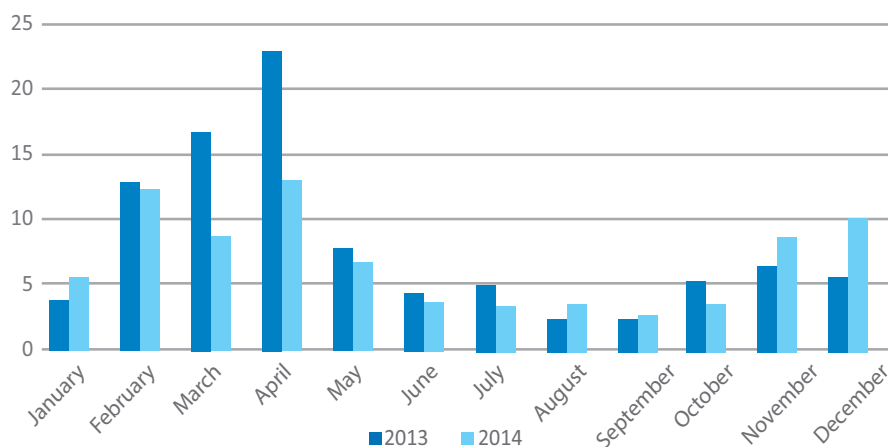
AGROCHEMICALS

IMPORT OF PESTICIDES

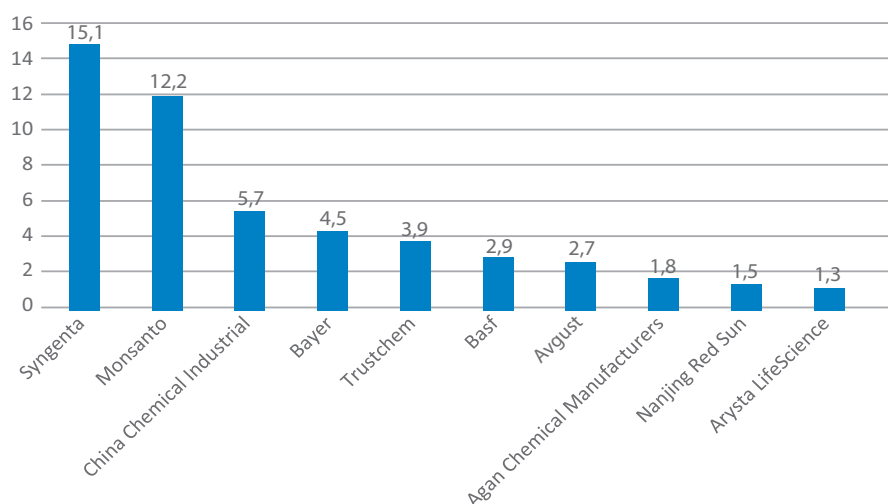
Igor GERASYMENKO
"Infoindustria" company

In 2014, Ukraine imported more than 83 thousand tonnes of pesticides, which is 14,5% less than in 2013. Re-exports in 2014 amounted to about 3 thousand tonnes, thus, net import of pesticides in Ukraine was equal to 80 thousand tonnes. In fact, import in 2014 dropped to the level of 2012 and it was rather good considering the difficult situation in the country. However, 2015 is going to be more challenging for suppliers of pesticides. Considering strong importers' dependence on the dollar and unpredictability of further development of the exchange rate in Ukraine, worsening of the situation can be definitely expected: reduction in import of pesticides will reach at least 10%.

The structure of import of pesticides is traditionally dominated by herbicides, the total import of which has exceeded 60 thousand tonnes or 72%. Insecticide group in physical weight was imported the least: the volume of its imports slightly exceeded 10 thousand tonnes in 2014. This is due to a low application rate of most insecticides (0,05 to 0,3 kg/l/ha), whereas most herbicides' application rate is 1 to 4 l/ha. Import of fungicides has slightly outstripped insecticides and amounted to 12 thousand tonnes.



Dynamic of import of pesticides in 2014, thousand tonnes



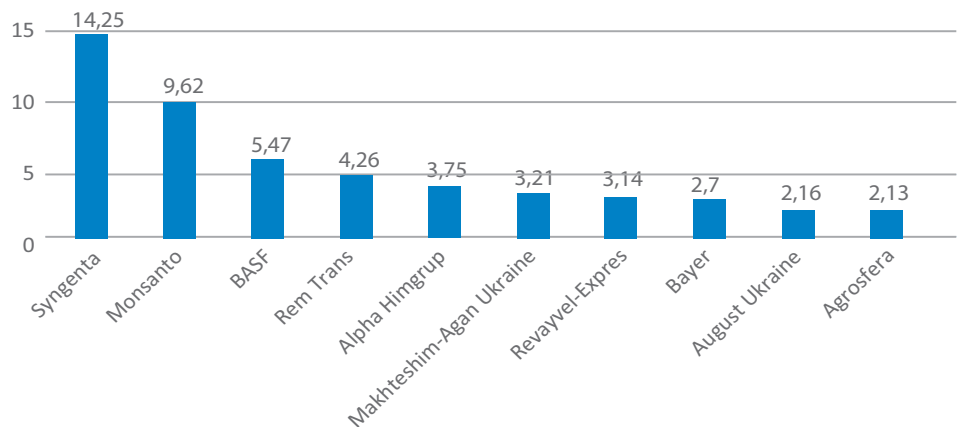
The main suppliers of pesticides in Ukraine in 2014, thousand tonnes

Western suppliers dominated among all the importers, whose share of import was 59%.

In March and April of 2014 there was a significant decrease in imports of pesticides, which was caused by the crisis in the economy. A rise in imports at the end of the year is related to the fact that most importers feared further jump in dollar exchange rate and increased their inventories for the spring season 2015.

Syngenta became the largest supplier of pesticides in Ukraine in 2014 and covered 18% of total imports. Monsanto ranked second and covered 11,5% of imports, with a lag of 3 thousand tonnes, and the third place in the ranking was taken by the Chinese company China Chemical Industrial with 6,6% of total imports of pesticides in 2014.

The main importers of pesticides in Ukraine in 2014, thousand tonnes



The first place among importers, as forecasted, was taken by Syngenta that occupied 17% of the market and imported more than 14 thousand tonnes of pesticides. Monsanto was the second, which was also expected, as its imports exceeded 9 thousand tonnes and amounted to 11,5% of total imports. BASF moved to the third place; its imports amounted to 5,5 thousand tonnes, which is 6,5% of total imports of pesticides. Thus, more than one third of all pesticide market in Ukraine belongs to Syngenta, Monsanto and BASF.

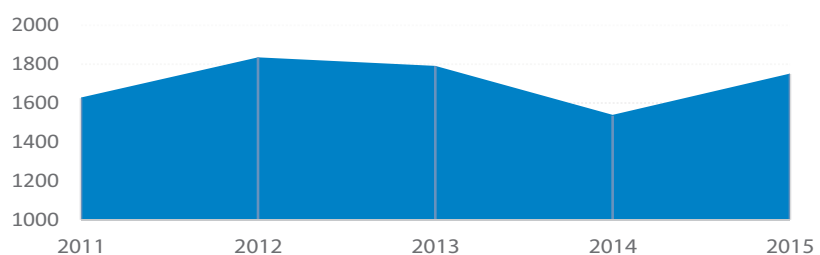
MINERAL FERTILIZERS

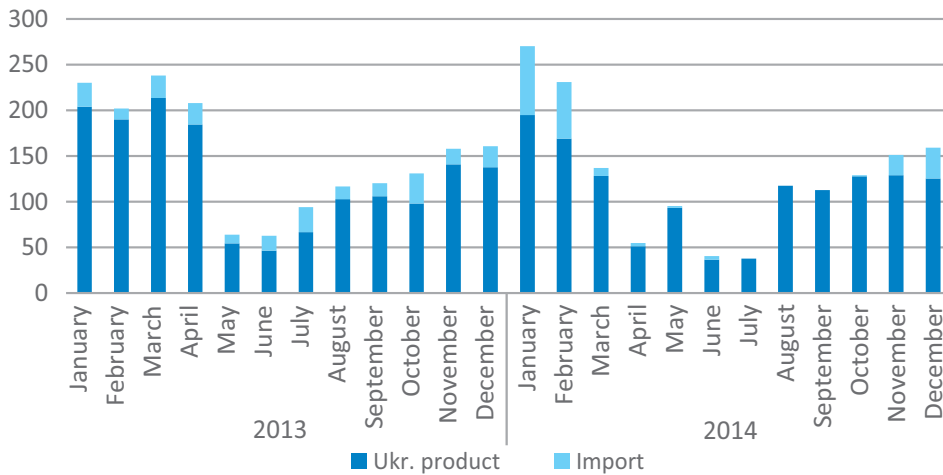
Sergii PISOTSKY
Marker Project

The situation on Ukrainian market of mineral fertilizers in 2014 and the forecast for 2015

The largest share of the Ukrainian market of mineral fertilizers belongs to ammonium nitrate. In total consumption of fertilizers its share amounted from 45 to 50%. In 2014, the Ukrainian market of ammonium nitrate decreased to 1 535 000 tonnes. The main reason was the reduction of nitrate production in Ukraine by 34% due to the outage of Severodonetsk Azot and Styrol plants, as well as decrease of the load of Rivne Azot plant in June and July.

The market volume of ammonium nitrate, thousand tonnes





The dynamics of nitrate shipments in 2013-2014, thousand tonnes

It should be noted that due to the anti-dumping restrictions against nitrate of Russian origin, it almost was not supplied to Ukraine in April-October. However, the annual imports declined only by 10%. At the end of the year the EuroChem company found a way to bypass these restrictions: instead of the standard ammonium nitrate it began to import a granular ammonium nitrate.

In 2015, the market volume of ammonium nitrate is expected to increase by 1,7-1,75 million tonnes. This will become possible through increased volumes of Ukrainian production and reduced prices for ammonium nitrate. Despite the economic crisis, the need for classical nitrate remains stable. Small and medium-sized farms, for which nitrate and carbamide-ammonia mixture (CAM) are too expensive, are going to be the main consumers of ammonium nitrate.

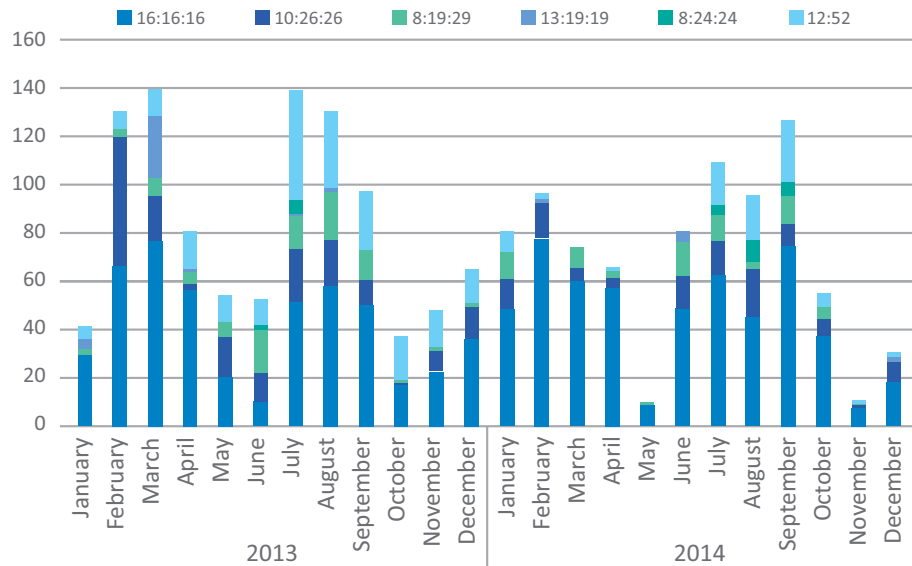
A cheaper alternative to ammonium nitrate is ammonium sulfate. The excess of acidity is compensated by the lowest price among the other solid nitrogenous fertilizers and the availability of easily digestible form of sulfur. In 2014, there was a jump in the consumption of ammonium sulfate (+77%). The market volume reached 188 000 tonnes; one of the factors for such success was the deficit of nitrate. As in 2015 the production of nitrate is expected to increase, the demand for ammonium sulfate will reduce slightly but remain at the level of 160-180 thousand tonnes. The biggest share of ammonium sulfate is supplied to Ukraine by independent importers.

The second largest consumable fertilizer in Ukraine is NPK (a complex fertilizer of different formulas, of which the most popular are the ammonium nitrate phosphate fertilizer (NPK 16:16:16), and diamofoska (NPK 10:26:26). Considering that the Sumykhimprom plant has successfully introduced these brands, the growth of domestic consumption of NPK in Ukraine by 63% is natural. In 2015, the Ukrainian market of complexed fertilizers expects a slight decrease (-5%).

