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Agriculture in Ukraine: Economic and Political Frameworks

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List of Abbreviations

AMS	Aggregate Measures of Support
ASEAN	Association of Southeast Asian Nations
BITs	Bilateral investment treaties
CIS	Commonwealth of Independent States
CIS FTA	Commonwealth of Independent States Free Trade Agreement
CSE	Consumer Support Estimate
DCFTA	Deep and Comprehensive Free Trade Agreement
DIY	Do it yourself
EBRD	European Bank for Reconstruction and Development
EFTA	European Free Trade Association
EIB	European Investment Bank
EU	European Union
FDI	Foreign Direct Investments
FTA	Free Trade Agreement
GATS	The General Agreement on Trade in Services
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
GSP	General System of Preference
GUAM	Georgia, Ukraine, Azerbaijan and Republic of Moldova
ICSID Convention	The Convention on the Settlement of Investment Disputes between States and Nationals of Other States
IMF	International Monetary Fund
MFN	Most Favored Nation
NABU	National Anti-Corruption Bureau of Ukraine
NTM	Non-tariff Measures
PSE	Producer Support Estimate
SME	Small and medium-sized enterprises
SSG	Special Agricultural Safeguards
TFP	Total Factor Productivity
TRIMS	The Agreement on Trade-Related Investment Measures
TRIPS	The Agreement on Trade-Related Aspects of Intellectual Property Rights
TSE	Total Support Estimate
US	The United States of America
USSR	the Union of Soviet Socialist Republics
VAT	Value Added Tax
WTO	World Trade Organization

1. Introduction¹

Ukraine has always been known as an agrarian country. It has often been termed the “bread-basket” of Europe, which is true in terms of its rich natural potential: 70% of Ukrainian territory consists of arable land, and 66% of this is covered with the most fertile soils in the world (called “chornozem”, or black earth) and profits from favourable climatic conditions for planting.²

Despite favourable natural conditions, Ukraine has not been able to capitalize on its potential advantages in the agricultural sector. This is indicated by FAO statistics: in 2015 the value added of agriculture was lower than in neighbouring Poland or Germany and France, as well as in the Russian Federation.³ This paper traces the developments in this sector since Ukrainian independence in 1991 and distinguishes different phases in its evolution. The authors then attempt to situate the economic developments of the past twelve years (since the Orange Revolution) in their political context. This approach sheds some light on trajectories which are difficult to explain from an economic standpoint in order to better understand both current reform blockades and possible future scenarios.

This effort is especially necessary now, since recently the question of Ukrainian land reform has catapulted up the political agenda. In 2017 the International Monetary Fund (IMF) decided to make land reform a priority in its discussions with the Ukrainian government. Despite the fact that the Ukrainian parliament has so far failed to pass legislation abolishing the existing moratorium on land sales, the IMF requirement has rejuvenated the debate on the issue and provoked a plethora of inputs from political and economic actors both inside and outside Ukraine. It is thus extremely timely to review both the economic and political frameworks in which this debate is occurring, and to draw conclusions regarding likely future developments.

¹ The authors would like to thank Stephan von Cramon-Taubadel for his helpful comments on an earlier draft of this chapter.

² Державна служба України з питань геодезії, картографії та кадастру (2015): Інфографіка: Структура українських земель та співвідношення кількості чорноземів в Україні та інших Європейських країнах (Infographics: The structure of Ukrainian lands and the ratio of black soil in Ukraine and other European countries), URL: <http://land.gov.ua/info/infohrafika-struktura-ukrainskykh-zemel-ta-spivvidnoshennia-kilkosti-chornozemiv-v-ukraini-ta-inshykh-ievropeiskykh-krainakh/> (accessed 21.03.2017).

³ Food and Agriculture Organization of the United Nations: FAOSTAT, URL: <http://www.fao.org/faostat/en/#data/MK> (accessed 29.07.2017).

2. Economic influence

2.1 The current performance of the Ukrainian agricultural sector

This chapter reviews the state of the Ukrainian agricultural sector and its role in the country's economy with regard to two dimensions:

- 1) The *internal dimension*, which allows us to assess macroeconomic relevance by looking at some commonly utilized parameters.
- 2) The *external dimension*, which covers trade in goods and foreign direct investments, thus permitting a more international perspective.

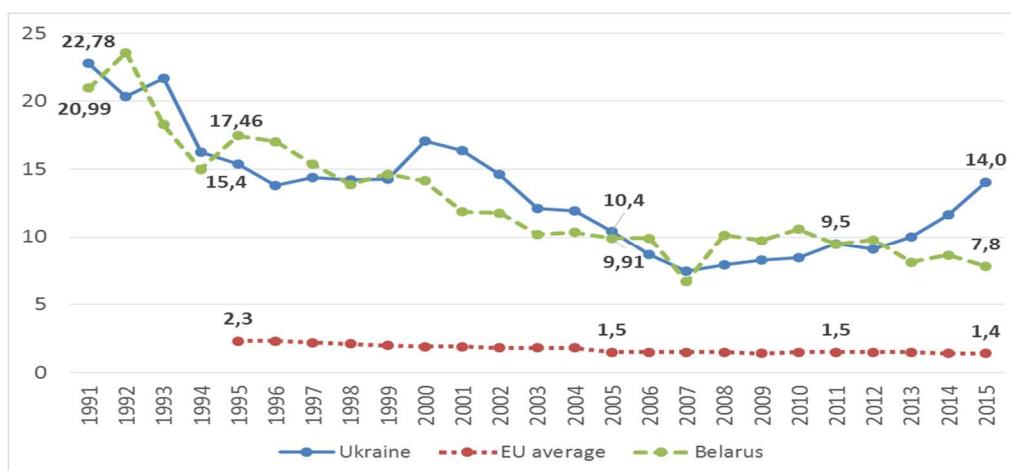
2.1.1 Internal dimension

1) Share of agriculture in GDP

Agriculture is the third most important sector of the Ukrainian economy, with a GDP share of 14.4% as of 2016, as compared to industry (26.3%) and services (59.3%).⁴ The Ukrainian government appears to see agriculture as the most important sector in terms of growth and investment opportunities.

As Figure 1 shows, agriculture is much more responsible for GDP performance in post-Soviet Ukraine and neighboring Belarus than in the European Union on average: the EU share for agriculture has consistently been lower than 2% during most of the last 20 years, while in Ukraine and Belarus its share was slightly more than 20% at the time of independence, although it has had a strong tendency to decline. However, in Ukraine this tendency has been reversed and the share of agriculture in GDP has been rising since 2007, first gradually and then more rapidly.

Figure 1. Share of Agriculture in GDP in Ukraine, Belarus and EU, %



Source: Eurostat, Ukrstat, Belstat, authors own calculations

⁴ CIA US: The World Fact Book: Ukraine, URL: <https://www.cia.gov/library/publications/the-world-factbook/geos/up.html> (accessed 28.02.2017).

2) Structure of gross agricultural production

Plant production contributes most to gross agricultural output. In 2015 wheat, barley, corn and other grains constituted 27% of gross production, followed by oilseeds with 20%, and vegetables and potatoes with a 19% share. At the same time meat production yielded only 14% of agricultural output and milk production 11%. Other types of production were responsible for 9% of gross output.⁵ It should be noted that Ukraine enjoys an international comparative advantage in grain production: its production costs are 50% lower than those of any other European country.⁶

3) Employment in agriculture

A high share of working population involvement in agriculture can be interpreted as a sign of the low total productivity of the sector: Ukraine placed 41st (TFP: 0.0385 annual average during 2004-2013) of 173 countries according to the US Department of Agriculture⁷. At the same time, agriculture has been responsible for about 20% of the workforce since 1991.⁸ Thus, Ukraine is a more agrarian country than its post-Soviet neighbour Belarus, where the share of employment in agriculture declined from 21.1% in 1991 to 9.7% in 2015.⁹ The EU has much lower population shares employed in the agricultural sector on average: 9.5% in 1991, 5.7% in 2005, and 4.2% in 2015.¹⁰

4) Households' expenditures on food

Ukrainian households spend above 50% of their income on food, which makes them more sensitive to food price increases than EU households or even those in

⁵ Vysotskyi T. (2016): Ukrainian Agriculture Sector: General Overview, presentation for Association "Ukrainian Agribusiness Club", slide 5, URL:

http://www.minagro.gov.ua/system/files/Brussel_Vysotskyi_0.pdf (accessed 13.02.2017).

⁶ OECD Eurasia (2015): Review of Agricultural Investment Policies of Ukraine, p.15, URL: http://www.oecd.org/globalrelations/Agricultural_Investment_Policies_Ukraine_ENG.pdf (accessed 10.03.2017).

⁷ United States Department of Agriculture: Economic Research Service: International Agricultural Productivity: file: Agricultural total factor productivity growth indices for individual countries, 1961-2013, URL: <https://www.ers.usda.gov/data-products/international-agricultural-productivity/> (accessed 19.04.2017).

⁸ TheGlobalEconomy.com: Ukraine: Employment in Agriculture, URL: http://www.theglobaleconomy.com/Ukraine/Employment_in_agriculture/ (accessed 27.02.2017), Ukrstat for 2010, 2015.

⁹ Национальный статистический комитет Республики Беларусь: Численность занятого населения Республики Беларусь по видам экономической деятельности (Number of employed population of the Republic of Belarus by type of economic activity), URL: <http://www.belstat.gov.by/ofitsialnaya-statistika/socialnaya-sfera/trud/godovye-dannye/chislennost-zanyatogo-naseleniya-respubliki-belarus-po-vidam-ekonomicheskoi-deyatelnosti/> (accessed 03.03.2017).

¹⁰ Eurostat: Database: Employment by sex, age, and economic activity, URL: http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=lfsa_egan2&lang=en (accessed 03.03.2017).

Belarus. More precisely, in 2014 a Ukrainian household spent 51.9% of its income on food (excluding take-away and restaurant food), which was a certain improvement over 2000, when the share of food expenditures constituted 64%.¹¹ In Belarus an average household spent 39.2% of income on food in 2014 and 58% in 2000.¹² At the same time, since 2000 an average EU household has spent only slightly more than 12% of its income on food.¹³ One important explanatory factor is the low income level leading to high expenditures on food: for example, in Ukraine a household's monthly income in 2014 averaged only EUR 237,¹⁴ compared to EUR 644 in Belarus¹⁵ and EUR 1875¹⁶ in Germany.

The poverty of the Ukrainian population was supposed to be reduced by different policies regulating food prices during certain periods of time (chapter 2.1) as well as by measures concerning consumer support. Especially price subsidies were used, which can be counterproductive as they may result in decreases in investments, production volumes and employment.

5) Agriculture as part of the state budget

Agriculture plays a large role in the public budget, especially on the side of revenues: It is one of the main budget-forming economic sectors in Ukraine. This is very unusual for western countries, which generally address this sector more from the expenditure side. Its importance increases significantly each year; thus, in 2016 the agricultural contribution to the state budget constituted 11.6% (UAH

¹¹ Ukrstat: Структура сукупних витрат домогосподарств (2010-2014) (Structure of total household spending (2010-2014)), URL: http://ukrstat.org/uk/operativ/operativ2007/gdv dg_rik/dvdg_u/strukt2010_u.htm (accessed 03.03.2017).

¹² Belstat: Потребительские расходы домашних хозяйств (Consumer spending of households), URL: http://www.belstat.gov.by/ofitsialnaya-statistika/solialnaya-sfera/uroven-zhizni-naseleniya/osnovnye-pokazateli-za-period-s- -po- gody_4/potrebitelskie-rashody-domashnih-hozyaistv/ (accessed 03.03.2017).

¹³ Eurostat: Final consumption expenditure of households by consumption purpose (COICOP 3 digit), URL: <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do> (accessed 03.03.2017).

¹⁴ Державна Служба Статистики України: Демографічна та соціальна статистика: Структура сукупних ресурсів домогосподарств (1999-2004) (Structure of total household resources (1999-2004)), URL: http://ukrstat.org/uk/operativ/operativ2007/gdv dg_rik/dvdg_u/strukt_res2010_u.htm (accessed 30.03.2017).

¹⁵ Национальный статистический комитет Респубоики Беларусь: Официальная статистика: Основные показатели денежных доходов населения (The main indicators of cash income of the population), URL: http://www.belstat.gov.by/ofitsialnaya-statistika/solialnaya-sfera/uroven-zhizni-naseleniya/osnovnye-pokazateli-za-period-s- -po- gody_4/osnovnye-pokazateli-dohodov-naseleniya/ (accessed 30.03.2017).

¹⁶ Eurostat: Database: Income and living conditions: Mean and median income by household type, URL: <http://appsso.eurostat.ec.europa.eu/nui/submitViewTableAction.do> (accessed 30.03.2017)

277bn).¹⁷ Budget income from agriculture in Ukraine is obtained mostly from a tax on land lease, taxes on wages, VAT on imports of productive resources, uncompensated VAT for export, tariffs and an excise tax on fuel.¹⁸ On the expenses side however – again different from most western countries - agriculture only receives 0.37%¹⁹ of public expenditures. This is dramatically lower than in the EU, where the sector consumes 38%²⁰ of the overall budget.

2.1.2 External dimension

1) Trade in agricultural commodities

Ukraine is the dominant world exporter of sunflower oil and occupies second place in exporting crops (excluding rice).²¹ Ukraine provided 6% of the total world export of cereals in 2015, ranking 6th among cereal exporters after the USA, France, Canada, India and Australia, while among importers of cereals the country took 72nd place.²²

According to the WTO, in 2015 Ukraine's top five commodities destined for agricultural export were sunflower seeds, maize (corn), wheat and meslin, soya beans, and solid residues from other oil (Figure 2). The top five imported items included unmanufactured tobacco, citrus fruits, food preparations, preparations used in animal production, and extracts, essences and concentrates (Figure 2).²³ Thus, agricultural products constituted 42.5% of the value of Ukrainian exports in 2016, and their share has been rising steadily in recent years.²⁴

¹⁷ Ukrstat (2016): Gross domestic product, 2016, URL:

https://ukrstat.org/en/operativ/operativ2016/vvp/vvp_kv/vvp_kv_e/vvpf_kv2016e_n.htm (accessed 28.07.2017).

¹⁸ Vysotskyi T. (2016): Ukrainian Agriculture Sector: General Overview, presentation for Association “Ukrainian Agribusiness Club”, slide 2, URL:

http://www.minagro.gov.ua/system/files/Brussel_Vysotskyi_0.pdf (accessed 13.02.2017).

¹⁹ Державна казначейська служба України: Виконання державного бюджету: Річний звіт про виконання Державного бюджету України за 2015 рік (Annual Report on the State Budget of Ukraine for 2015), URL: <http://www.treasury.gov.ua/main/uk/doccatalog/list?currDir=311513> (accessed 30.03.2017).

²⁰ von Cramon-Taubadel, S., Heinemann, F. (2017): The EU's Common Agricultural Policy. Why reform is overdue, URL: http://www.bertelsmann-stiftung.de/fileadmin/files/user_upload/EZ_flashlight_europe_2017_06_ENG.pdf (accessed 30.03.2017)

²¹ Міністерство аграрної політики та продовольства України (2017): Концепція Державної цільової програми розвитку аграрного сектору економіки на період до 2020 року (Concept of The State Target Programme of Agrarian Sector Development till 2020), URL: <http://www.minagro.gov.ua/apk?nid=16822> (accessed: 09.02.2017).

²² UN Comtrade Database, URL: <https://comtrade.un.org/data/> (accessed 06.03.2017).

²³ WTO: Country Profiles: Ukraine, URL: http://stat.wto.org/CountryProfiles/UA_e.htm (accessed 28.02.2017).

²⁴ Міністерство аграрної політики та продовольства України (2017): Стан галузей АПК 2016 (Agriculture overview 2016), URL: <http://www.minagro.gov.ua/monitoring?nid=19035> (accessed: 07.02.2017)

The Ukrainian agricultural sector possesses the potential to satisfy internal demand for many commodities with its own production capacities. This is demonstrated by the food self-sufficiency ratio of Ukraine. From 2007 to 2013 the respective average ratio for all products grew from 148.3% in 2007 to 162% in 2011 and 188.6% in 2013.²⁵ Ukraine produces 3 to 5 times more vegetable oil than it can consume, and 1.5 to 2 times more grain crops.

Figure 2. Top five export and import partners of Ukraine regarding major agricultural commodities in 2015

		Agricultural commodities							
		Oil seed	US\$, mln.	Cereals	US\$, mln.	Meat products	US\$, mln.	Dairy products, eggs, etc.	US\$, mln.
Export to ...	Turkey	389.5		Egypt	758.7	Russian Federation	125.4	Iraq	40.6
	France	178.7		China	676.9	Iraq	58.2	Germany	27.7
	Iran	157.1		Spain	593.2	the Netherlands	38.8	Kazakhstan	25.7
	Portugal	108.1		Saudi Arabia	402.8	Kazakhstan	22.8	UAE	24.9
	Belgium	103.3		Italy	317.2	Germany	16.9	Denmark	24.1
Import from ...	USA	37.8		Romania	38.9	Poland	45.7	Germany	14.5
	Turkey	32.4		Hungary	34.1	Germany	22	Poland	10
	Germany	25.2		France	21.2	the Netherlands	8.4	USA	6.4
	France	17.4		Pakistan	17.3	Belgium	3.5	Portugal	6.4
	India	17.2		India	13.6	Spain	3.1	Czech Republic	6.3

Source: DESA/UNSD, United Nations Comtrade database, URL:

<https://comtrade.un.org/labs/BIS-trade-in-goods/?reporter=804&partner=0&commodity=12&year=2015&flow=2> (accessed 01.03.2017)

Ukraine ranks 27th among the EU's trade partners as of 2016. Agricultural products constituted 31% (EUR 4067mn.) of EU imports from Ukraine and 9.3% (EUR 1540mn.) of EU exports to Ukraine.²⁶

Ukrainian exports of agricultural products to the European Union have risen by 1.6% in 2016 in comparison to 2015. The EU is the second largest importer of Ukrainian agrarian production after Asia. In 2016 the EU share in overall Ukrainian exports decreased to 27.5% from 31.5% in 2015. The main items exported to the EU are cereals, oil, oil seeds, fruits and nuts. By the end of 2017 the EU plans to increase the quotas on honey, processed tomatoes, grape juice, oats, wheat, maize, and barley which can be imported from Ukraine at a 0% tariff rate.²⁷ Ukrainian products such as cocoa paste, cocoa butter and ice cream have just

²⁵ Kobuta, I., Zhygadlo, V., Sikachyna, A. (2015): Policy Studies on Rural Transition: Ukraine's agricultural sector after accession to the WTO, FAO Regional Office for Europe and Central Asia, p. 24.

²⁶ European Commission (2017): European Union, Trade in goods with Ukraine, URL: http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113459.pdf (accessed 01.03.2017).

²⁷ The European Council (2017): Ukraine: Council confirms political agreement on temporary trade preferences for Ukraine, URL: <http://www.consilium.europa.eu/en/press/press-releases/2017/06/28-ukraine-trade-preferences/> (accessed 28.07.2017).

entered the European market in 2016, which encourages Ukraine to further diversify its exports to the EU.²⁸

Agricultural exports to ASEAN countries are rising rapidly – in the first four months of 2016 export volumes doubled (presumably compared to 2015) and reached US \$183mn. Ukraine exports mainly crops to ASEAN member states. The commodity structure of exports from Ukraine is the following: Indonesia – flour products, cereals, poultry eggs; Vietnam – meat, offal, flax seeds; Malaysia - condensed milk, flour and cereals; Singapore - flour, oil and meal; Thailand - meal, poultry eggs not in shell, egg yolks and butter. However Russian products seriously compete with Ukrainian ones in ASEAN markets.²⁹

Africa is emerging as an interesting market for Ukraine. Kenya³⁰, Tanzania³¹ and other African countries may become prospective markets for Ukrainian agricultural machinery, technologies of production and fertilizers as well as agricultural products such as “meals (including for fish and poultry), apple juice and concentrates, seeds, poultry and pork”.³² However, currently exports to Kenya (expressed in USD) account for only 0.5% of the amount Ukraine exports to the EU. Despite low volumes of trade with African countries, this continent may be of great interest for Ukrainian producers due to rapidly growing demand and existing free trade agreements among African countries, which permit access to a market consisting of 500 million people. Despite the high quantities of exports anticipated by the Ukrainian government it will be extremely important (though difficult) to produce goods and commodities of high quality in a reliable manner.