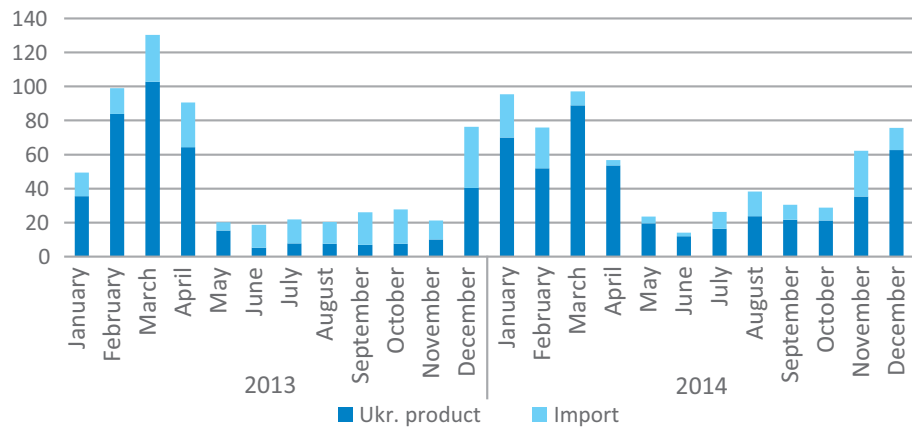
Carbamide is the third among the most important fertilizers on the market. This type of fertilizer is used in Ukraine as an alternative to ammonium nitrate, but it is more universal and has a longer period of use. In 2014, the total volume of Ukrainian market of carbamide amounted to 624 thousand tonnes.

In 2015, this fertilizer will retain its positions with the amount of sales of about 600 thousand tonnes. This will be caused by the low world price for carbamide (260-300 USD/tonne) and high availability of the product for importers. Given the convenience of transportation, storage and application of ammonium nitrate, the current price for carbamide makes it the most profitable nitrogenous fertilizer in terms of cost per unit of active ingredient.

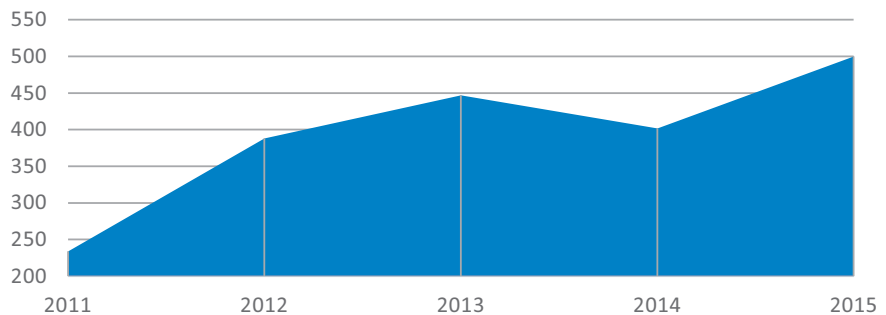
Dynamics of NPK consumption, thousand tonnes



The dynamics of carbamide shipments in 2013-2014, thousand tonnes

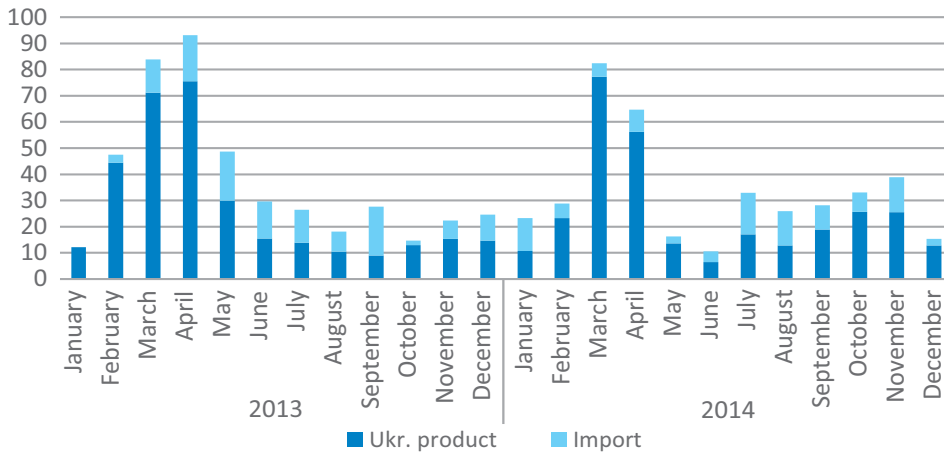


The market volume of CAM, thousand tonnes



The most dynamic segment of the Ukrainian market of mineral fertilizers is CAM. In 2014, there was a slight decline in the market down to 402 thousand tonnes. Similar to ammonium nitrate, the main reason for the reduction of CAM consumption was the decrease in production by Eastern Ukrainian enterprises caused by hostilities.

According to the forecasts, the market volume of CAM will increase to 500 thousand tonnes in 2015. A more substantial growth is not impossible, the key to which is the diversification of CAM supply sources. Besides two traditional suppliers, OSTCHEM and Eurochem, CAM importers of Belarussian origin and Ukrainian non-industrial producers of CAMp (products based on carbamide-ammonium mixture) are going to play a prominent role in the market. The increase of competition in CAM market will lead to the reduction in retail prices for this fertilizer in the second half of March 2015.



The dynamics of CAM shipments in 2013-2014, thousand tonnes

Ammonia is a vulnerable position in the nomenclature offered by agricultural chemists in 2015. On the one hand, the application volume of ammonia annually grows. In 2014 it increased by 20% to 125 thousand tonnes. On the other hand, the cost of ammonia, complicated application procedure and the short period of its application will restrain the market growth in 2015. Nevertheless, the features of ammonia make it irreplaceable in the autumn field works.

The main expectation of 2015 is stabilization of the agrochemical market and return of its volume to the level of 2012-2013.

Pricing issues

Total dependence of the Ukrainian agrochemical industry on the imported raw materials and the high proportion of imported fertilizers on the market dictate the dependence of Ukrainian prices on the world market prices. Since the inflation and devaluation rate is unpredictable, many export-oriented agricultural enterprises forecast the prices for mineral fertilizers on the basis of the US dollar equivalent.

On the world markets of fertilizers a reduction in prices will be a dominant trend in 2015. High harvests in previous years, a decrease in the cultivation of "fuel" crops due to the oil prices decrease, reduction of production costs of fertilizers and surplus of the market will contribute to the low price level of fertilizers during the year. ■



BIOTECHNOLOGY

Agricultural Biotechnology Committee within the UCAB was launched by members of the Association "Ukrainian Agribusiness Club" — the key players in the biotech products market. The main objectives of the Committee is involvement in the adaptation of national legislation regulating the use and registration of biotech products to the EU legislation, as provided by the Association Agreement between Ukraine and the European Union, and informing consumers and the public on achievements of modern agricultural biotechnology.

According to the report of BCC Research, a leading American market research company, the global agri-biotech market shows growth; by the end of 2014 its size was 27.8 billion USD, while in 2013 the size of the global agri-biotech market was 26.4 billion USD. Based on the projected average annual growth rate of 11%, by 2019 the global agri-biotech market is expected to achieve the target of 46.8 billion USD. "North and South Americas are the leading geographic markets for the agricultural biotechnology products," the report says. And adds: "Given the favorable regulatory procedures and emerging of new transgenic crops, South America and Asia are projected to show a strong growth of their markets." The report also notes that new, "crucial" for biotechnology issues, such as DNA sequencing, biochip, RNA interference, synthetic biology, the genome correction, "represent a small segment of the industry, which, however, is rapidly growing."

Unfortunately, unsupported by knowledge of fundamental facts and often aggressive rhetoric of opponents to genetically modified organisms (GMO) in our country is getting any discussion to the level of street discussions with elements of populism. Instead of adequate assessment of what is happening outside of our homeland, what trends are in modern biotechnology, which new agricultural technologies and varieties may be necessary for our country to maintain its honor place among the leading producers, we reduce discussion to the questions of "hazard" and "lack of knowledge" about GMO, which have long been answered by the whole civilized world that keeps moving forward.

One of the problems often referred to by opponents of biotech crops is the narrow focus on four major crops (soybeans, corn, cotton and rapeseed), and two features (pests resistance and herbicide tolerance). However, over the past 5 years there has been a significant increase in the number of commercialized biotech crops, including a significant expansion of the area under sugar beet and alfalfa crops, together with long-term crops (albeit in relatively small scale, pumpkin, papaya, eggplant, and poplar). In general, 10 different cultures were commercialized in 2014.⁸

In the USA, drought-resistant biotech corn was authorized for use under a speed-up procedure. In 2013, an estimated acreage of DroughtGard™ corn event MON87460 in the United States was 50 thousand hectares, and in 2014 it amounted to 275 thousand hectares. It is worth noting that Monsanto gave MON87460 to create drought-resistant corn in Africa

⁸ Certain events that took place recently can be read in more detail at:
<http://www.isaaa.org/resources/publications/briefs/49/executivesummary/pdf/B49-ExecSum-Ukrainian.pdf>



within WEMA project — a public-private partnership (PPP), aimed at providing the first biotech drought-resistant maize in some African countries, starting in 2017.

Recent authorizations have been granted to use the “new” biotech crops, with their commercialization to begin in 2015. Among them — the Innate™ potatoes — food with lower levels of acrylamide (a potential carcinogen) and fewer losses due to blackening; and alfalfa with reduced lignin content (event KK179), which will be implemented as HarvXtra™ with increased digestibility and yield. Innate™ potatoes were developed in the US by private company Simplot and were approved for commercialization in the US by APHIS/USDA in November 2014. At high temperature while cooking this potatoes, 50-75% less acrylamide, a potential carcinogen for humans, is produced, compared with conventional varieties. Innate™ potatoes are also less prone to blackening. Simplot claims the potatoes is a safe product with higher quality and has the following advantages for farmers, processors and consumers:

- lower level of asparagine, which, in turn, reduces the potential for acrylamide formation;
- less blackening of potatoes;
- better storage, decreasing losses and thus contributing to food security.

To obtain this biotechnology crop, RNA technologies were used in order to eliminate four of the genes to decrease the amount of certain enzymes, which in turn leads to lower levels of acrylamide.

Alfalfa with reduced lignin content, event KK179 (to go on the market under the brand name HarvXtra™) has recently been approved for cultivation in the USA by APHIS. Alfalfa is a perennial and the fourth crop in yield per hectare in the US after maize, soybean and wheat, with acreage of 8 to 9 million hectares. This is the main feed crop in the United States and worldwide with the total acreage of about 30 million hectares. Biotech herbicide tolerant alfalfa RR® has been growing in the United States since 2005. The use of event KK179 can improve forage quality due to the low lignin; optimize the yield by delaying the mowing for a few days, during which more biomass is accumulated and it gives a more flexible schedule during adverse weather conditions.

In February 2015, the US Food and Drug Administration (FDA) approved two varieties of genetically modified apples and six varieties of genetically modified potatoes for human use. The FDA concluded that “these products are as safe and nutritious as their conventional counterparts.” Approved apples, known as the Arctic apples, were created by the Canadian company Okanagan Specialty Fruits for greater resistance to browning and waste. Apples and potatoes have been approved under the voluntary consultation process in which the FDA has examined the information provided by the companies on the ways the products had been modified at the molecular level and how they are nutritionally similar with conventional apples and potatoes. In its statement, the FDA says that they “did not have any additional questions about food safety” related to the Arctic apples and Innate™ potatoes. In February 2015, the US Department of Agriculture approved the Arctic apples for cultivation and sale, saying that the modified apples “are unlikely to pose a threat of infection to plants in agriculture” or seriously affect the human environment. These apples are planned to be commercially available in 2017.

The list of commercialized biotech plants is expected to significantly increase within the following 5-10 years. Nowadays, in various countries more than 70 lines

of new biotech crops, including apple, banana, saffron, cassava, citrus, chickpeas, vetch (peas), groundnuts, mustard, pigeon peas, potatoes, rice, safflower, sugar cane and wheat, are undergoing trials. The range of introduced features includes an increase in drought and salt tolerance, increased yield, nitrogen use efficiency, improved nutritional and food properties, resistance to pests and diseases, including resistance to viruses.

It is crucial that about half of the cases are technologies developed by public sector organizations or projects received under the transfer of biotechnology through partnership agreements between the public and private sectors. That is, the whole world (including the former “third world” countries in Africa and South-East Asia) is dynamically and unanimously moving forward together, and we need to go forward and join the latest technology. ■



BIOENERGY POTENTIAL OF AGRICULTURAL SECTOR

Pressing need for strengthening energy security in the light of aggravated political tensions with Russia and continuous disputes on the terms of gas supplies, on the one hand, and huge untapped biomass potential, on the other hand, could boost the growth of bioenergy sector of Ukraine in the next few years. In fact, Ukraine could make a breakthrough in reducing its dependence from gas imports through increase of energy efficiency and development of alternative energy sources. Bioenergy in terms of the use of biogenic waste and production of energy crops could play an important role here.