Though the image of Ukraine as a significant agricultural trade partner is often promoted and emphasized by political actors, business representatives provide a gloomier assessment. According to Pavel Fesiuk, the commercial director of a large Ukrainian agricultural company, “UkrAgroCom”, enterprises from Ukraine

²⁸ Ministry of Agrarian Policy and Food of Ukraine (2017): Export of Ukrainian agricultural products to European countries has reached \$4,2 billions in 2016 - Olga Trofimtseva, URL: <http://www.minagro.gov.ua/node/23161> (accessed: 07.02.2017).

²⁹ Рутіцька, В. (2016): Про Україну, Росію, АСЕАН і мільярд доларів на рік (About Ukraine, Russia, ASEAN and one billion US dollars in a year), URL: <http://www.epravda.com.ua/columns/2016/06/3/594908/> (accessed 10.02.2017).

³⁰ Ministry of Agrarian Policy and Food of Ukraine (2017): Bilateral trade with Kenya should receive a new impetus for development - Olga Trofimtseva, URL: <http://www.minagro.gov.ua/node/23020> (accessed: 07.02.2017).

³¹ Ministry of Agrarian Policy and Food of Ukraine (2017): Tanzanian market has interesting niches for Ukrainian goods - Olga Trofimtseva, URL: <http://www.minagro.gov.ua/en/node/23029> (accessed: 07.02.2017).

³² Ministry of Agrarian Policy and Food of Ukraine (2017): Bilateral trade with Kenya should receive a new impetus for development - Olga Trofimtseva, URL: <http://www.minagro.gov.ua/node/23020> (accessed: 07.02.2017).

have gained a reputation as unreliable trade partners. Indian and Chinese partners have claimed that they were permanently cheated by Ukrainians.³³

This image of an “unreliable partner” was formed primarily during the 1990s, when many companies were created for obtaining quick and substantial profits and were destroyed (i.e. declared bankruptcy) just after receiving the expected cash inflows. But nowadays many companies are interested in building long-term stable businesses with a permanent clientele.

2) *FDIs in agriculture*

The overall picture indicates a low rate of foreign investments in the agricultural sector compared to other sectors such as steel: From 2007 to 2015 FDIs in agriculture were not significant: their share in total FDI inflows rose to a maximum of 2.3% in 2009, whereas such inflows into steel in the same year comprised nearly 30% of all FDI. However, investments into steel have since decreased and reached the level of agricultural FDI inflows in 2015. Ukrainian agriculture has higher shares in total FDI than EU member states such as Germany (not more than 0.03%) and Poland (approximately 0.5%).³⁴ However, these countries are in a better position to invest in their own agricultural sectors and benefit from EU subsidies as well.

The main region investing in the Ukrainian agrarian sector is Europe – its share is about 49% of FDI stock. Cyprus alone is the origin of 28.6% of FDI stock from companies investing in agriculture.³⁵ However, often Ukrainian and Russian investors use accounts in Cyprus, so this may not be FDI originating from the EU. Germany is the second largest investor with a share of 12.8%, while the Netherlands follow with 12%. Other important investors are Austria, the United Kingdom, France, Italy, Poland, Switzerland and the United States. Investors from China and the Gulf countries have been increasing their participation in the agricultural sector of Ukraine³⁶ using innovative models. For instance, in 2012 a Chinese bank provided Ukraine with a credit line in exchange for a part of its corn harvests over the next 15 years, while a Saudi Arabian agribusiness consortium

³³ Фесюк, П. (2017): Куда катится аграрный бизнес? (Where does agro-business roll?), in Latifundist.com, URL: <http://latifundist.com/blog/read/1707-kuda-katitsya-agrarnyj-biznes> (accessed 10.02.2017).

³⁴ OECD.Stat: FDI flows by industry, URL: http://stats.oecd.org/Index.aspx?DatasetCode=FDI_FLOW_INDUSTRY (accessed 20.04.2017)

³⁵ OECD Eurasia (2015): Review of Agricultural Investment Policies of Ukraine, p.20, URL: http://www.oecd.org/globalrelations/Agricultural_Investment_Policies_Ukraine_ENG.pdf (accessed 10.03.2017).

³⁶ Ibid.

acquired the Ukrainian Continental Farmers Group in 2013.³⁷ Ukraine sees countries such as Saudi Arabia and Qatar as potential investors and encourages them to consider opportunities in Ukraine including “privatization of agrarian state enterprises; investments in agribusiness production of higher added value products (processing industry, organic farming, etc.) and cooperation in the field of agricultural machinery construction”.³⁸

There are also some financial funds which invest in Ukrainian agriculture. For instance, NCH Agribusiness Partners Fund I, NCH New Europe Property Fund II, and Sigma Bleyzer Southeast European Fund IV control a total of around 550,000 ha of Ukrainian land after having invested USD 750mn. in primary agriculture.³⁹

FDI inflow volumes into the Ukrainian economy may be not always correct due to a so-called round-tripping process, whereby Ukrainian investors use offshore entities to channel local funds into the country, which are then classified as FDI.⁴⁰ If we consider the data presented in Annex 1 on deals involving land leasing and concessions in Ukraine by foreign investors since independence, it is evident that foreign-registered de facto “branches” invested in Ukrainian “mother-companies”. For instance, Kernel Holding S. A., registered in Luxembourg in 2005, has twice invested in Ukrainian Kernel Holding S. A., which was created in 1995 in Ukraine. There is no other evidence from open sources on Kernel Holding S. A.’s activity, except for agricultural ones in Ukraine. Another example is the Netherlands-registered Astarta Holding NV, which invested in the Ukrainian company Astarta Kyiv LLC. According to the *Financial Times*, the operational activity of Astarta Holding NV has been concentrated exclusively on Ukrainian agriculture⁴¹, and 63% of the holding’s equity is owned by two Ukrainians.⁴²

Land deals as a special case of FDI with high political relevance

Even if the available data distort the picture somewhat, land is nonetheless an interesting investment opportunity, as foreigners often face much higher land

³⁷ OECD Eurasia (2015): Review of Agricultural Investment Policies of Ukraine, p.21, URL: http://www.oecd.org/globalrelations/Agricultural_Investment_Policies_Ukraine_ENG.pdf (accessed 10.03.2017).

³⁸ Ministry of Agrarian Policy and Food of Ukraine (2017): Minister: Ukraine is ready to supply regularly agricultural products to Qatar and extend its nomenclature, URL: <http://www.minagro.gov.ua/node/23023> (accessed: 07.02.2017).

³⁹ OECD Eurasia (2015): Review of Agricultural Investment Policies of Ukraine, p.21, URL: http://www.oecd.org/globalrelations/Agricultural_Investment_Policies_Ukraine_ENG.pdf (accessed 10.03.2017).

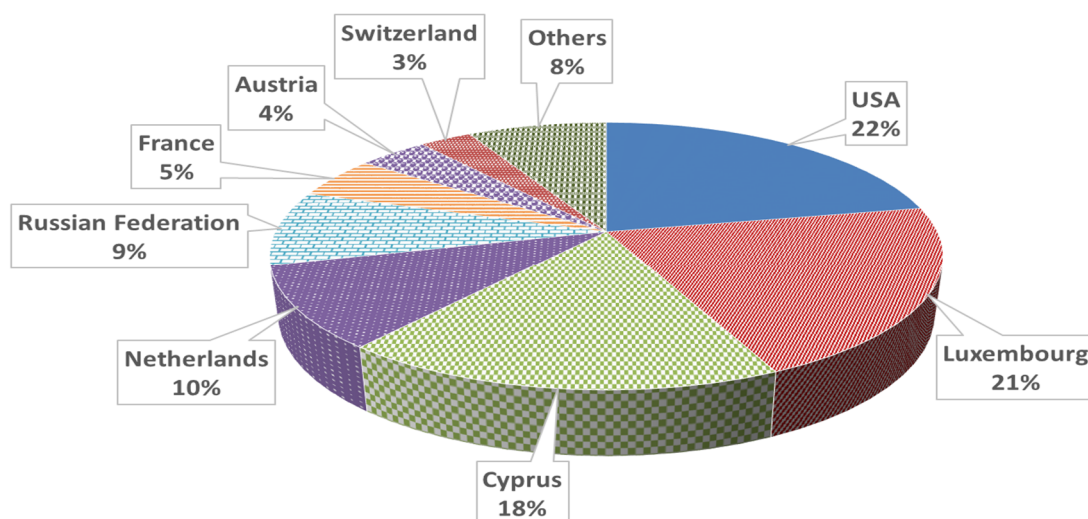
⁴⁰ OECD (2016): OECD Investment Policy Reviews: Ukraine 2016, OECD Publishing, Paris, p. 17.

⁴¹ Financial Times: Markets Data: Equities: ASTARTA Holding NV, URL: <https://markets.ft.com/data/equities/tearsheet/profile?s=AST:WSE> (accessed 23.03.2017).