According to Bioenergy Association of Ukraine (BAU)⁹, the share of biomass in the gross final energy consumption of Ukraine is only 1.78%. For comparison, average figure for the EU-27 is 8.39%. In Latvia and Finland the share of biomass in gross final energy consumption constitutes 28.1% and 27.6%, respectively, in Sweden and Estonia it is close to 26%.

Yuliya Ogarenko
Agricultural Policy Expert,
German-Ukrainian
Agricultural Policy Dialogue
(APD)

*The use of biomass
and biofuels for energy
production in Ukraine
(2012)*

	Annual consumption*	thous. tonnes ce ¹⁰	Share, %
Straw	84 thousand tonnes	43	2,0
Firewood	1,7 million m ³	413	19,0
Wood biomass (industrial use)	3,8 million tonnes	1296	59,6
Sunflower husk	627 thousand tonnes	343	15,8
Bioethanol	52 thousand tonnes	48	2,2
Biodiesel	~ 0	~ 0	~ 0
Biogas from agricultural waste	20 million m ³	12	0,6
Landfill gas	26 million m ³	18	0,8
Total		2173	100

Source: Bioenergy Association of Ukraine

* Consumption for energy production in Ukraine. Export of biomass granules/briquettes is not taken into account.

Overall, about 2 million tonnes c.e. of energy is produced from biomass, lion's share of which is constituted by wood biomass (see the table above). At the same time, huge potential of energy production from agricultural wastes and residues, and energy crops are largely untapped.

According to IFC study¹¹ about 109 million tonnes of wastes and residues (cereal straw; corn cobs and stalks; sunflower baskets; cattle, swine and poultry manure; food industry waste and other wastes) are generated in the agricultural complex annually and only 55% of these residues are processed. The rest is either inefficiently utilised or disposed, which often has negative environmental consequences. Currently, only about 1% of agricultural residues is used for energy purposes. It is estimated by the IFC

⁹ Estimated based on 2012 data. Source: <http://www.uabio.org/img/files/docs/position-paper-uabio-9-en.pdf>

¹⁰ c.e. — coal equivalent

¹¹ www.uabio.org/img/files/news/pdf/waste-agro-complex-2013.pdf

experts that almost 20 million tonnes more of agricultural residues and wastes could be used for economically viable energy projects (payback period up to 5 years), which could cumulatively provide up to 9 million tonnes c.e. (73 TWh)¹² of energy and save up to 8 bn m³ of gas annually (equals to 25% of gas imported from Russia in 2012). However, more than EUR 2 bn of investments will be required to utilise this potential.

Energy potential of biomass in Ukraine, 2013

	million tonnes c.e.
Straw of grain crops	4,54
Straw of rape	0,84
Corn stalks and cobs	4,39
Sunflower stalks and heads	1,72
Secondary agricultural residues	1,13
Wood	1,77
Biodiesel	0,47
Bioethanol	0,99
Biogas	0,97
Landfill gas	0,26
Sewage gas	0,27
Energy crops	9,96
Peat	0,40
Total	27,71

Source: Bioenergy Association of Ukraine

It should be noted that biomass potential varies from year to year depending on the harvest. Considering that there is tendency of crop productivity growth, amount of crop residues also increases. According to the BAU, energy potential of agricultural residues estimated based on 2013 data (grain harvest at 63 million tonnes) is at 11 million tonnes c.e. Moreover, potential of energy crops, which could be grown at degraded agricultural lands, is calculated at 10 million tonnes c.e. Table above illustrates economic potential of different types of biomass in Ukraine. Total biomass potential is estimated at about 28 million tonnes c.e, while only 8-10% of it is currently used.

BAU experts estimated that the share of biomass in gross final energy consumption could increase from 1.78% in 2011 to 4.3% by 2020 and to 10% by 2030. Moreover, 3.5 bn m³ of natural gas¹³ (7% of total gas consumption) for heat production could be substituted with biomass annually by 2020 and 7.5 bn m³ (15% of total gas consumption) — by 2030. However, to unlock this potential, the Government should eliminate legislative barriers for the development of renewable energy and ensure stable investment climate. ■

¹² This is equivalent to 25% of energy use by industry

¹³ For comparison, agricultural sector currently needs about 2.5 bn m³ of natural gas annually



Dr. Borys Sorochinsky, PhD
Head of Agricultural Biotechnology
Committee

Why and when was Agricultural Biotechnology Committee launched?

Agricultural Biotechnology Committee within the UCAB was launched in August 2014. The main objectives of the Committee is involvement in the adaptation of national legislation regulating the use and registration of biotech products to the EU legislation, as provided by the Association Agreement between Ukraine and the European Union; informing consumers and the public on achievements of modern agricultural biotechnology.

Who are the members of the Committee?

Agricultural Biotechnology Committee was launched by initiative of members of the Association "Ukrainian Agribusiness Club", the key players in the biotech products market. These include Bayer, Dow Seeds, DuPont Pioneer, Monsanto, and Syngenta.

In your opinion, what are the prospects of agricultural biotechnology in Ukraine?

I think that in these matters the state should be guided by pragmatism and, above all, its own interests. For this, one should reasonably use the experience of other countries. From my point of view, Ukrainian farmers should have the right to choose what kind of products to grow. The state, in its turn, should create certain conditions for this by the transparent and clear regulatory framework, and provide consumers with scientifically based and reliable information on modern technologies. Good examples are Argentina and Brazil, our competitors on the grain market. These countries have made a huge "breakthrough" in agriculture for the past 20-30 years through the use of modern technologies, including biotechnology. Re-orientation of the key market of the Brazilian agricultural products from the EU to China, which took place a few years ago, did not change the Brazilian policy in terms of GMO. Moreover, the acreage of different GM plants in Brazil in recent years is growing rapidly, and now Brazil is №2 world leader by the use of agricultural biotechnology. Establishing an appropriate plant resource base allowed Brazil, eventually, to become №3 global exporter of pork, №1 — of beef, №3 — of broilers. Such drastic changes were made possible with the help of adoption of the National Law on Biosafety in Brazil in 2005. Accordingly, we need to start, first of all, with changes and additions to the national law on biosafety, since any activity, including GMO related, should be carried out only within the legislative framework. Unfortunately, the current law on biosafety is not effective, often illogical; it does not correspond to the international experience and is not workable in practice. It is important that the requirements of harmonized UA-EU legislation regulating the circulation of biotechnology products are guided by the Association Agreement between Ukraine and the European Union, which our country signed last year. That is, we need to carefully take our time to fulfill our obligations, and then life will put everything in its place.



AGRICULTURAL MARKETS

GRAIN CROPS

In 2014/15 MY, cereal production reached another record of 63,8 million tonnes (excluding the Crimea), which was possible by an increase in the average yield from 40,6 t/ha to 43,7 t/ha despite the reduction in acreage planted by almost 5% compared to 2013/14 MY.

Analysis of sown areas demonstrates the key trends of the market. If we combine technical and fundamental factors, the experts of UCAB expect the following changes:

- wheat — increase in acreage planted approximately by 11% in the agricultural enterprises, mainly due to winter wheat, caused by high level of profitability in 2014 (about 15,6% in USD equivalent) as compared to other crops. An additional incentive for the increase of sown areas under wheat is a limited activity of the Russian Federation on international wheat markets and, thus, a possibility to substitute the share of Russia;
- barley — a stable trend to a reduction in acreage. High yield in 2014 and limitation of external markets might be an incentive for overall reduction in 2015. Acreage of winter barley is by 5,4% less than in 2014. In this case, the overall decrease in acreage of barley is expected at the level of 5-10%;



- corn — as in the case of barley, decrease in acreage is expected. Mostly, the transition to production of soybeans is going to take place. According to calculations of UCAB, the profitability of corn production in USD equivalent amounted to about 8% on average in Ukraine in 2014.

Simultaneously with the mentioned expectations a significant shortage of funds for the spring sowing campaign in 2015 is worth mentioning. The field works are becoming complicated due to significant rise in prices of inputs because of devaluation, import duties and limited lending of the industry.

According to UCAB's research, the total cost of the "optimal" field works is about 4.4 bn USD, 2.7 bn USD of which are to be spent on crops and pulse crops sowing. Minimum costs reach 3.1 bn USD (1.9 bn USD for crops). Considering the message of the Ministry of Agrarian Policy and Food of Ukraine that the farmers hold approximately 2 bn USD, the lack of funds even for the "minimum" set of spring field works might constitute up to 38% of the amount needed. According to the NBU, in 2014 Ukrainian agricultural enterprises attracted 32% less credit funds compared with 2013. The number of enterprises that received loans has decreased by 28% as the result of the reduction of bank lending programs for the agricultural sector and stricter lenders' requirements to borrowers because of the increased risk of non-repayment of loans and depreciation of collateral. NBU discount rate might be the reason for further growth of lending rates: it has already increased twice since the beginning of 2015: up to 19.5% starting from February 6 and up to 30% starting from March 4.

In this case, the farmers have only two options: either to optimize and reduce the list of technological operations, or to raise funds under considerable interest rate (about 25-30% in UAH). In the first case scenario, the sector expects a significant drop in yield, which is actually a return to the gross harvest indicators of 2010-2012. The second one implies working only for repayment of interest rates. Moreover, the weather conditions remain uncertain. Historically, once in three years, this factor used to significantly affect the final crop results.

The UCAB's experts' vision of the further development of grain production is embodied in the supply-demand balances below. Considering the lack of working capital, reduction of the field works' costs and decrease of the number of technological operations, in 2015/16 MY the major crops yield is expected to decrease by about 16% compared to 2014/15 MY. Gross harvest of major crops in 2015/16 MY is forecasted at 50.5 million tonnes, which is 18% lower than in the previous year.

In 2015/16 MY, the drop of grain export is expected to be about 28%, which is primarily caused by the reduction of gross production. Corn is expected to be the most exported crop with the share in total exports of almost 60%.

The increase in wheat production in 2013-2014 allowed to increase exports. Particularly, in 2014, the export of this crop increased by 41% compared to the previous year. The main export destinations for wheat were Africa and Asia, but it is worth to mention a significant expansion of exports to the European Union, which have increased by more than 10 times in 2013-2014, thus making EU the second largest foreign trade partner with the share of 10%. 65% out of 1 million tonnes of wheat, exported to the EU were delivered to Spain.

Simplified¹⁴ supply-demand balances of basic grains in Ukraine

Wheat

Indicator	Meas. unit	2011/12	2012/13	2013/14	2014/15	2015/16*
Harvested area	thous. ha	6,647	5,630	6,324	6,008	6,407
Productivity	c/ha	32.3	28.0	34.7	40.1	32.2
Gross yield	thous. tonnes	21,456	15,763	21,928	24,107	2,644
Exports	thous. tonnes	5,254	6,850	9,410	11,551	8,324
Domestic market	thous. tonnes	13,365	11,832	12,465	12,477	12,660

Barley

Indicator	Meas. unit	2011/12	2012/13	2013/14	2014/15	2015/16*
Harvested area	thous. ha	3,675	3,293	3,062	3,016	2,753
Productivity	c/ha	22.8	21.1	24.0	30.0	23.4
Gross yield	thous. tonnes	8,382	6,936	7,353	9,048	6,449
Exports	thous. tonnes	2,463	2,150	2,475	4,273	1,950
Domestic market	thous. tonnes	5,870	5,035	4,698	4,821	4,580

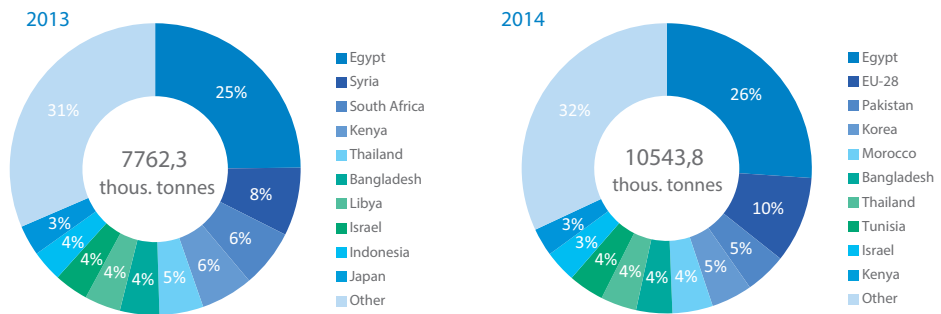
Corn

Indicator	Meas. unit	2011/12	2012/13	2013/14	2014/15	2015/16*
Harvested area	thous. ha	3,517	4,372	4,817	4,621	4,099
Productivity	c/ha	64.5	47.9	64.1	6.2	5.7
Gross yield	thous. tonnes	22,686	20,961	30,862	28,452	23,364
Exports	thous. tonnes	14,800	12,999	20,471	18,778	14,500
Domestic market	thous. tonnes	7,510	8,310	10,165	9,580	9,330

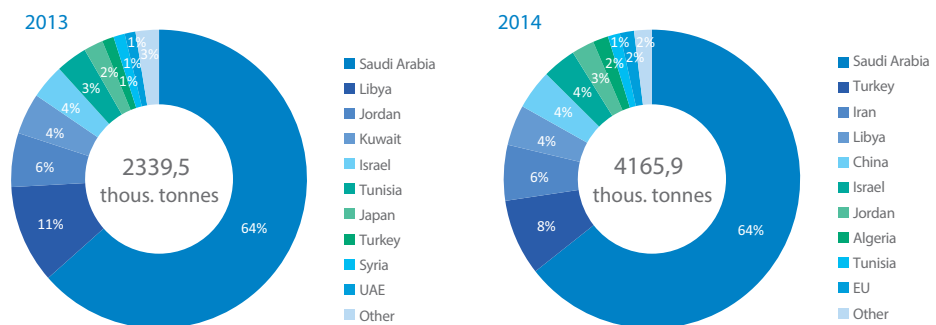
* forecast

Growth of productivity allowed to significantly increase the volume of foreign trade in barley (+44% in 2014 compared with the previous year). However, the export geography of barley has not changed considerably. Saudi Arabia remains the main market (about 64% of total exports). Also, China appeared in the ranking of top 10 importers of Ukrainian barley (179,1 thousand tonnes in 2014). Considering the development of relations with China, we can expect intensification of trade. Besides, the volume of sales to the EU has increased by 9 times. However, it is quite difficult to predict the prospects of this direction.

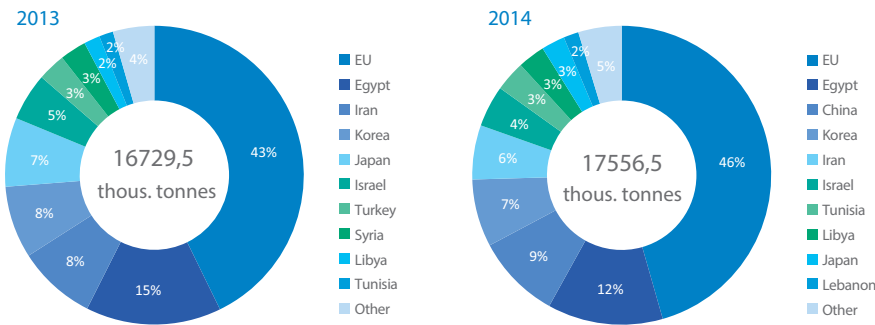
The geography of the foreign trade in wheat in 2013-2014



The geography of the foreign trade in barley in 2013-2014

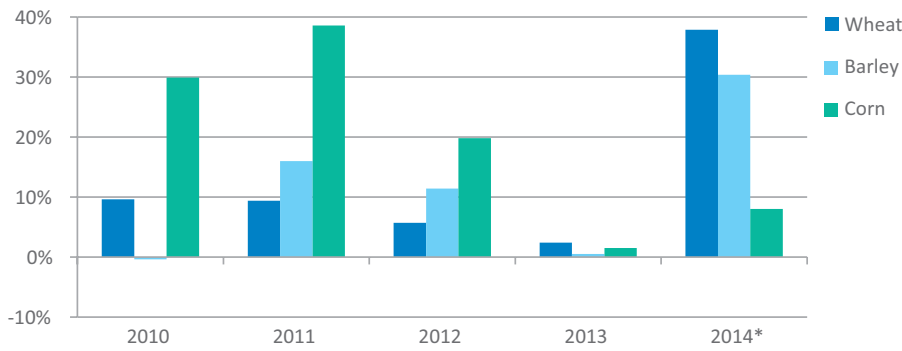


¹⁴ Expanded balances are updated each month and published in expanded market reviews of grains and oilseeds



The geography of the foreign trade in corn in 2013-2014

The European Union and Egypt remain the main markets for Ukrainian corn with shares of 46% and 12% from the total volume of supply in 2014, respectively. Tighter cooperation with China made it possible to increase the volume of exports up to 1.6 mln. tonnes in 2014, which is 15 times more than in 2013, and brought this country to the third position in the rating of top 10 importers of Ukrainian corn.



Profitability of basic grains¹⁵, %

The graph of profitability of basic grains clearly reflects poor harvest of 2011 and 2012. Relatively high prices during this period have allowed to receive high profitability. Record-breaking 2013, despite the optimistic expectations, allowed agricultural enterprises to reach the break-even point on average throughout the country. It is worth noting that the high-tech enterprises have made only a slight “sag” in profitability while inefficient entities, particularly businesses that are unable to store the harvest and are forced to sell it in a period of low prices, suffered significant losses.

2014 had its feature — the devaluation processes that complicated the welfare of market participants. Wheat was the most cost-efficient crop in this period, because most of the expenses were incurred prior to the period of active devaluation of the national currency. Corn was the least profitable. Considering the prices in UAH, corn profitability reached 17% on average in Ukraine, but a realistic assessment in dollar equivalent is more exponential.

¹⁵ Calculated on the base of the dollar prices
* Forecast

SUNFLOWER

Over recent years, the market of sunflower has experienced a simultaneous intensification and extensification of production. UCAB experts do not expect a significant increase in acreage under sunflower in 2015 and marginal growth is estimated at 3-5%. Further growth will be possible due to increase of the productivity, but these trends are doubtful in 2015 due to general negative situation in the economy.

Even despite 4% increase of acreage, the output of 2014 decreased by 7,7% to 10,1 million tonnes because of the very dry summer in southern Ukraine. In general, processing companies reported insufficient supply of seeds, because agricultural producers refrained from selling sunflower seeds to the instability of the purchase prices in hryvnia. Because Ukrainian processing capacities reach 13-14 million tonnes of seeds per year, processors to switch to processing of soybeans and rapeseeds.

At the end of February, the Verkhovna Rada has registered the bill on amendments to the Law of Ukraine "On rates of export duties on certain types of oil crops seeds" (to ensure the competitiveness of oilseed producers) No.1837, which provides an abolition of 16% export duty on sunflower seeds. Processing companies, naturally, opposed this, arguing that these changes will support seed exports, greater under-capacity and will lead to a reduction in added value, which stays in the country due to processing.

Simplified demand-supply balance of sunflower seeds

Indicator	Units	2011/12	2012/13	2013/14	2014/15	2015/16*
Harvested area	thous. ha	4,712	4,837	5,006	5,209	5,410
Productivity	c/ha	1.8	1.6	2.2	1.9	1.8
Gross yield	thous. tonnes	8,670	7,884	10,941	10,102	9,841
Exports	thous. tonnes	282	200	80	50	70
Domestic market	thous. tonnes	8,324	8,168	10,383	9,990	9,800
Including processing to oil	thous. tonnes	7,955	7,854	9,833	9,500	9,300

Detailing of foreign sunflower seeds trade makes no sense, since exports in recent years floated within 1-2% of the total supply.

SOYBEANS

In 2014, the acreage under soybeans increased by 32%. Agricultural producers gave more preference to soybean instead of corn in MY 2014/15, which was caused by low profitability of corn in 2013/14 MY. Favorable weather conditions also allowed obtaining a good harvest.

Ukraine is gradually increasing the production of soybean oil. It is influenced by the increase of demand for soybean meal, and also by the excess of capacity to produce oil due to lack of sunflower seeds. UCAB forecasts an increase in the production of soybean oil to 165 thousand tonnes in 2014/2015 MY, twice more than in the 2012/2013 MY.

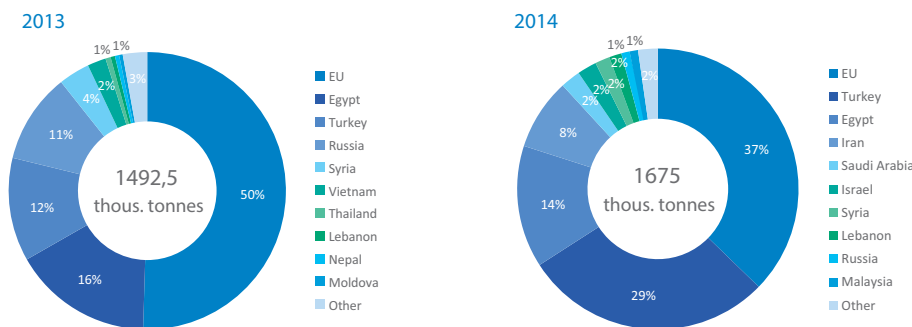
However, in 2014, the Verkhovna Rada registered a draft law No. 4693, which was supposed to increase the processing volumes of soybeans by introducing an export tax of 15%. In fact, the plan was to introduce the mechanism similar to the market of sunflower seeds, but the draft was rejected.

In the last few years, 83-85% of the soybean oil production was export oriented. Along with the growth in output the share of exports increases too.

Indicator	Units	2011/12	2012/13	2013/14	2014/15	2015/16*
Harvested area	thous. ha	1,050	1,412	1,337	1,792	1,896
Productivity	c/ha	2.1	1.7	2.0	2.2	1.9
Gross yield	thous. tonnes	2,205	2,410	2,741	3,871	3,602
Exports	thous. tonnes	1,337	1,249	1,240	1,950	1,850
Domestic market	thous. tonnes	865	1,160	1,451	1,725	1,800
Including processing to oil	thous. tonnes	340	410	631	750	850

Simplified demand-supply balance of soybeans

Increase of soybean production led to increase in the volume of exports by 57% in 2014 as compared to 2013. Despite the reduction in supplies to the EU, this group of states remains the main foreign contractor of Ukrainian soybeans. Also, a significant expansion of the role of Asian countries in foreign trade is worth noting. While in 2013 this region accounted for about 21% of the country's exports of soybeans, in 2014 this figure constituted 46%. There were no deliveries to China in 2014. In the long run, expansion of trade with China is also expected.



The geography in the foreign trade of soybeans in 2013-2014

RAPSEEDS

The area under rape declined by 12% in 2014, but the yields, as in the case of soybeans, increased, which allowed to harvest only 6% less than in 2013. Export is the main distribution channel of Ukrainian rapeseeds.

According to the UCAB forecast, in 2014/2015 MY, the processing share in the structure of distribution will increase up to 185 thousand tonnes (+92.7% compared to 2013/2014 MY) or up to 8% of the total supply.

As in the case of soybeans, in 2014, the initiative to introduce the export duties on rapeseeds to increase domestic processing was considered, but it was also rejected.

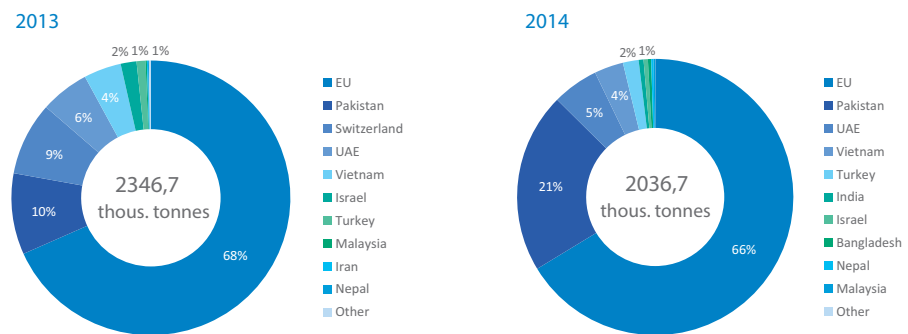
From a technological point of view, a very small share of enterprises in Ukraine can produce a rape oil because it contains aggressive erucic acid in its structure and, therefore, the equipment has to be resistant to the substance. Also, biofuel programs that are able to stimulate the processing of rapeseeds into biodiesel are not developed in Ukraine.

Simplified demand-supply balance of rapeseeds

Indicator	Units	2011/12	2012/13	2013/14	2014/15	2015/16*
Harvested area	thous. ha	832	547	988	865	868
Productivity	c/ha	1.6	2.2	2.3	2.5	2.4
Gross yield	thous. tonnes	1,331	1,220	2,293	2,199	2,050
Exports	thous. tonnes	1,208	1,178	2,243	1,977	1,800
Domestic market	thous. tonnes	67	25	133	217	257
Including processing to oil	thous. tonnes	5	4	96	185	220

The geography of foreign trade in rape is quite concentrated. Top 5 countries in rating of the leading external contractors for exports of rape occupied a 98% share in the total exports from Ukraine in 2014 (97% in 2013). As in the case of soybeans, the importance of Asia is growing, but at a slower rate. In 2013, 541,5 thousand tonnes (23%) of export deliveries accounted for the region, while in 2014 this figure amounted to 686,2 thousand tonnes (34%). It should be noted that in 2014 the first delivery of rape to China was made. Its volume constituted only 0,4 thousand tonnes, however, further expansion of trade is possible.