⁴² Dragon Capital: Institutional Investors: Research: Companies: Astarta Holding (AST PW), URL: http://www.dragon-capital.com/en/institutional_investors/research/companies_issuers/ast_pw.html (accessed 23.03.2017).

prices in their home countries (e.g. as of 2015 19,578 EUR/ha⁴³ in Germany compared to a preliminary estimated maximum of 5,614 EUR/ha⁴⁴ in Ukraine). However, only 6% of all agricultural land is at the foreign investors' disposal. From 25 deals, including round-tripping ones, reported by the Online "Public Database on Land Deals" (Land Matrix) 5 deals were intended to invest in lands for both livestock and crops production, 3 – in land for planting food crops, 2 – in biofuels and food crops planting, while the intention for the rest is unspecified (Annex 1). US investors seem to have the most trust in Ukrainian land leasing: they contracted the highest share (22%) of the agricultural land which is available to foreign investors (Figure 3). At the same time the US ranks 10th among agricultural FDI providers excluding land lease. The main investor in the Ukrainian agrarian sector – Cyprus – is the third among land leasers. The second largest investor – Germany – is only responsible for 0.3% of all investments.

Figure 3. Percentage of agricultural land contracted by foreign investors regarding their country of registration (% of total, 2 466 292 ha in total)



Source: Land Matrix: Ukraine, URL: http://www.landmatrix.org/en/get-the-detail/by-target-country/ukraine/?order_by=investor_name&starts_with=U (accessed 10.03.2017), authors' own calculations.

General parameters influencing investments in agriculture

⁴³ Euroactive (2016): Structural changes in Germany as a result of climbing agricultural land price, URL: <https://www.euractiv.com/section/agriculture-food/infographic/structural-changes-in-germany-as-a-result-of-climbing-agricultural-land-price/> (accessed 29.07.2017).

⁴⁴ AgroPolit.com (2016): Експерти підрахували ціну гектара землі в Україні – дослідження (Experts estimate the cost per hectare of land in Ukraine - study), URL: <https://agropolit.com/news/56-eksperti-pidrahuvali-tsinu-gektara-zemli-v-ukrayini--doslidjennya> (accessed 30.03.2017).

According to the World Bank's Ease of doing business index⁴⁵, Ukraine occupied the 80th place out of 190 countries in 2016.⁴⁶ This is on the one hand a success, taking into account that in 2014 Ukraine was in the 112th position. But on the other hand, Ukraine is the third worst performer after Tajikistan (128th) and Uzbekistan (87th) among those post-Soviet countries evaluated.

Businesses in Ukraine have to cope with numerous and not always transparent licensing and permit requirements, unnecessary standards, certifications and other checks as well as corruption. Despite some sensible legislation, the combination of crony capitalism, corrupt behaviour, and an unsophisticated and manipulable judicial system no doubt prevents some entrepreneurs from making use of their legal rights and opportunities. Selective or double-standard application of legislation is still a commonly used practice in Ukraine.

Ukraine's low rank in the Corruption Perception Index⁴⁷ 2016 – 131st place, which it shares with Iran, Kazakhstan, Nepal and Russia, out of 176 countries – reinforces the statements above.⁴⁸ This situation is being worsened by ongoing violence in Eastern Ukraine and the continuing Russian occupation and annexation of the Crimea.

One factor inhibiting investments is the insufficient state of Ukrainian infrastructure: storage, transportation and irrigation facilities remain in inadequate condition. The rapidly growing demand for grain transport has not been met.⁴⁹ Despite some governmental efforts to invest in infrastructure for the agrarian sector such as increasing the storage and transloading capacities of a few ports in Ilychevsk, Odessa, Mykolaiv, Kherson and others,⁵⁰ as well as an increase in

⁴⁵ *Ease of doing business index* is an index estimated by the World Bank by measuring business regulations and their enforcement across 190 economies. A low numerical value of a country's place indicates better and simpler regulations for business and stronger protection of property rights.

⁴⁶ The World Bank: Ease of doing business index, URL:

<http://data.worldbank.org/indicator/IC.BUS.EASE.XQ?end=2016&start=2015&view=map> (accessed 01.03.2017).

⁴⁷ *Corruption Perception Index* is an index estimated by Transparency International ranking 176 countries by their perceived levels of corruption (or misused public power for private benefit) determined via expert assessments and opinion surveys. A higher numerical value of a country's place indicates untrustworthy and badly functioning public institutions as police, judiciary, etc.

⁴⁸ Transparency International: Corruption Perception Index 2016, URL:

http://www.transparency.org/news/feature/corruption_perceptions_index_2016 (accessed 01.03.2017).

⁴⁹ OECD Eurasia (2015): Review of Agricultural Investment Policies of Ukraine, p.7, URL:

http://www.oecd.org/globalrelations/Agricultural_Investment_Policies_Ukraine_ENG.pdf (accessed 10.03.2017).

⁵⁰ OECD, the World Bank (2004): Achieving Ukraine's Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life, the World Bank, Washington DC, p. 8

private investments in grain storage facilities, demand is expected to double by 2020.⁵¹

Other obstacles to investment are the sector's significant dependence on gas and electricity as energy sources while prices are fluctuating and often high, the absence of private water rights, a lack of adequately skilled workers, limited access to technical innovations, a weak banking sector and an underdeveloped capital market, environmental risks such as soil erosion, water pollution or radiation pollution.⁵²

2.2 Policies influencing agriculture

In the current chapter we evaluate the Ukrainian government's priorities in supporting producers or consumers of agricultural products as well as specific sub-sectors of agriculture, using OECD Producer Support Estimate (PSE)⁵³ and Consumer Support Estimate (CSE)⁵⁴ indicators. To supplement this domestic perspective on measures like subsidies, price regulations and taxes (Chapter 2.1) we also analyze external policies on trade and foreign investments, including land issues (Chapter 2.2).

The support provided by the Ukrainian government to different economic actors involved in agricultural production and consumption is summarized in Figure 4. High PSEs reflect in general phases in which farmers are politically supported by measures increasing their income like price support and subsidies, whereas high CSEs indicate support to consumers via e.g. political decisions to lower food prices. The Total Support Estimate (TSE)⁵⁵ adds up all public expenditures which

⁵¹ OECD Eurasia (2015): Review of Agricultural Investment Policies of Ukraine, p.7, URL: http://www.oecd.org/globalrelations/Agricultural_Investment_Policies_Ukraine_ENG.pdf (accessed 10.03.2017).

⁵² OECD Eurasia (2015): Review of Agricultural Investment Policies of Ukraine, p.7-8, URL: http://www.oecd.org/globalrelations/Agricultural_Investment_Policies_Ukraine_ENG.pdf (accessed 10.03.2017).

⁵³ PSE is defined as an indicator of the annual monetary value of gross transfers from consumers and taxpayers to support agricultural producers, measured at the farm gate level, and thereby consists of measures positively influencing farmers income like explicit and implicit transfers based on output volumes, market price support, tax exemptions, subsidies of different kinds, capital grants, etc. (OECD definition).

⁵⁴ CSE is defined as an indicator of the annual monetary value of gross transfers to (from) consumers of agricultural commodities, measured at the farm gate level, and thereby consists of measures positively influencing households like market price support for domestically produced consumption, transfers to the budget and/or importers on the share of consumption that is imported, consumer subsidies from taxpayers, etc. (OECD definition) It does not integrate general taxes without direct consumer impact.

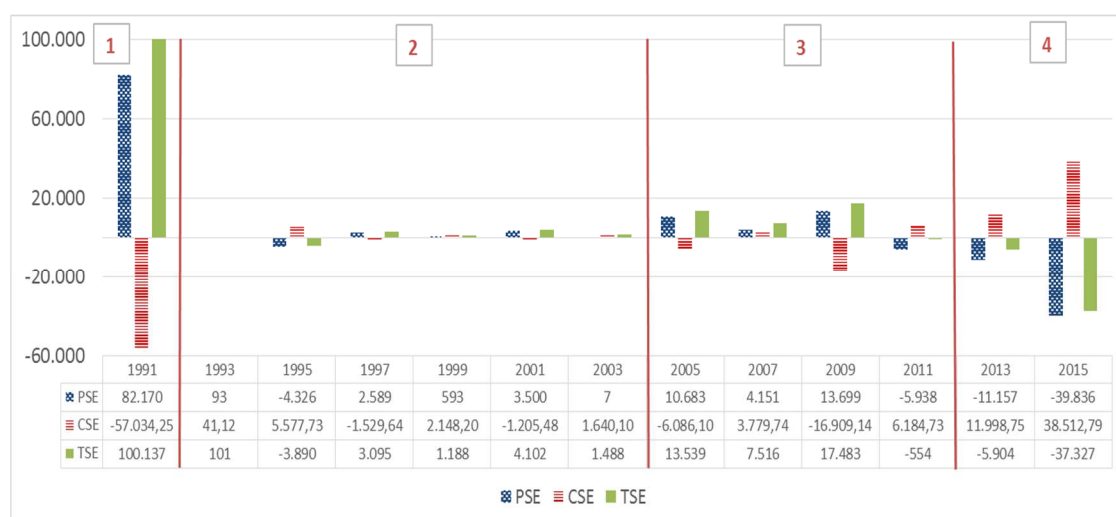
⁵⁵ TSE is defined as an indicator of the annual monetary value of all gross transfers from taxpayers and consumers arising from policy measures which support agriculture, net of the associated budgetary receipts, regardless of their objectives and impact on farm production and income, or consumption of farm products (OECD definition).

both directly and indirectly support producers and consumers, including e.g. research and advice services.

Four major phases can be distinguished related to different policy patterns:

- 1) 1991: producer-support priority;
- 2) 1992-2004: few and erratic agricultural measures; limitations on private property;
- 3) 2005-2012: renaissance of producer-support priority;
- 4) 2013 - present: consumer-support priority with continuing high taxes.

Figure 4. Governmental support of the Ukrainian agro-sector (Producer Support Estimate (PSE), Consumer Support Estimate (CSE), Total Support Estimate (TSE)), UAH mn.



Source: OECD: Producer and Consumer Support Estimates database, the authors' own calculations, URL: <http://www.oecd.org/tad/agricultural-policies/producerandconsumersupportestimatesdatabase.htm> (accessed 20.02.2017)

These phases are characterized by the use of certain sets of measures.