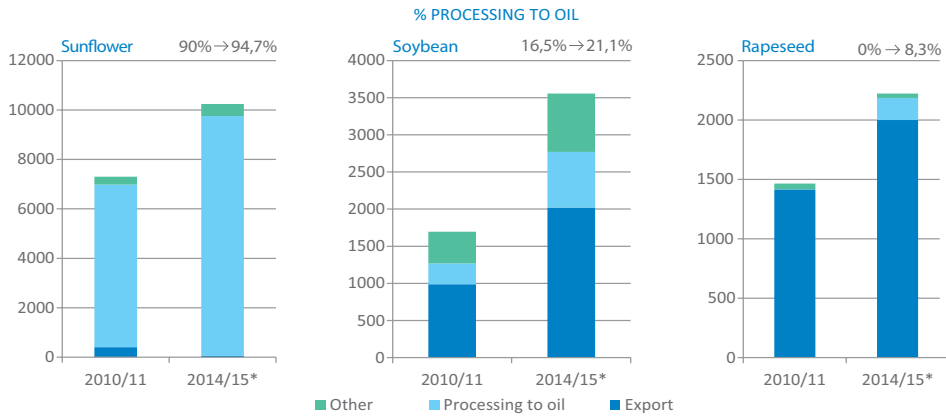
The geography of the foreign trade in rapeseeds in 2013-2014



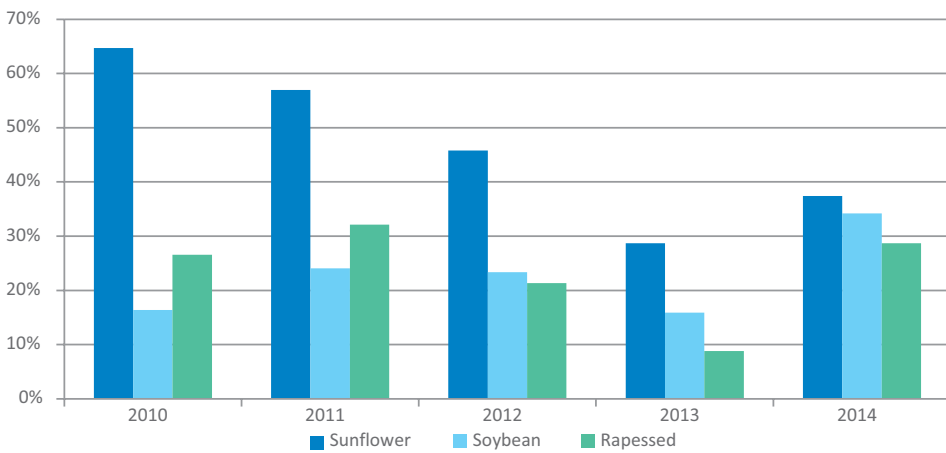
There is a stereotype around the world that Ukraine is a manufacturer and exporter of raw materials. Primary products really prevail in total export, but gradual deepening of processing takes place on the domestic markets. Fixing the rate of export duties on soybeans and rape can speed up the process, but it should be done during the favorable period for investment in order not to harm agricultural producers.

Profitability of sunflower production continued its downward trend until 2013. In 2014, due to the devaluation of hryvna and increase of purchase prices, profitability of sunflower seeds reached 37,4%, which was by 8,7 points higher than in 2013. High prices for sunflower seeds caused larger supplies of other oils to the international markets.

Profitability of soybeans has increased more than twofold — up to 34,2%. High demand for the crop in the international market stimulates expansion of acreage in Ukraine, but low purchasing power of domestic livestock producers limits the interest of buyers in the domestic market. Regarding rape, approximately 70-80% of rape is sold during the first 3 months of the new marketing year. Therefore, the profitability of rape in 2014 was quite high (28,7%) due to sales before “the peak” of devaluation.



Distribution channels of main oilseeds



Profitability of the main oilseeds

* Forecast



MILK

Dairy farming is one of the major livestock industries in Ukraine and, before crisis, this segment demonstrated a trend towards its active development, but the situation in the dairy sector became more complicated in 2014. The biggest problem for the dairy sector was the loss of the Russian market, which accounted for about 80% of exports of dairy products. Consequently, the number of cows began to decline rapidly. In 2014, the number of cows decreased by 3.2% — to 2.36 million heads. In 2014, milk production in Ukraine amounted to 11,23 million tonnes, which is by 0.4% more than in 2013. There was also an increase of milk production by agricultural enterprises and a decrease of its production by households. The share of industrial milk production increased by 24% and its supplies to processing — up to 52%.

Milk market indicators in Ukraine, million tonnes

	2010	2011	2012	2013	2014	2015*
Milk production	11,25	11,09	11,39	11,19	11,23	10,40
including agricultural enterprises	2,22	2,25	2,54	2,59	2,66	2,40
including households and other entities	9,04	8,84	8,85	8,63	8,57	8,00
The volume of milk delivered to processing	4,74	4,61	4,71	4,57	4,65	3,98
including agricultural enterprises	2,85	2,51	2,41	2,22	1,74	1,5
including households	1,89	2,03	2,28	2,33	2,43	2,18
including other entities	0,00	0,07	0,02	0,02	0,48	0,30
Exports of dairy products (milk equivalent)	1,00	1,00	0,82	0,75	0,50	0,35
Imports of dairy products (milk equivalent)	0,30	0,30	0,41	0,54	0,34	0,15

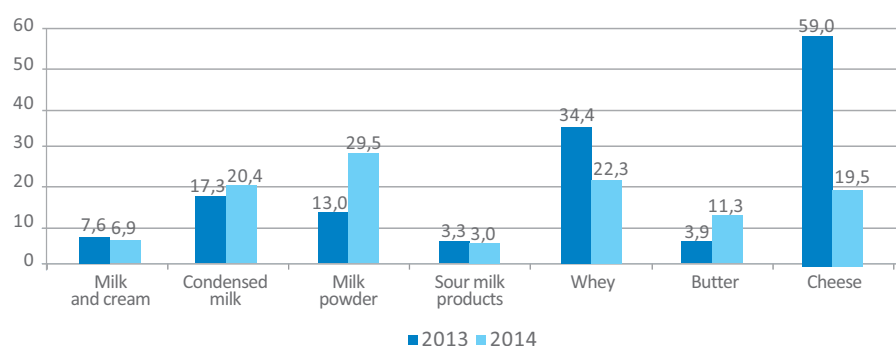
* forecast

Growth of productivity of cows became a significant achievement of the dairy sector. During the past five years yields have risen by 32% in 2014; average annual yield per cow constituted 5228 kg. However, in 2015, slight decrease in productivity of cows is possible due to the rapid growth of input prices.

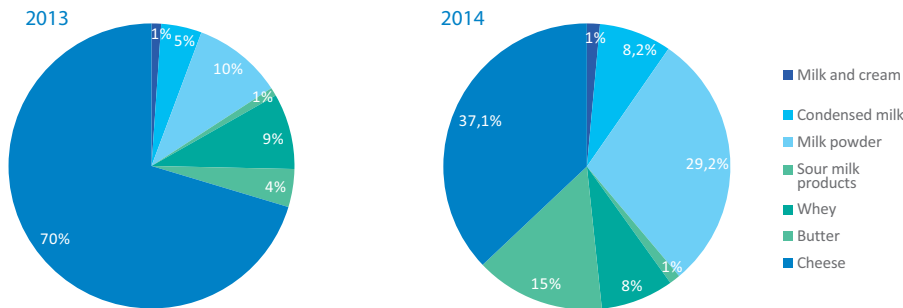
According to our forecasts, milk production is going to decrease by 7% - to 10.4 million tonnes - in 2015. Exports of dairy products are going to decline to 0.35 million tonnes in milk equivalent and imports — to 0.15 million tonnes.

As a result of sanctions, the exports of dairy products dropped to 0.5 million tonnes in milk equivalent. In value terms, exports of dairy products from Ukraine amounted to USD 324 million, while this figure was USD 515 million in 2013. There was a reduction in cheese exports — to 19.5 thousand tonnes (threefold). However, there was an increase in sales of milk powder and butter to foreign markets in 2014.

Exports of dairy products, thousand tonnes



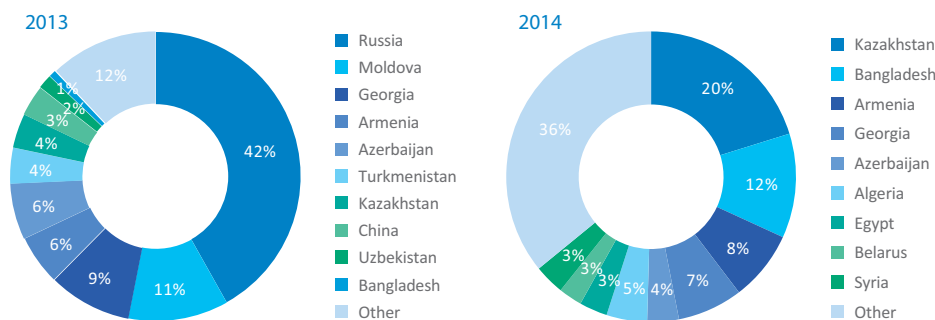
Cheese used to be a major Ukrainian export product for a long time. In 2014, the share of cheese in the structure of export value of dairy products dropped to 37%, while the share of milk powder rose to 30% and butter — to 15%.



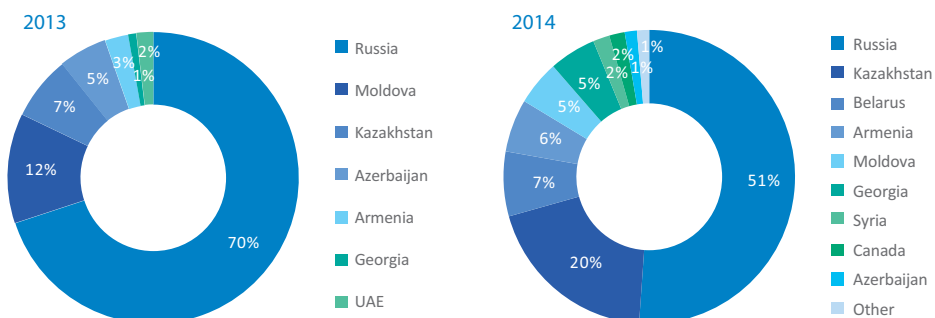
Value structure of exports of dairy products from Ukraine

Due to changing priorities in exports of dairy products, the companies began reorientation from cheese production towards the production of butter and milk powder, because these products have a long shelf life and, so, in terms of import, are interesting for many countries. However, prices for these products have declined in the world market that reduced the income of exporters significantly.

Export of milk powder from Ukraine is quite diversified although Russian market occupied a big share in the structure in previous years. In 2014, after the Russian ban, Kazakhstan (20%), Bangladesh (12%), Armenia (8%) and Georgia (7%) became the main markets for Ukrainian milk powder.



Export geography of milk powder

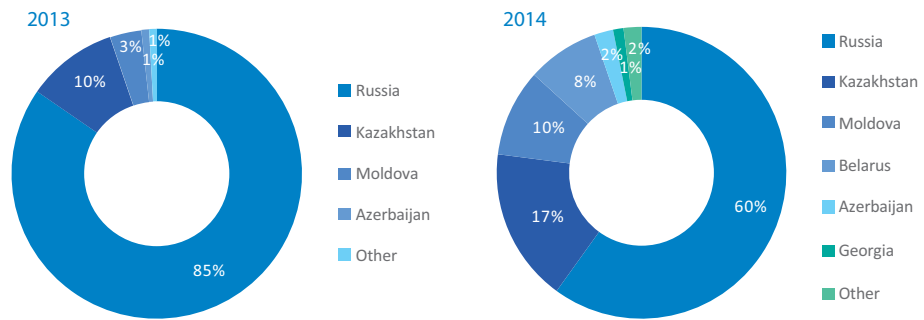


Export geography of butter

Currently, milk powder and butter are the most promising export products, as they have a long term of storage and can be transported over long distances. The most interesting markets are China, Saudi Arabia, Egypt, Algeria and other countries in Africa, the Middle and Far East.

Exports of cheese after closing of the Russian market have rapidly reduced. Exporters reoriented to markets of Kazakhstan, Moldova, Belarus and other CIS countries, because the taste preferences of the population correspond to the products produced in Ukraine.

Export geography of cheese



As Ukraine plans to export cheese to new markets, review of the product range is a very important precondition. For example, such traditional Ukrainian export product as “Russian” cheese is not interesting for most countries. Therefore, Ukraine should pay attention to the production of cheese that is in demand on the global markets — “Cheddar”, “Adam”, “Gouda”. Saudi Arabia, Iraq, Algeria and other countries are the promising markets for cheese.

Today, the main challenge for the dairy industry is finding new export markets and developing the existing markets. To do this, it is important to develop a systemic state export policy that requires work with each particular country of destination. One of the perspectives for Ukraine is also an export-oriented organic milk production, as more and more people pay attention to health and are willing to pay for quality products. The demand for dairy products for baby food is also increasing around the world, especially in China.

The predictions for dairy market in 2015 are as follows:

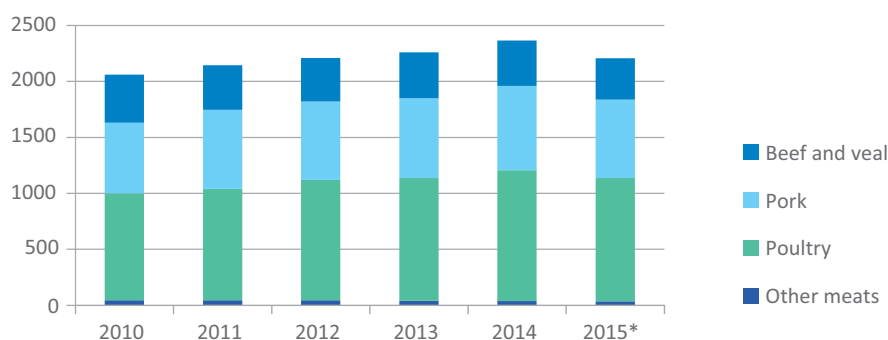
- decrease of milk production;
- domestic demand for dairy products is going to decline;
- high prices for protein feed are going to affect the yields of cows negatively;
- farmers and processors will have to come to a consensus on the purchase prices for milk.

After the crisis, demand for dairy products in Ukraine is going to recover, so it is very important to keep potential of production and processing of milk in the domestic market. ■

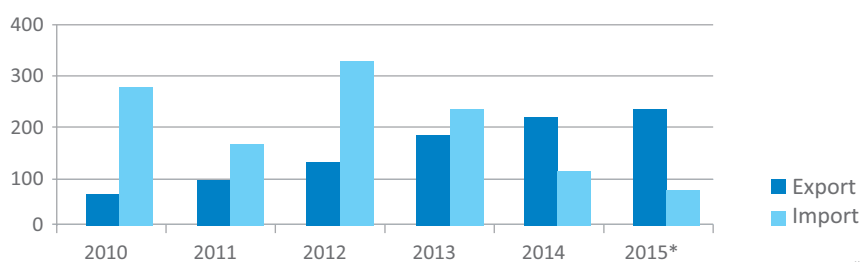


MEAT

Meat production in Ukraine has demonstrated a consistent upward trend in the last years. Despite the difficult situation in 2014, meat production at all types of farms increased by 4.7% compared to 2013 and amounted to 2.37 million tonnes in slaughter weight. Pork production increased by almost 6% to 753.6 thousand tonnes and poultry production increased by 6.6% to 1.17 million tonnes. In 2014, it was produced 404.8 thousand tonnes of beef and veal, which is 1.8% less than in 2013.



Meat production in Ukraine, thousand tonnes



Foreign trade in meat, thousand tonnes

* Forecast

The increase in exports of meat was the positive dynamics in 2014. For the first time since many years, Ukraine has had a visible positive trade balance. In 2010, Ukraine exported only 46.5 thousand tonnes of meat and imported 267 thousand tonnes. In 2014, the volume of exports amounted to 205.6 thousand tonnes and the volume of imports decreased to 93.5 thousand tonnes.

Demand and supply balance of meat in Ukraine

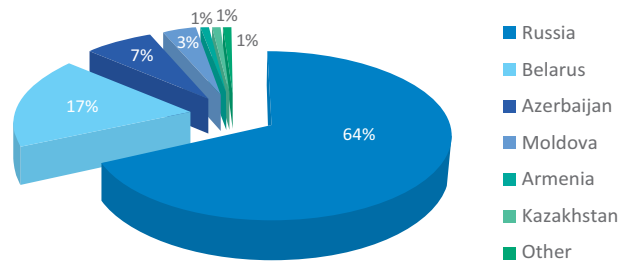
	2013	including:			2014	including:		
		beef	pork	poultry		beef	pork	poultry
DEMAND	2441,9	415,9	858,7	1167,3	2420,5	406,7	784,2	1229,6
Domestic market — total	2268,1	392,2	854,1	1021,8	2214,9	385,2	774,8	1054,9
including:								
end consumption	2260,1	389,2	851,1	1019,8	2208,9	383,2	772,8	1052,9
other consumption	8	3	3	2	6	2	2	2
Export	173,8	23,7	4,6	145,5	205,6	21,5	9,4	174,7
SUPPLY	2441,9	415,9	858,7	1167,3	2420,5	406,7	784,2	1229,6
Domestic market — total	2220,1	412,2	711,7	1096,2	2327	404,8	753,6	1168,6
including:								
own production	2220,1	412,2	711,7	1096,2	2327	404,8	753,6	1168,6
Import	221,8	3,7	147	71,1	93,5	1,9	30,6	61

While in 2013 the share of imported meat in the structure of the consumption in Ukraine was about 10%, in 2014 it decreased to 4.2%. General meat consumption in Ukraine decreased by 2.2% to 2.42 million tonnes in 2014.

A very important achievement of the poultry sector was its access to the European market. In 2013, Ukraine got the permission to export poultry products to the EU followed by the autonomous trade preferences in April 2014 that have made poultry exports under EU import quotas economically attractive. According to the results of 2014, about 17 thousand tonnes of poultry meat were exported to the European Union, which amounts to USD 51.8 million. It is worth noting that parts of best quality were supplied to the EU market at a higher price. As for beef and pork, the permission to supply these products to the European market is still missing. Nevertheless, Ukraine is improving this direction, because it has quotas for duty-free exports to the EU in the amount of 12 thousand tonnes of beef and 20 thousand tonnes of pork. In addition, European quality assurance of Ukrainian products facilitates its access to other markets.

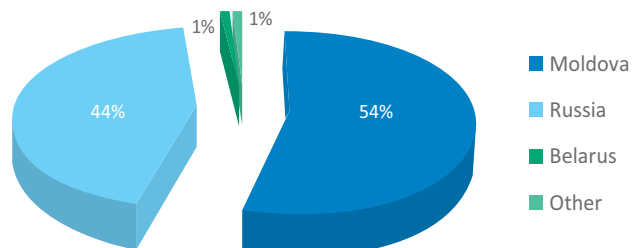
In 2014, the main export market for Ukrainian beef was Russia, with the share of 64%. However, Russia has been banning exports from Ukraine regularly and this led to a decline in exports of beef. Beef was also exported to Belarus, Azerbaijan, Moldova and other countries.

Export geography of beef, 2014



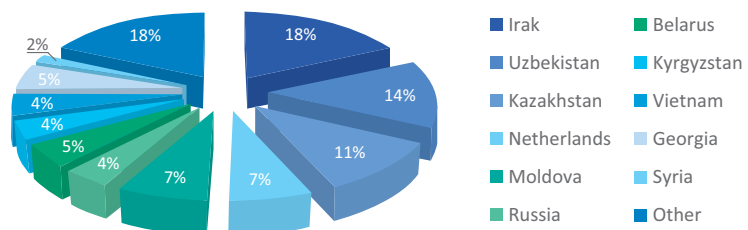
The Russian market used to be the major one for Ukrainian pork exports for many years, but, in 2014, due to the Russian ban, Moldova won the first place in Ukrainian pork exports, with the share of 54%. 44% of the total pork exports were supplied to Russia.

Export geography of pork, 2014



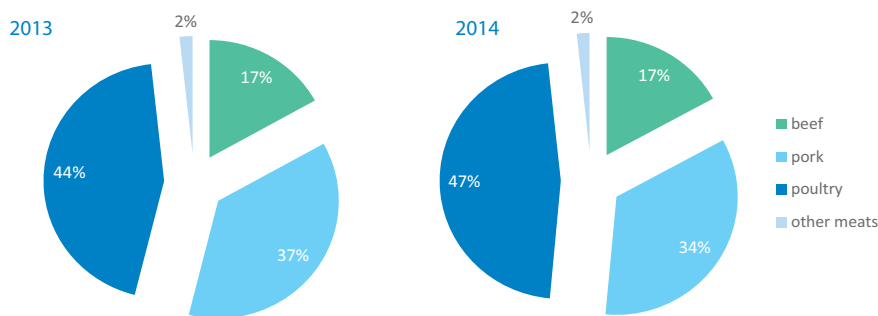
Exports of poultry from Ukraine have been rapidly diversified in recent years. In 2014, this product was supplied to more than 80 countries. The main markets for Ukrainian poultry were Iraq, Uzbekistan, Kazakhstan, the Netherlands, and Moldova.

Export geography of poultry, 2014



Devaluation of hryvnia led to a sharp reduction in meat imports to 93.5 thousand tonnes. This especially referred to pork imports which decreased by 5 times and constituted only 30.6 thousand tonnes. At the same time, imports of bacon and by-products of pigs and cattle which were used by sausage producers to reduce the cost of their products have increased.

In 2014, there were some changes in the structure of meat consumption in Ukraine. Due to the reduction in real income, the consumption of poultry has risen. Whereas processing plants replaced pork with cheaper types of meat, the volume of its imports was very low. This led to reduction of the share of pork in the consumption structure to 34%, while the share of poultry meat increased to 47%.



The structure of meat consumption in Ukraine

Meat consumption is an indicator of welfare. Because of the crisis and possible social tensions, the demand for meat and meat products may reduce in Ukraine in 2015. Consumer demand for poultry meat and sausage products of lower price segment is expected to increase but the purchase volume of these products is also going to reduce due to the reduction of real incomes. Meat exports are becoming increasingly important to stabilize the industry, balance the market situation and bring foreign exchange earnings. A critical hryvnia depreciation improves the price competitiveness of Ukrainian products in foreign markets.

We expect the total meat production in Ukraine in 2015 to decline by 7% to 2.2 million tonnes of slaughter weight. Beef and veal production is going to drop to 370 thousand tonnes, production of pork — to 700 thousand tonnes, and of poultry — to 1100 thousand tonnes. The main reason for the reduction will be decreasing demand and rising production costs due to higher input prices.

Currently, it is difficult to predict the development of the meat sector, due to the unstable situation in the country, but one can outline the following expectations for 2015:

- meat production in Ukraine is going to reduce;
- cost of meat is going to rise;
- domestic demand for meat is going to decline due to falling incomes;
- meat exports are going to increase;
- imports of meat are going to be minimal;
- there is going to be growth in poultry production by households due to increased social tensions in rural areas;
- the volume of meat supply to Crimea and Russia is going to increase. ■

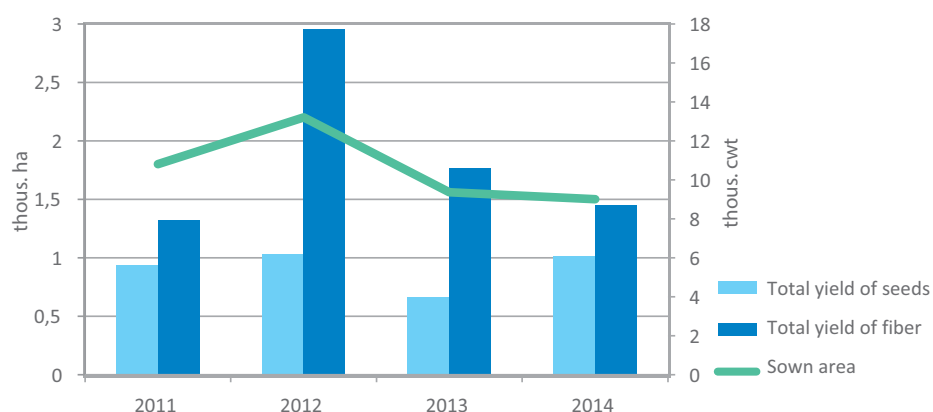
NEWCOMERS

2015 is going to be difficult for everybody including agrarians. In such situation the role of niche crops might become very important. Taking into account the fact that most agrarians will not invest in producing new crops, companies that have already grown niche crops will have a significant competitive advantage.

FLAX

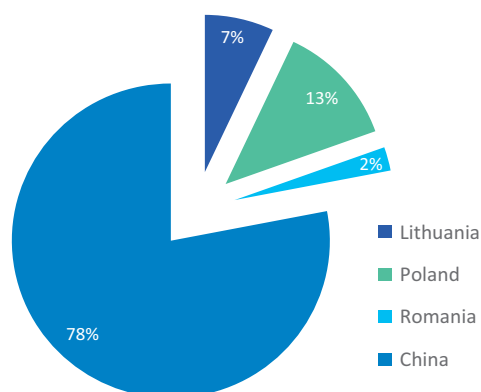
Sowing areas under flax constituted 1.4 thousand hectares in Ukraine in 2014, that is by 0.2 thousand hectares (-10%) less than in 2013. Flax profitability was at the level of 8.1% in 2013, while, for example, corn profitability was 1.5%. Ukraine decreased sowing areas under flax by 99% as compared to 1990. During his speech at the Cash Crop Forum Michel Tereshchenko, general director at Linen of Desna, admitted that the operating profit of flax and products of its processing per 1 hectare at the 400 hectares size farm is about USD 1000.