2.2.1 Internal dimension

1) 1991: producer-support priority

The first year of independence of Ukraine was marked by strong support for agricultural *producers* to the disadvantage of the *consumer*. The biggest chunk of this support was provided by fixing market prices for all agricultural commodities. Arguably, prices were regulated by politically defined production quotas as was done in the Soviet Union. Other types of support consisted mainly of electricity purchase subsidies and grants for fixed capital formation. At the same time the government conducted transfers from consumers to producers, lowering CSE by

setting high food prices to the disadvantage of the consumer. Significant transfers from taxpayers also took place, as expressed by TSE.

2) *1992-2004: few and erratic agricultural measures; limitations on private property*

The second phase is characterized by lower public budgets for agriculture and contradictory and ad hoc approaches. Although the absolute budget declined, a shift towards consumer support can be seen (positive values of CSE). Another political feature is the use of land property regimes which hinder private activities.

Consumers benefited at the expense of producers, except for three years: 1997, 1998, and 2001. Transfers from taxpayers to consumers were eliminated in 1992. Despite heightened diversification of instruments of state support to agricultural producers and consumers, their overall monetary expression remained minor.

On *the producer side* market prices regulation became less extensive, but was nonetheless preserved for all commodities and was provided in an unsystematic manner: support by the public linked to electricity expenditures lasted through the whole period with some fluctuations. The fixed capital formation grants were substituted step by step by more targeted state programs to finance livestock breeding and support orchards, vineyards and berry fields. Starting in 1999 agricultural producers enjoyed benefits from interest rate subsidies for short- and long-term loans. Until 1999 agricultural companies were exempt from income tax, but paid a profits tax at a rate of 25%.⁵⁶ In 1999 a tax reform took place: taxes were reduced to 3 types (fixed tax, VAT, and excise tax) from 12; a fixed agricultural tax was implemented;⁵⁷ VAT preferences were established⁵⁸ in a manner peculiar to Ukraine (see description of VAT preferences in Annex 2). A stable fixed tax reduced the burden for companies and allowed the government to reduce market price support for agriculture,⁵⁹ concentrating attention on other instruments.

In summary, the government conducted ad hoc interventions in agricultural commodities markets, such as credit and input supply activity, which in many cases were not transparent. Such actions increased risks for private agricultural producers, input suppliers and marketing agents. Governmental institutions restricted transactions of grain among actors in the value chain and in some cases

⁵⁶ The World Bank (1995): Ukraine Technical Report: Agricultural Trade and Trade Policy: a Multi-Country Analysis, the World Bank, p. 10.

⁵⁷ Fixed agricultural tax is a tax for agricultural enterprises involved in planting or related activity, which substituted such taxes as income tax, land tax and others. It is accrued as a percentage (usually from 0.09 to 0.45%) of estimated monetary value of the land owned by a taxpayer.

⁵⁸ OECD, the World Bank (2004): Achieving Ukraine's Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life, the World Bank, Washington DC, p. 38.

⁵⁹ OECD, the World Bank (2004): Achieving Ukraine's Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life, the World Bank, Washington DC, p. 17.

confiscated grain owned by private companies. Only when the government ceased market interventions in 1999 did business-to-business domestic trade again increase. In addition, the banking system began to provide credit to the agricultural sector, which again began to grow.⁶⁰

The uncertainty visible in the actions of the Ukrainian government during this period may be partially explained by concern about undermining the newly created state by provoking major social unrest and unemployment, which could rise significantly if market economy reforms were implemented quickly. However, in order to cope with high inflation, the budget deficit, and a shortage of currency, the Ukrainian leadership attempted to preserve existing inefficient measures such as governmental state orders, hard currency taxes, non-transparent restrictions on trade, etc. All those measures prevented a serious reform of the Ukrainian economy.⁶¹

On the other hand, a certain degree of chaos in the actions of the government may also be explained by the absence of a unique legislative framework. Only in 2004 was the law “On State Support of Agriculture in Ukraine” adopted. This law established processes of providing state subsidies and other forms of support to agricultural producers by means of vast tax benefits, although public expenditures remained modest.⁶²

Despite the overall financial support to agriculture in this period, other policies hindered private activities in particular. During this phase state support was directed primarily to state or public entities, which were not always profitable, while private initiatives were disadvantaged due to unequal access to state support or unclear and/or unresolved privatization procedures and land ownership regime. As a result, in 1994 only 13% of agricultural land was in private hands.⁶³ However, after a number of legislative acts on privatization adopted in 1992-1993 were

⁶⁰ OECD, the World Bank (2004): *Achieving Ukraine’s Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life*, the World Bank, Washington DC, p. 14.

⁶¹ The World Bank (1995): *Ukraine Technical Report: Agricultural Trade and Trade Policy: a Multi-Country Analysis*, the World Bank, p. VII.

⁶² Nivievskiy, O., Stepaniuk, O., Movchan, V., Ryzhenkov, M., Ogarenko, Y. (2015): *Country Report: Ukraine*, Institute for Economic Research and Policy Consulting, Ukraine, p. 55.

⁶³ The World Bank (1995): *Ukraine Technical Report: Agricultural Trade and Trade Policy: a Multi-Country Analysis*, the World Bank, p. 8.

implemented and the collective farm⁶⁴ system was eliminated in 1999, conditions changed to the benefit of private owners.⁶⁵

Excursus: Specific policies on land regimes

From 1995 to 1999 land was distributed in the form of non-tradeable land share certificates. In practice, realization of the rights provided by such certificates was difficult.⁶⁶ Moreover, the certificates could end up serving as an instrument for long-term leases, although they were meant to stand in for property rights. Thus, there was a risk that owners of small-sized certificates might be forced to conclude unfavourable long-term lease agreements with farm managers.⁶⁷

Later some specific measures were implemented: In 2001 the Land Code was renewed and a new system of land ownership and transfer was fixed in it, though according to its provisions agricultural land could not be sold, used as collateral or as equity by newly created businesses.⁶⁸ Foreign citizens or entities were not allowed to purchase agricultural land.

Despite these legislative changes, the transformation of massive collective farms into smaller private farms happened slowly. One possible explanation for this is a lack of opportunities for private entrepreneurship. Small landowners lacked access to finances and non-land assets. The latter were still mostly under the control of former collective farm managers. The only way for a small landowner to obtain some profit from the land was to lend it. In addition, at that time private landowners had little knowledge and few instruments to realize their production on markets or to maintain a stable supply of input materials. For those reasons, many small private households used their production mainly for private consumption, usually offering to the market only slightly above 33% of their output.⁶⁹

⁶⁴ According to the Internet Encyclopaedia of Ukraine, collective farms were called agricultural artels with commonly owned and used land and means of production by the participants of a collective farm, URL:

<http://www.encyclopediaofukraine.com/display.asp?linkpath=pages%5CC%5CO%5CCollectivefarm.htm> (accessed 28.04.2017).

⁶⁵ Президент України: Указ Президента України «Про невідкладні заходи щодо прискорення реформування аграрного сектора економіки» від 3 грудня 1999 (Decree of the President of Ukraine On Urgent Measures to Accelerate reform of the agricultural sector of December 3, 1999), URL: <http://zakon3.rada.gov.ua/laws/show/1529/99> (accessed 20.03.2017).

⁶⁶ OECD, the World Bank (2004): *Achieving Ukraine's Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life*, the World Bank, Washington DC, p. 84.

⁶⁷ OECD, the World Bank (2004): *Achieving Ukraine's Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life*, the World Bank, Washington DC, p. 87.

⁶⁸ Ibid.

⁶⁹ OECD, the World Bank (2004): *Achieving Ukraine's Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life*, the World Bank, Washington DC, p. 92.

3) 2005-2012: renaissance of producer-support priority

The third period is distinguished by rising producer support, except for a certain slowdown during the final two years. A dominant influence on the sector was exercised by WTO accession, which disciplined agricultural support, limiting it to a maximum of UAH 3.043bn. (USD 133mn.) annually.⁷⁰ The WTO requirements played a major role in leading to a reform of internal subsidies.

The so-called “bound Total Aggregate Measurement of Support (AMS)” was calculated on a base of governmental support during the years 2004-2006, leading to a reduction of around UAH 40bn of the former amount of subsidies.⁷¹ In addition to the fixed bound Total AMS Ukraine received the right to spend up to 5% of the value of annual gross agricultural production output on governmental support of producers in the sector.⁷² Except for the fixed amount of bound Total AMS, Ukraine was not obliged to eliminate or reduce the usage of any instrument affecting production (“amber box”) – what is different from other WTO members.⁷³ For this reason, without violating the bound Total AMS, the government managed to renew subsidizing processes, mostly relying on market price support instruments to promote production in sectors like pork, poultry meat, eggs and sugar. However, according to WTO commitments those products may also be supported by direct budget payments to producers. The major framework for commodities price regulation had been indicated by the establishment of the Agrarian Fund in 2005; later this measure was included in Ukraine’s WTO commitments.⁷⁴ According to this regulatory framework, purchases and sales by the Agrarian Fund may be executed at spot or forward prices on the Agrarian Exchange and are subject to minimum and maximum intervention prices (with a 5% margin)⁷⁵. According to WTO commitments, significant transfers also aimed

⁷⁰ Kobuta, I., Zhygadlo, V., Sikachyna, A. (2015): Policy Studies on Rural Transition: Ukraine’s agricultural sector after accession to the WTO, FAO Regional Office for Europe and Central Asia, p. 6.

⁷¹ WTO (2007): Accession of Ukraine: Domestic Support and Export Subsidies in the Agricultural Sector, Supporting Table DS: 4: Domestic Support: Ukraine, Reporting Period: calendar years of 2004-2006 (on average), Calculation of the Total Aggregate Measurement of Support (AMS), p. 7.

⁷² Міністерство економічного розвитку та торгівлі України (2017): Довідка щодо адаптації сільського господарства України до умов СОТ (Information on adaptation of agriculture of Ukraine to WTO commitments), URL: <http://www.me.gov.ua/Documents/Detail?lang=uk-UA&id=1782a677-ddc9-4237-a732-5d49d114aad&title=DovidkaSchodoAdaptatsiiSil'skogoGospodarstvaUkrainiDoUmovSot> (accessed 30.03.2017).