Sowing area under flax and total yield



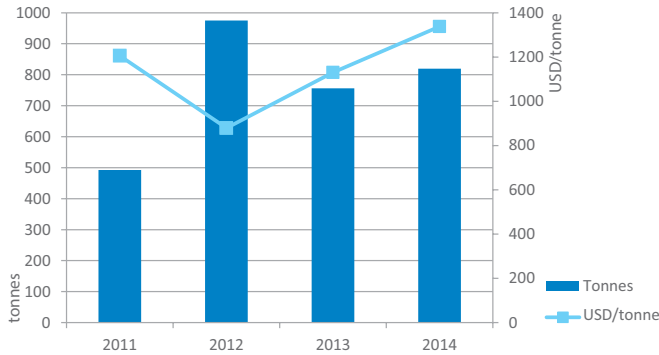
Gross production of flax fiber amounted to 0.9 thousand tonnes in 2014, that is by 0.3 thousand tonnes (-18%) less than in 2013. This happened because of the low yield — 6.3 cwt/ha, that is by 14% less than in 2013. At the same time, gross production of flax seeds constituted 0.6 thousand tonnes, that is by 50% more than in 2013, and the yield amounted to 4.3 cwt/ha, that is by 34% more than in 2013.

Top importers of flax fiber from Ukraine in 2014



In Ukraine, flax is grown in Volyn, Zhytomyr, Lviv, Rivne, Sumy, Ternopil, Kharkiv, Khmelnytsk and Chernihiv regions.

Top countries that imported flax fiber from Ukraine in 2014 were China with the import share of 78%, Poland — 13%, Lithuania — 7%, and Romania — 2%.



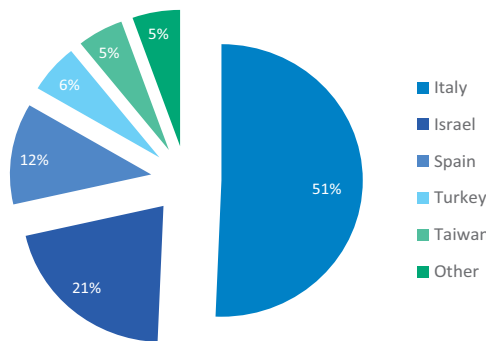
External trade of flax fiber and average cost

SORGHUM

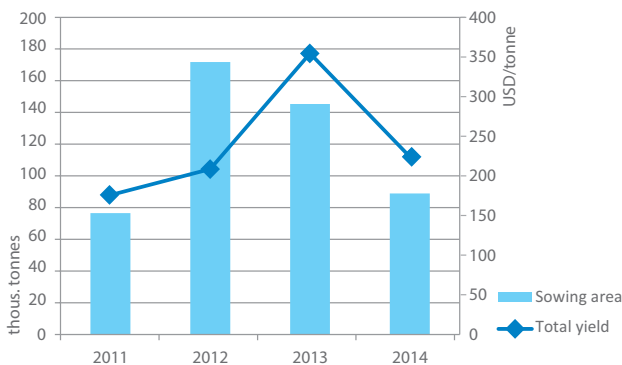
In 2014, sowing areas under sorghum decreased by 56,4 thousand hectares (-38,4%) as compared to 2013. Gross production of sorghum constituted 22,4 thousand tonnes, that is by 13,0 thousand tonnes (-36,7%) less than in 2013. Average yield amounted to 2,7 tonnes/ha, that corresponds to the figure of 2013 with small deviation (-0,4 cwt/ha). The decrease of sowing areas can be explained by fear of agrarians to saturate the market.

Exports of sorghum increased from 46,2 thousand tonnes in 2011 to 195,6 thousand tonnes in 2014 due to a huge demand from the international market. Sorghum is in demand in the European market, where it is processed into biofuel. In Africa and Middle East, sorghum is popular because of the consumption traditions.

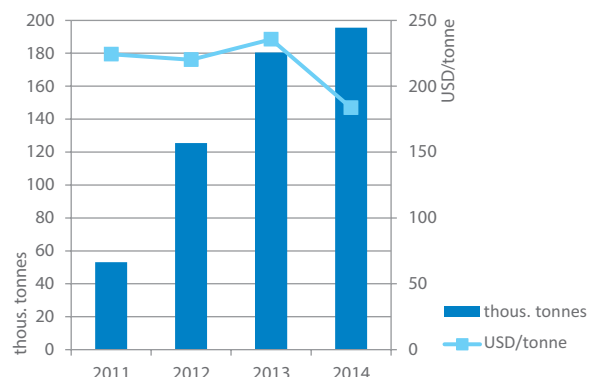
Top importers of sorghum from Ukraine in 2014



Sowing areas and gross production of sorghum



Exports of sorghum

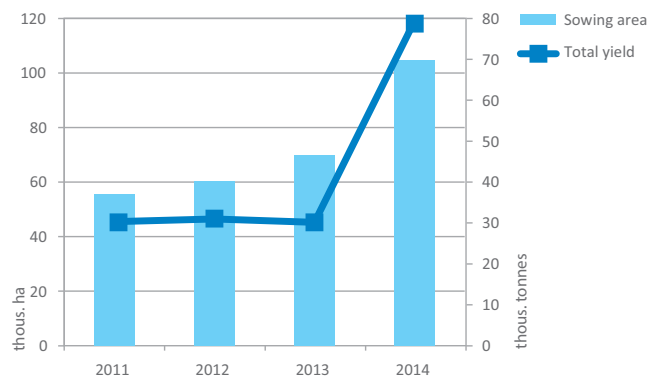


MUSTARD

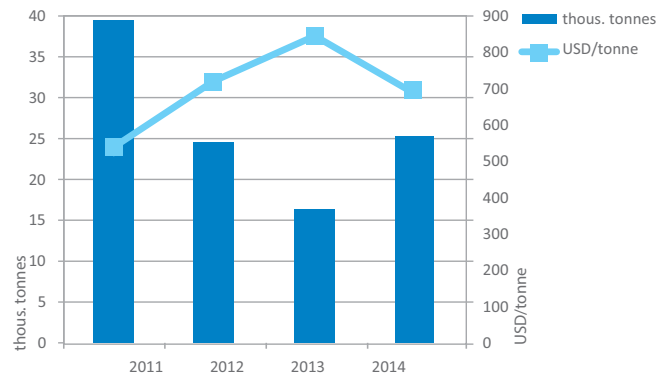
Mustard is an alternative type of oilseeds and a good forecrop for grains. In 2010-2014, sowing areas under mustard increased. Processing plants began to increase the demand for mustard (according to Ukrstat database) as evidenced by the fact that Ukraine decreased exports of mustard as raw material that stimulated its domestic production. In addition, mustard is in greater demand on the international market rather than in the domestic one. Production in 2014 reached 8182 tonnes, that is by 1377 tonnes (+20%) more than in 2013.

The areas under mustard constituted 104.5 thousand hectares in 2014, that is by 34.8 thousand hectares (+50%) more than in 2013. Increase of sowing areas and yield by 48% in 2014 resulted in production at the level of 79.44 thousand tonnes, that is by 1.6 times more than in 2013.

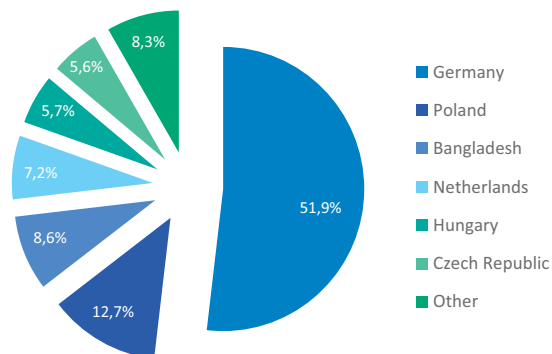
Sowing areas and gross production of mustard



Exports of mustard



Top importers of mustard from Ukraine in 2014



Exports of mustard increased by 8.9 thousand tonnes (+54%) in 2014 as compared to 2013. The EU is the TOP importer of Ukrainian mustard. Its share in total exports is 83.9%. ■



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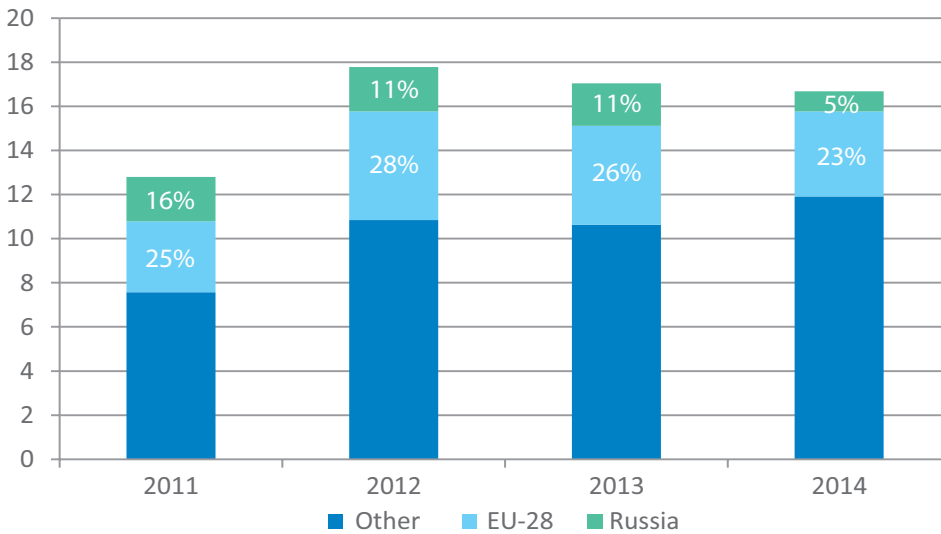
EUROINTEGRATION: HORIZONS OF OPPORTUNITIES FOR THE AGRICULTURAL SECTOR

Our country was at crossroads for a long time. We did not know what to choose: to move towards more developed countries of the European Union or to develop relationships with existing partners, the CIS countries. On the one hand, EU is a market with 500 million consumers with a high income level, it is logistically convenient, stable and provides the potential for fruitful cooperation in the field of technology and attracting additional investment. On the other hand, it is also a serious competition, high standards of food safety and quality and the need to refocus the business which requires substantial investments. During 2014 the world watched our country choosing and building its way to the European future.

Previously, the CIS countries, particularly Russian Federation, used to be the main sales market, but eventually the hope for an efficient long-term and stable cooperation faded under the pressure of regular bans, so gradually exporters lost interest to the Northern neighbors' market, tried to diversify production, although, unfortunately, some sectors of agricultural production were focused exclusively on this market. For example, in 2011 about 16% of all agricultural and food products, which Ukraine supplied to external markets (equivalent to USD 2 bn), were exported to the territory of Russia. In 2014 this share decreased to 5% (USD 0,9 bn), despite the overall increase in exports by 30,2% as compared with 2011.

At the moment economic and political instability are forming a major obstacle to the development of relations between Ukraine and the EU. Of course, from year to year the EU becomes more and more valuable external contractor in agricultural products trade, as evidenced by the dynamics of trade. Thus, if during 2011 Ukrainian exporters supplied agricultural goods amounting to USD 3,2 bn to the territory of the European

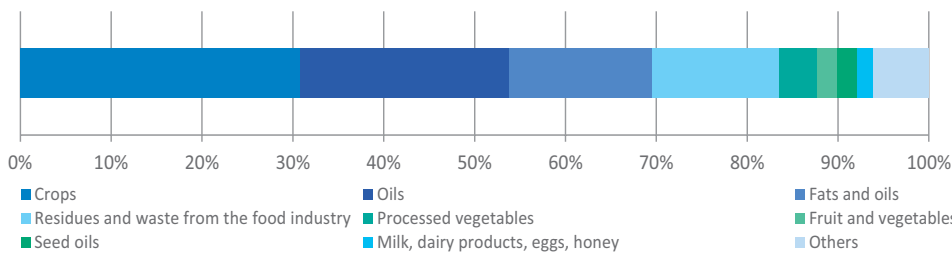
Union, in 2014 this sum constituted USD 3.8 bn, so the volume of exports during this period increased by 20%. Despite the decrease in the volume of supply in the currency relative to 2012 and 2013, a positive trend still persists.



Dynamics of exports of agricultural products, billion USD

At average prices of imports to the EU from third countries the set of “agrarian” quotas can be estimated at EUR 1 bn. In 2014, the total valuation of unused quotas amounted to EUR 0,6 bn, and at the time of writing (March 2015) — to EUR 0,8 bn.