⁷³ Міністерство економічного розвитку і торгівлі України (2013): Довідка щодо зобов’язань України в рамках СОТ (Information on adaptation of agriculture of Ukraine to WTO commitments), URL: <http://www.me.gov.ua/Documents/List?lang=uk-UA&tag=Informatsiino-analitichniMateriali3> (accessed 30.03.2017).

⁷⁴ Kobuta, I., Zhygadlo, V., Sikachyna, A. (2015): Policy Studies on Rural Transition: Ukraine’s agricultural sector after accession to the WTO, FAO Regional Office for Europe and Central Asia, p. 25.

⁷⁵ WTO (2016): Trade Policy Review, Report by the Secretariat: Ukraine, p. 87

to finance the permitted measures, that are not affecting production (“green box” measures).⁷⁶ The average share of total governmental expenditures on “green box” measures during the available reported years 2009-2012 was 69.4%, while 30.6% of all expenditures for agriculture were spent for “amber box” instruments.⁷⁷

The state continued to support agricultural producers via electricity expenditures, as well as short- and long-term loan subsidies and VAT accumulation. At the same time support to family farms increased by more than 25 times compared to the previous period (1992-2004) and continued to do so until its elimination in 2012. While the livestock breeding support program had almost finished, a similar measure to promote orchards, vineyards and berry fields increased in monetary importance.

Also, the government raised the level of investments in services related to inspection and control functions as well as in rural irrigation infrastructure, which under WTO rules can be classified as “green box”.⁷⁸

Political documents relevant to these developments include the 2007 law on “Basic Principles of the State Agrarian Policy up to 2015” and the related “State Targeted Program for the Development of the Ukrainian Countryside until 2015”. These documents represent the first attempts to create a unique coordinated approach to agricultural policy implementation. They specified the process of developing rural infrastructure and other facilities, of improving food security and efficiency in production, and of enhancing international competitiveness.⁷⁹

There were no significant changes in the land ownership regime during this period, though the moratorium on land sales was extended several times.

4) 2013 - present: consumer-support priority with continuing high taxes

PSE became negative in 2013, placing Ukraine in a unique position among other countries: while other states tend to support agricultural producers and ease the tax burden on the sector, the Ukrainian government heavily taxes it, while politically declaring much the opposite (Figure 5).

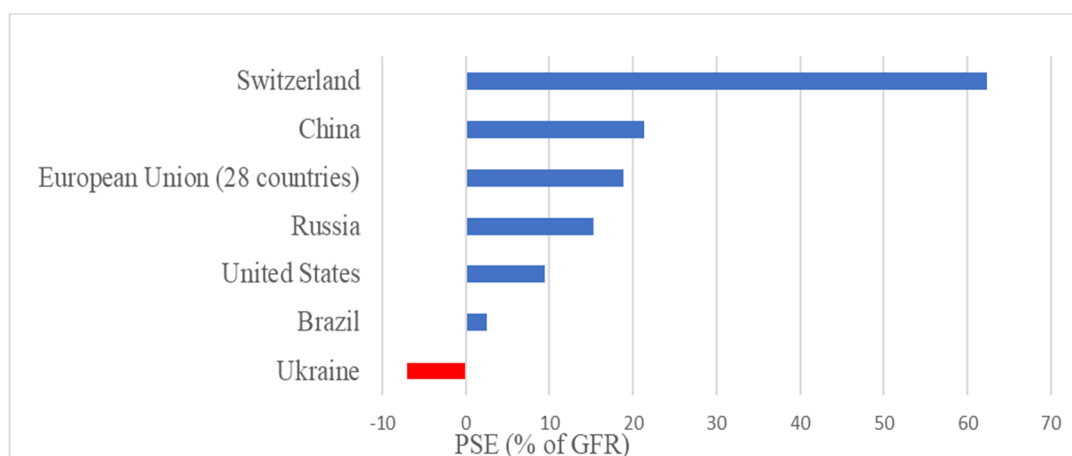
⁷⁶ Kobuta, I., Zhygadlo, V., Sikachyna, A. (2015): Policy Studies on Rural Transition: Ukraine’s agricultural sector after accession to the WTO, FAO Regional Office for Europe and Central Asia, p. 25.

⁷⁷ WTO: Notifications from Ukraine: Agriculture, URL: [https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?Query=\(%20@Symbol=%20g/ag/n/ukr/*\)&Language=ENGLISH&Context=FomerScriptedSearch&languageUIChanged=true#](https://docs.wto.org/dol2fe/Pages/FE_Search/FE_S_S006.aspx?Query=(%20@Symbol=%20g/ag/n/ukr/*)&Language=ENGLISH&Context=FomerScriptedSearch&languageUIChanged=true#) (accessed 31.03.2017).

⁷⁸ Kobuta, I., Zhygadlo, V., Sikachyna, A. (2015): Policy Studies on Rural Transition: Ukraine’s agricultural sector after accession to the WTO, FAO Regional Office for Europe and Central Asia, p. 25.

⁷⁹ Nivievskiy, O., Stepaniuk, O., Movchan, V., Ryzhenkov, M., Ogarenko, Y. (2015): Country Report: Ukraine, Institute for Economic Research and Policy Consulting, Ukraine, p. 55.

Figure 5: Ukrainian PSE as a percentage of gross farm receipts for 2015 in comparison to PSE of other countries



Source: OECD.Stat: Monitoring and evaluation: Reference Table: Producer Support Estimate (RSE), URL:

<http://stats.oecd.org/viewhtml.aspx?QueryId=70965&vh=0000&vf=0&l&il=&lang=en> (accessed 24.04.2017)

Several subsidies were cut: Long-lasting electricity subsidies were reduced and subsidies for short- and long-term interest rates were eliminated. Subsidies on VAT accumulation (Annex 2) continued to increase as did benefits from the fixed agricultural tax. But on January 1, 2017 the VAT exemption for agricultural sector was abolished, which finally allowed Ukraine to comply with the WTO condition on removing support for VAT accumulation.

Other forms of support declined as well. The livestock support breeding programme and even the support programme for orchards, vineyards and berry fields ended. Irrigation infrastructure development was no longer supported, although some transfers from the state were still going toward farm restructuring. At the same time consumer support doubled from 2012 to 2013 and tripled from 2013 to 2014.

The political framework for these changes was supplied in 2013 by a National Strategy for Agricultural Development 2020, but the implementation of this document was completely blocked by business representatives, who were extremely critical regarding its efficiency.⁸⁰ Later, a new Strategy for Agriculture and Rural Development 2015-2020 replaced the failed document. The agribusiness-government confrontation over the first version of the Strategy shows that consumers' interests had become a priority for the government, which consequently attempted to relocate the burden on producers. The necessity to support national consumers may have been heightened due to decreases in the

⁸⁰ Nivievskiy, O., Stepaniuk, O., Movchan, V., Ryzhenkov, M., Ogarenko, Y. (2015): Country Report: Ukraine, Institute for Economic Research and Policy Consulting, Ukraine, p. 55.

purchasing power of the population. These decreases raise the risk of social tension and a desire to replace those in power, which in fact happened in late 2013 during the Revolution of Dignity.

The current Strategy for Agriculture and Rural Development 2015-2020 aims to subsidize livestock production and family-type farms, to offer targeted food assistance to the most vulnerable segments of the population and to provide free healthy food in schools.

During this period, the rise of the Ukrainian agricultural sector motivated banks to launch specialised products to finance agrarians. These products include crop receipts with future harvests as collateral, agro-promissory notes, credit lines with extended periods of repayment, specialised leasing programmes for agricultural machinery, etc.

The moratorium on agricultural land sales by Ukrainian and foreign citizens and private entities is still in effect, although debates on its abolition are taking place in both parliament and society. According to the provisions of the Land Code the moratorium will remain in force until a law regulating land sales has been passed, and at least until January 1, 2018.⁸¹ (This subject is treated in greater detail below.)

Taking into account that the greater part of crops production in Ukraine is a low value-added activity, the Ministry of Agrarian Policy and Foodstuffs plans to develop the food-processing industry and organic farming (a bill on the general principles and requirements of organic production is currently under discussion in the parliament⁸²). However, exporting high-value products entails more costly export procedures subject to non-tariff measures (NTMs) in order to fulfill trade partners' requirements. This may restrict the development of these forms of production. In addition, the government aims to support the livestock sector - which has shrunk due to the loss of the Russian market.

2.2.2 External dimension

Numerous external parameters are linked to international organisations like the IMF and the WTO. Many major reforms of the Ukrainian economy have occurred as a consequence of fulfilling international obligations. The IMF and the World Bank have imposed more requirements on the Ukrainian agricultural sector than has the European Union or other financial institutions. These requirements aimed

⁸¹ Земельний кодекс України від 25.10.2015 (Land Code of Ukraine of 25.10.2015): Розділ X. Прикінцеві положення, пункти 14 та 15, URL: <http://zakon3.rada.gov.ua/laws/show/2768-14/page9> (accessed 13.03.2017).

⁸² Верховна Рада України: Проект Закону про основні принципи та вимоги до органічного виробництва, обігу та маркування органічної продукції (Draft Law on basic principles and requirements for organic production, handling and labeling of organic products), URL: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=60576 (accessed 23.03.2017).

at liberalizing the agricultural sector and establishing market principles, thereby abandoning price regulation and the special VAT regime (see Annex 2), and at launching a transparent land market. Starting in 2014⁸³ Ukraine promised to align the special VAT regime for agriculture (Annex 2) more closely with the general VAT regime and later to eliminate it. On 1 January 2017 the special VAT regime for agriculture was indeed abolished.

On the other hand, Ukraine and the IMF concluded a memorandum specifying that by the end of May 2017 all necessary legislation for introducing a land market should be adopted⁸⁴ (In fact, this issue has been on the table with the IMF since 2008). Though there are no specific requirements from the IMF side as to how the market should function, there are general expectations involving transparency, liquidity, and inclusiveness. The IMF Special Representative in Ukraine, Jérôme Vacher, stated that his institution sees the prudent development of a land market with opportunities for SME to thrive and attractiveness of capital in Ukraine as essential for economic recovery.⁸⁵ The World Bank concurs and has provided recommendations for protecting small landowners and farmers during the process.⁸⁶ However, Ukraine failed to meet the May deadline, postponing the creation of a market for land yet again.