Analyzing the structure of exports to the EU, it should be noted that raw materials form the basis of this structure, particularly crops and pulse crops make up about 31% of total exports to the EU, oilseeds — 23%, fruits and vegetables — 2%, etc. Supply of livestock products is sufficiently small.



Structure of exports of agricultural products to the EU in 2014, %

On the wave of European integration processes the interest of domestic exporters and producers in the EU market has increased, but lack of information about the terms of trade produced an information vacuum. In order to help exporting Ukrainian products, the experts of the association “Ukrainian Agribusiness Club” carry out expertise, research, consulting, training, seminars etc. Particularly, in 2014, a number of studies related to the possibilities of exports of domestic products to foreign markets were held: “Integration of the agrarian sector of Ukraine and the EU in the framework of the Association Agreement” and “Estimation of potential to increase exports of agricultural and food products to the EU and other countries”. In the framework of the “Stronger Together” initiative UCAB also provides free analytical and legal advices to domestic business.

AUTONOMOUS EU TRADE PREFERENCES FOR UKRAINE: FIRST RESULTS FOR AGRICULTURAL SECTOR

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Association Agreement between the EU and Ukraine was simultaneously ratified by the European Parliament and Parliament of Ukraine on the 16th of September, 2014. However, bilateral implementation of the trade component was postponed for political reasons till January 2016¹⁶. Instead, EU introduced preferential trade regime within a wider package of economic and financial assistance to Ukraine. Relevant regulation (EC N 374/2014) came into an effect as of April 23, 2014. Trade preferences are based on the agreement on liberalised access to the EU market under the Association Agreement, which should have been implemented in the first year of free trade regime between the EU and Ukraine.

Autonomous trade preferences envision abolishment of import duties on majority of industrial products (25-97 commodity groups) as well as agricultural products and foodstuffs (1-24 commodity groups) and introduction of zero tariff rate quotas (TRQs) for 16% of agri-food products. Administration of TRQs is carried out in accordance with two approaches:

- Annex II of the Regulation provides a list of 27 groups of commodities and amount of TRQs allocated based on the principle “first come — first served”.
- Annex III lists import quotas for 6 groups of commodities (including beef, pork, poultry, eggs and albumins, dairy products and grains) which are administered based on licensing of importers (economic operators of the EU-member countries).

It should be noted that TRQs discussed above limit only the amount of duty-free import from Ukraine. Import of products in excess of defined TRQs is subject to general terms of trade.

Initially, zero TRQs were allocated for the period from 23rd of April to 31st of October, 2014¹⁷. Considering that implementation of the DCFTA was postponed by 2016, the EU decided to continue autonomous trade preferences by the end of 2015 and granted quotas for import at the same level as in 2014.

As illustrated by the table below, several zero TRQs were fully exhausted in 2014 while allocation of others is not even started or filled up very slowly. First of all, this is the case because approximation of Ukrainian legislation on food quality and safety with the EU one is not yet completed. Thus, not all types of products could be exported to the EU. Secondly, Ukrainian producers need time to find interested counterparts and build trust in their products.

It should be noted that certain TRQs are considerably below the export potential of some product groups, while TRQs for other products are much higher than could be used by Ukraine in the near future. For an example, TRQs for mutton and goat meat is 20 thsd t/year, while total production in Ukraine was at about 17 thousand tonnes/year¹⁸ in 2014.

By the end of the first period (December 31, 2014) of autonomous trade preferences granted by the EU to Ukraine, TRQs (allocated on the basis of first come, first served) for exports of natural honey, grape and apple juices, cereal grain and groats and

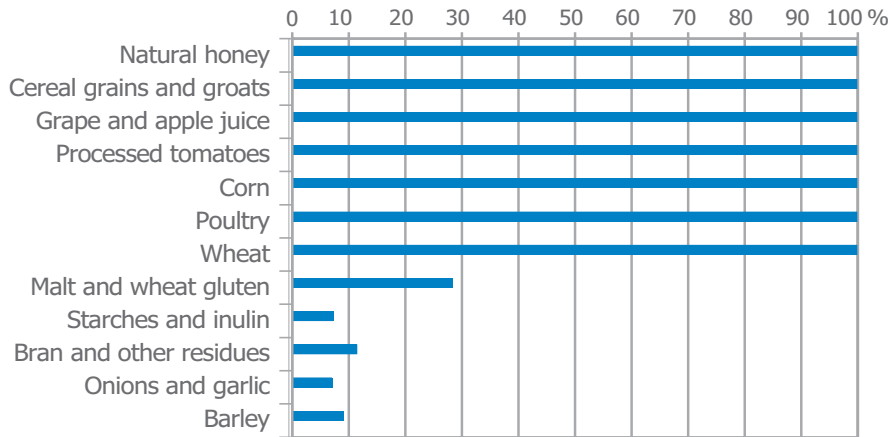
¹⁶ Decision № 2014/691/EC as of 29.09.2014.

¹⁷ Regulation EC N 1150/2014 amending EC N 374/2014

¹⁸ http://ucab.ua/ua/pres_sluzhba/novosti/kvota_na_ekspost_baranini_ta_kozlyatini_do_es_na_20_perevischue_ii_virobnitstvo_v_ukraini/?category=29780

processed tomatoes were fully exhausted. TRQs for malt and wheat gluten, bran and other residues, sugar and chocolate, starches and inulin, onions and garlic were used by 28%, 12%, 11%, 7% and 7%, respectively, while exports of products in 15 categories have not even started. In total, 27 commodity categories of TRQs were used by about 25% in absolute values.

TRQs based on import licenses were fully used only for corn, wheat and poultry, and only by 9% for barley. Overall 211 Ukrainian enterprises received the permission to export their produce to the EU by the end of December, 2014¹⁹.



Share of the EU TRQs used by Ukrainian producers

Source: Taxation and Customs Union, Ministry of Economic Development and Trade of Ukraine

According to the estimates of the APD²⁰, reduction of EU import tariffs envisioned in the DCFTA could result in 18-20% increase of agri-food related exports²¹ during the first ten years of trade liberalisation with the EU. The largest increase of exports is expected to be observed in cereals, tobacco, meat and miscellaneous edible products. Abolishment of Ukrainian export duties is likely to duplicate oilseeds exports over ten years period. Additionally, trade liberalisation with the EU could result in exports of products worth USD 2.3 bn, which are currently not exported to Ukraine. This is especially relevant for dairy products and birds' eggs, cereals and cereal preparations, meat and meat preparations; specialized machinery; marine products, and fixed vegetable fats and oils.

However, implementation of the DCFTA, i.e., bilateral reduction or removal of import duties on the majority of commodities, starting from January, 2016, will increase competition at the domestic market of Ukraine. The above-mentioned study of the APD demonstrates that reduction of Ukraine's import duties could increase imports up to 7% largely due to increased supplies of beverages, vegetable oils and fats, meat, mineral or chemical fertilizers, animal oils and fats, and sugar. Hence, it seems that gains obtained by Ukraine are likely to be higher than for the EU at least in the medium- and long-term.

In conclusion, introduction of the autonomous trade preferences brought first promising results in terms of increased exports of to the EU and also contributed to the improvement of food quality and safety standards and, thus, opened international

¹⁹ According to Ministry of Agricultural Policy and Food, <http://minagro.gov.ua/node/15389>

²⁰ www.apd-ukraine.de/images/PolPap-01-2013-DCFTA_eng.pdf

²¹ These estimates cover agriculture products, fishery products, food industry products, fertilizers, and selected machinery used in agriculture and food industry production

export possibilities for Ukraine. Delayed implementation of the DCFTA provides more time for the government to implement all required legislative changes. The Ukrainian agribusiness should adapt their production processes and standards to the EU requirements to strengthen their competitiveness at the EU market, as well as to maintain and expand their positions on the domestic market. ■



ABOUT UCAB

Association “Ukrainian Agribusiness Club” (UCAB) is a business association which represents the interests of leading companies of the Ukrainian agro-food sector. In 2015, the authority and importance of UCAB for domestic agribusiness were proved by several input companies joining UCAB.



UkrainianAgribusinessClub

The aim of our work is to promote efficient agribusiness in Ukraine and serve its various needs, from recruitment and search of investment opportunities to practical tasks such as the increase of production efficiency, and the development of proposals on improvement of agricultural policy in Ukraine.

Membership in the Association “Ukrainian Agribusiness Club” provides companies with obvious benefits: from the information and knowledge to support in solving many practical issues.

In 2015, UCAB keeps holding the status of Association No.1 in the agricultural sector of Ukraine, consolidating more than 80 important representatives of the industry.

In addition to activities such as recruiting, event management, market research, PR, we have significantly strengthened information sharing with UCAB members about legislative processes as well as efforts on professional development of personnel in agricultural companies.

With the aim to systematize activities in separate areas of the agro-food sector UCAB organized a number of committees. Each committee is a group of UCAB specialists as well as members of the Association, who are responsible for coordination of activities on monitoring, analysis, information and lobbying in several specific spheres of agribusiness.

Today the following committees successfully operate within UCAB:

Committee on Machinery and Agricultural Technology

Committee on Machinery and Agricultural Technology was founded upon the initiative of the key players of the market of agricultural machinery in Ukraine, members of UCAB, with the aim to improve business environment in the market of agricultural machinery, and discuss and develop suggestions on promotion of specialized exhibitions, and coordinate the process of information exchange between the Committee members.

12 companies are members of the Committee. The coordinator of the Committee is Taras Vysotskyi.

Agrochemical Committee

Committee on Crop Protection Products was created upon the initiative of key manufacturers of crop protection products, members of UCAB, with the aim to improve the conditions for access to the market of CPP in Ukraine, make progress in business environment of the agro-food sector, and exchange experience and information between the members of the Committee, etc.

5 companies are members of the Committee. The coordinator of the Committee is Oleksandr Zhemoyda.

Committee of CPP Distributors

Committee of CPP distributors was created upon the initiative of the leaders of the Ukrainian CPP market, members of UCAB, to improve business conditions for supplies of crop protection products, deregulate the market as well as to exchange information and experience.

13 companies are members of the Committee. The coordinator of the Committee is Lyudmyla Stotska.

Agricultural Biotechnology Committee

Agricultural Biotechnology Committee within the UCAB was launched by the key players in the biotech products market, members of UCAB. The main goals of the Committee include involvement in the adaptation of national legislation governing the use and registration of biotech products to the EU legislation, as provided by the Association Agreement between Ukraine and the European Union, and informing consumers and the public on achievements of modern agricultural biotechnology.

As of today, five companies are associated with the Committee. The coordinator of the Committee is Dr. Borys Sorochinsky.



ABOUT UCAB SERVICE

UCAB Service is a service partner of the association “Ukrainian Agribusiness Club”. UCAB Service includes three agencies that provide a full range of services for UCAB members and for all stakeholders — suppliers of agricultural production resources, agricultural producers, the food industry companies, food retailers, international organizations, financial and research institutions.



UCAB Service consists of the following departments.

AgriEvent

Event agency, aimed at provision of comprehensive service and professional organization of business, private and corporate events (conferences, seminars, round tables, business tours, B2B-meetings, etc.). AgriEvent also provides search, selection and rental of assembly halls, technical support, transport service, quality food arrangement and others. Since 2010, the agency has organized and carried out more than 110 national and international conferences and forums with the participation of more than 10 000 visitors from 30 countries, in cooperation with leading Ukrainian and multinational companies, embassies, ministries and academic institutions.



AgriSchool

The project is dedicated to solving the problem of lack of modern knowledge and personnel in the area of agricultural production and aims at improving of the professional development of the specialists of agricultural sector in the main areas of agricultural business as well as at getting unique theoretical knowledge and practical skills on-job. Since 2012, the following directions of AgriSchool have been functioning: “Crops”, “Fruit”, “Dairy Business Management”. AgriSchool has organized more than 25 training seminars, which were attended by more than 300 listeners, and a number of corporate training seminars for the leading agricultural companies of Ukraine.



AgriSurvey

The Agency provides multi-client and individual marketing and business consulting services for the agro-food companies, carries out qualitative and quantitative market research, economic analysis, business planning, develops market entry strategies, etc. A team of highly qualified professionals in the field of agribusiness and a regularly updated database with over 10,000 contacts in the agricultural sector are the valuable assets of the agency. Since 2010, the agency has carried out more than 100 studies of agricultural markets, held about 18,000 individual telephone and personal interviews with top management of agricultural enterprises.





AgriTravel

AgriTravel is specialized in individual and group agricultural business tours around Ukraine and abroad, such as visiting farms, business trips to agricultural exhibitions and international conferences. The agency cooperates with national and international companies, and has established personal contacts with agricultural holdings and farms, production and processing enterprises, leading consultants and experts in agribusiness, government agencies, agricultural universities, and the organizers of the international agricultural exhibitions.

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