The World Bank has focused on farm efficiency and output in the past, but is not currently active in the agricultural sector in Ukraine, in part due to previous negative experiences. In two cases the World Bank assessed the participation of Ukraine's state institutions as unsatisfactory while in a third case the Ukrainian side failed to fulfil its financial obligations. As the Bank stated in its final evaluation, rivalry of the state institutions among themselves also constrained project implementation.⁸⁷

⁸³ International Monetary Fund (2014): Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, URL: <https://www.imf.org/external/np/loi/2014/ukr/081814.pdf> (accessed 15.05.2017).

⁸⁴ Åslund, A. (2017): Why Does the IMF Keep Funding Ukraine?, Atlantic Council, URL: <http://www.atlanticcouncil.org/blogs/ukrainealert/why-does-the-imf-keep-funding-ukraine> (accessed 24.04.2017).

⁸⁵ Яніцький, А.: Представник МВФ: «Важливо, щоб влада України працювала як одна команда» (It is important that Ukrainian government works as one team), в: LB.ua, URL: https://lb.ua/economics/2017/04/24/364495_predstavnik_mvf_vazhливо_shchob_vlada.html (accessed 24.04.2017).

⁸⁶ Satu Kahkonen, "Ukraine Can Boost Annual Output by US\$15 Billion with Land Reform", The World Bank, 2 October 2017, <http://www.worldbank.org/en/news/opinion/2017/10/02/ukraine-can-boost-annual-output-us15-billion-with-land-reform> (accessed 04.10.2017).

⁸⁷ World Bank (2015): Report Number: ICRR 14640, ICR Review, Operations Evaluation Department, p. 3, URL: <http://documents.worldbank.org/curated/en/236291467986261763/pdf/ICRR14640-P035777-Box393183B-PUBLIC.pdf> (accessed 15.05.2017).

The way in which Ukraine has positioned itself towards other countries with regard to the agricultural sector has changed over time. The relevant changes can be summarized by referring to the same four phases reviewed in the area of domestic policies.

1) 1991: Weakening links to the (former) USSR

Ukraine obtained independence in August 1991. However, even before this date there were some disturbances in trade links with the former Soviet republics. This was due to the changing course of the USSR ruling elite – the so-called “perestroika” or “restructuring” – which involved abandoning certain communist postulates to some extent. Nonetheless, during this year Ukrainian trade was still intricately connected with the former USSR and remained under government control.

2) 1992-2004: From protectionism to trade liberalization

Up to the end of the 1990s Ukraine adhered to protectionist policies in agricultural trade. Until 1993 tariffs fluctuated between 10-30% depending on the individual commodity and its price, whereas afterwards (1993-1999) tariffs were raised significantly, and in 2001 tariffs on sunflower seeds, poultry and sugar exceeded 100%. Other non-tariff measures (NTMs) for import were implemented: import bans, licensing quotas, special certification requirements, and technical standards.⁸⁸ At the same time export was also restricted via export quotas, tariffs and licenses. For example, in 1999 an export tariff on sunflower and flax seeds was introduced.⁸⁹

Despite arguable economic necessities, Ukraine did not undertake close cooperation within the Commonwealth of Independent States (CIS), choosing instead a restricted form of membership with primarily observer functions, and stepping away from certain economic cooperation initiatives. Rather than utilizing this broader framework, the country preferred to establish bilateral free trade agreements (FTAs) with former USSR states, agreeing on 0% tariff rates in trade with almost all the CIS members. During the 1990s and the beginning of the 2000s such agreements were signed with Armenia, Azerbaijan, Belarus, Georgia, Kazakhstan, the Kyrgyz Republic, the Republic of Moldova, the Russian Federation, Tajikistan, Uzbekistan, and Turkmenistan.⁹⁰ However, in 2011 some of them were replaced by the new CIS FTA with provisions closer to WTO principles.⁹¹

⁸⁸ OECD, the World Bank (2004): *Achieving Ukraine’s Agricultural Potential: Stimulating Agricultural Growth and Improving Rural Life*, the World Bank, Washington DC, p. 16.

⁸⁹ *Ibid.*

⁹⁰ WTO (2016): *Trade Policy Review, Report by the Secretariat: Ukraine*, p. 29.

⁹¹ Nivievskiy, O., Stepaniuk, O., Movchan, V., Ryzhenkov, M., Ogarenko, Y. (2015): *Country Report: Ukraine*, Institute for Economic Research and Policy Consulting, Ukraine, p. 52.

Ukraine also became a member of two not very effective and mostly declarative cooperation initiatives: GUAM (Georgia, Ukraine, Azerbaijan, and Republic of Moldova) Organization for Democracy and Economic Development and the Black Sea Economic Cooperation.⁹²

During this period, Ukraine benefited from different Generalized Systems of Preferences (GSP) schemes with the EU, Canada, Japan, Turkey and the US, which allowed the country to enter these markets at very low tariff rates or duty free as in the case of the EU. Ukraine concluded a Trade and Investment Cooperation Agreement with the US in 2008. According to this accord, the countries maintain a joint Trade and Investment Council to regulate bilateral commerce, market access, VAT issues etc.⁹³

In 1994 Ukraine applied for WTO membership. The preparation period for membership took 14 years and required Ukraine to negotiate commitments within the three pillars of export, import and domestic support. Starting with the day of its application, Ukraine undertook efforts to align its legislation and trade procedures with WTO rules and legal acts. Thus, by the time of accession many sectors of the Ukrainian economy functioned according to WTO procedures.⁹⁴

Ukraine also made efforts to start attracting foreign direct investments into the economy. During the period analyzed in this section, Ukraine signed almost all of the 75 bilateral investment treaties (BITs) it has concluded with other countries (except the one with Japan, which was signed in 2015). 56 of the agreements are effective, 17 are signed but not yet effective, and one of them – with Italy – terminated in 2012 and was not replaced. In addition, the most important trade agreements concluded by Ukraine also contain investment provisions.⁹⁵

Other actions were undertaken as well to make FDI more attractive. For example, Ukraine has ratified the Convention on the Recognition and Enforcement of Foreign Arbitral Awards and the Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID Convention).

The Investment Law of 1990, the Law on Foreign Investment Treatment of 1996, and the Law on the Promotion of Investment Activities in Priority Sectors for Job Creation of 2012 provided tax incentives such as “duty exemptions on imports of capital equipment for foreign investors or corporate profit tax exemption for

⁹² WTO (2016): Trade Policy Review, Report by the Secretariat: Ukraine, p. 32.

⁹³ Ibid.

⁹⁴ USAID, Інститут економічних досліджень та політичних консультацій, Міжнародна благодійна організація «Гуманітарний фонд «Єдиний світ» (2008): Членство України в СОТ: огляд зобов'язань та коментарі до них (Ukraine's WTO membership: a review of commitments and commentaries to them), Київ, с. 9.

⁹⁵ UNCTAD: Investment Policy Hub: Ukraine, URL:

<http://investmentpolicyhub.unctad.org/IIA/CountryBits/219#iaInnerMenu> (accessed 10.03.2017).

income derived from investment projects resulting in job creation in priority industries”.⁹⁶

According to the Law “On Specific (Free) Economic Zones” of 1997, Ukraine created 12 specific economic zones and 9 priority development territories with special attractive customs and tax regimes from 1998 to 2000. But due to numerous cases of tax avoidance and evasion as well as corruption all free zones and territories were eliminated in 2005.

3) 2005-2012: *Acceding to the WTO*

In 2008 Ukraine became a WTO member: As a result of WTO accession Ukraine had to fulfill certain requirements in the fields of export, import and domestic support.

(1) Export subsidies were abolished. One of the important implications of Ukraine’s WTO commitments was the abolition of export quotas on grain, which were applied from November 2007 to March 2008.⁹⁷ However, in 2010 the country re-introduced such quotas on wheat, corn, barley, rye, and buckwheat. The necessity of this action was explained by a shortage of grain in the country due to summer droughts,⁹⁸ but the decisions concerning implementation of the quotas were perceived as unfair and lacking in transparency, and apparently helped to boost the profits of certain agricultural oligarchs (Chapter 3). In May 2011 export quotas on grain were substituted by export duties, which remained effective until January 2012.⁹⁹

(2) In line with its WTO commitments, Ukraine reduced the simple average rate of import duties to 11% for agricultural products and to 5% for other goods (compared to 13.8% for agricultural products and 4.4% for other goods prior to the accession phase). Consequently, as of 2015 simple average final bound rates remained the same, while the simple average tariff (most favoured nation, MFN) applied was even reduced: 9.2% for agricultural products and 3.7% for other

⁹⁶ OECD Eurasia (2015): Review of Agricultural Investment Policies of Ukraine, p.23, URL: http://www.oecd.org/globalrelations/Agricultural_Investment_Policies_Ukraine_ENG.pdf (accessed 10.03.2017).

⁹⁷ UNIAN (2007): Government introduced grain export quotas, URL: <https://www.unian.info/society/66763-government-introduced-grain-export-quotas.html> (accessed 11.05.2017).

⁹⁸ Kobuta, I., Zhygadlo, V., Sikachyna, A. (2015): Policy Studies on Rural Transition: Ukraine’s agricultural sector after accession to the WTO, FAO Regional Office for Europe and Central Asia, p. 7.

⁹⁹ Kobuta, I., Zhygadlo, V., Sikachyna, A. (2015): Policy Studies on Rural Transition: Ukraine’s agricultural sector after accession to the WTO, FAO Regional Office for Europe and Central Asia, p. 15.

products (Annex 3). The highest both bound and applied rates relate to sugar, cereals and animal products.¹⁰⁰

(3) In the field of subsidies a clustering was defined according to a traffic light pattern: prohibited red-box measures were not allowed to be implemented, amber-box measures were to be reduced (those that stimulate production and thereby may distort trade) and green-box measures (assuming they have no production effect at all) were permitted.

4) 2013 – present: Increasing bilateralism

Different agreements were concluded or initiated after Ukraine's WTO accession which reveal a certain sustainable pattern of trade measures:

(1) *With the EU* Ukraine managed to sign an Association Agreement in 2014, which included a Deep and Comprehensive Free Trade Agreement. Parts of the agreement are being implemented in a provisional manner due to the fact that the Netherlands significantly delayed ratifying the document and did so only in May 2017.¹⁰¹ In the Association Agreement the EU has imposed export duty-free quotas on 36 Ukrainian agricultural products. The EU will eliminate customs duties on many other Ukrainian such products within the next 10 years. In its turn, Ukraine will align its production and phytosanitary standards with those of the EU, but this requires significant investment by Ukrainian firms and only pays off in the medium to long term. However, the European Investment Bank has financed several relevant projects: EUR 3mn. were invested in sustainable forestry and biomass projects (2013),¹⁰² EUR 71mn. were used to upgrade the infrastructure of the agricultural enterprise Nibulon (2016),¹⁰³ and Ukraine is scheduled to receive EUR 21.5mn. in 2017 for tomato production and

¹⁰⁰ WTO: Ukraine: Tariffs and imports: Summary and duty range, URL: http://stat.wto.org/TariffProfiles/UA_e.htm (accessed 16.03.2017).

¹⁰¹ The Association Agreement was ratified by both the Ukrainian and the EU parliaments in September 2014 simultaneously. Later EU member state parliaments started to ratify the accord one by one. The Netherlands were the last to consider Association Agreement because the document spurred political debates lead by Dutch euro-sceptic groups and resulted in a national referendum on approval of the agreement, held in April 2016. The referendum rejected the ratification of the agreement, although it was not binding on the Dutch parliament. After the EU assured the Dutch government in writing that the Association Agreement did not imply a membership perspective for Ukraine, both chambers of the Dutch parliament approved the agreement.

¹⁰² European Investment Bank: Dasos Timber Fund II: <http://www.eib.org/projects/pipelines/pipeline/20110147> (accessed 16.05.2017).

¹⁰³ European Investment Bank (2016): EU bank meets its commitment of EUR 3bn of financial assistance as part of the EU's Special Support Package for Ukraine, URL: <http://www.eib.org/infocentre/press/releases/all/2016/2016-348-eu-bank-meets-its-commitment-of-eur-3bn-of-financial-assistance-as-part-of-the-eus-special-support-package-for-ukraine> (accessed 16.05.2017).

processing development.¹⁰⁴ The EBRD also finances mostly private businesses in Ukraine, with a total of 63 projects¹⁰⁵ in the agricultural sector to date. Among the well-known companies financed by EBRD are Astarta, Nibulon, and Kernel, all of which are owned by businessmen who could be termed agricultural oligarchs (Annex 4).

Moreover, after signing the Association Agreement with the European Union, Ukraine significantly transformed its public procurement system, implementing certain provisions found in EU legislation.¹⁰⁶ Those measures improved the country's attractiveness to foreign investors to some extent.

Under the conditions of the DCFTA and the CIS FTA Ukraine was originally scheduled to avoid any tariffs on export. However, the country backed exemptions to both agreements and succeeded in preserving the opportunity to tax the export of sunflower seeds with a 10% tax on export to CIS countries and a 9.1% tax on export to the EU (Annex 3). The latter is supposed to be eliminated gradually over the course of 15 years. Being aware of its comparative advantage in producing sunflower seeds and being confident of the stability of external demand, Ukraine tries to use this sector as a source of budget income.

The industry which Ukraine tries to protect with all available means is the sugar production industry. Sugar and sugar beets are the only commodities on which import tariffs and quotas are imposed when they come from CIS countries. Following the principle of reciprocity, some CIS FTA countries have also established similar quotas and tariffs on Ukrainian sugar and sugar beets.

In the case of the DCFTA agreement the situation is similar. Ukraine has retained import tariffs of 20% on sugar beets, but is obliged to reduce the tariff during the next five years. Furthermore, sugar is imported according to strict quotas, and if these are exceeded a 50% tariff is imposed.

(2) As Annex 3 shows, Ukraine has acquiesced to very favourable conditions in trade with the *Commonwealth of Independent States (CIS)* countries.

(3) Almost the same favourable regime is applied to smaller partners such as *Montenegro, Georgia, and Macedonia*.

¹⁰⁴ European Investment Bank: Tomato Production and Processing, URL: <http://www.eib.org/projects/pipelines/pipeline/20160653> (accessed 16.05.2017).

¹⁰⁵ European Bank for Reconstruction and Development: Project Summary Documents, URL: <http://www.ebrd.com/work-with-us/project-finance/project-summary-documents.html?c35=on&s0=on&keywordSearch> (accessed 21.08.2017).

¹⁰⁶ OECD (2016): OECD Investment Policy Reviews: Ukraine 2016, OECD Publishing, Paris, p. 16.

(4) The Ukraine-Canada Free Trade Agreement was ratified by both countries and became effective on August 1, 2017.¹⁰⁷

(4) Currently free trade agreements with Serbia, Israel and Turkey are under negotiation.¹⁰⁸

(5) Trade cooperation with Eastern Asia may be extended to massive projects on a state level. In autumn 2016 China proposed to Ukraine the creation of a free trade zone. This initiative is a part of China's New Silk Road. Moreover, China is establishing a fund of EUR 10 billion to invest into Eastern Europe, in line with an idea to deepen EU-China cooperation.¹⁰⁹

Summarizing all trade measures currently in place since 2008, Ukraine hardly uses trade measures specific to the agricultural sector: From all trade-hindering measures applied worldwide about 17 are Ukrainian and they hinder trade with agricultural products.¹¹⁰

Other relevant measures which influence trade are non-tariff measures (NTMs) and FDI measures including:

(1) Since 2008 sanitary and phytosanitary measures have been the most applied types of NTMs (119 overall). The clear majority of these measures relate to poultry, meat products, and live animals. Technical barriers to trade (113) are the second most often used measures, which have been applied to all trade partners and to such products as genetically modified food items, some products of plant origin, margarine, chocolate sweets, tea, coffee, and some types of meat and dairy products.¹¹¹

(2) Some conditions for FDI have worsened in recent years, e.g. duty benefits for importing capital equipment into the country and corporate profit tax exemptions were both eliminated.

Under the moratorium on agricultural land sales, foreign individuals, foreign legal entities and subsidiaries of foreign companies are not allowed to own agricultural land in Ukraine. They can only purchase non-agricultural land for agriculture-

¹⁰⁷ Pogrebna, A., Martinenko, O., Mylenka, T. (2017): Canada-Ukraine Free Trade Agreement in Effect from 01 August 2017, URL: <http://www.lexology.com/library/detail.aspx?g=2081a5fd-9bad-4c18-a751-8e49e23ff487> (accessed 29.07.2017).

¹⁰⁸ WTO (2016): Trade Policy Review, Report by the Secretariat: Ukraine, p. 31.

¹⁰⁹ Економічна Правда (2016): Китай оцінює створення зони вільної торгівлі з Україною – посол КНР (China initiates creation of a free trade zone with Ukraine – China Ambassador), URL: <http://www.epravda.com.ua/news/2016/11/7/610317/> (accessed 10.02.2017).

¹¹⁰ Global Trade Alerts: Statistics, URL: http://www.globaltradealert.org/latest/state-acts/implementing-jurisdictions_218/affected-sector_011,012,013,014,018,021,022,023,211,216,235,236,237,239,244 (accessed 16.03.2017).

¹¹¹ UNCTAD, WTO: TRAINS: The global database on Non-Tariff Measures, URL: <http://i-tip.unctad.org/Forms/MemberView.aspx?data=default> (accessed 09.03.2017).

related purposes such as breeding domestic animals or conducting food-processing activity, though this process is complicated and requires approval by several ministries and the consent of the Cabinet of Ministers. “If non-agricultural land plots become agricultural land, foreign legal entities and fully owned subsidiaries of foreign companies would have to sell them within one year.”¹¹²

Some bilateral agreements on FDI have been concluded: They are part of the DCFTA with the European Union, the FTA with EFTA, the CIS FTA, the Canada-Ukraine Cooperation Agreement, etc. Moreover, Ukraine is a member of 20 multilateral agreements with investment provisions, among which are the GATS Protocols, TRIPS, TRIMS, the Doha Declaration, the World Bank Investment Guidelines and others.¹¹³

There were also some measures taken to tackle corruption and to provide businesses with the opportunity to file complaints against governmental institutions or municipal authorities. Thus, in 2015 the institutions of Tax Ombudsman, Business Ombudsman and the National Anti-Corruption Bureau of Ukraine (NABU) were established.¹¹⁴ Concerning the two ombudsmen, media reports indicate some successful activity, as well as companies eager to use their services. In the case of the Business Ombudsman, this is underscored by the number of applications submitted to him – more than 2 000 during the past two years, with a tendency to increase over time.¹¹⁵ As for NABU, under the direction of Artem Sytnyk the institution has made courageous efforts to bring numerous corruption suspects, including managers of state-owned companies, to trial, despite major obstacles placed in its path by various political and economic actors. However, it is unclear how long it will continue to enjoy relative independence from the major power centres, including the president and parliament.

2.3 Conclusion

In summary, Ukraine can be described as a large and important agricultural actor, especially with regard to crops. The importance of agriculture to the Ukrainian economy and trade has been rising constantly since 2013.

Despite its significant potential, the Ukrainian agricultural sector does not attract much foreign direct investment in comparison to other sectors of the economy.

¹¹² OECD (2016): OECD Investment Policy Reviews: Ukraine 2016, OECD Publishing, Paris, p. 156.

¹¹³ UNCTAD: Investment Policy Hub: Ukraine, URL: <http://investmentpolicyhub.unctad.org/IIA/CountryBits/219#iaInnerMenu> (accessed 10.03.2017).

¹¹⁴ OECD (2016): OECD Investment Policy Reviews: Ukraine 2016, OECD Publishing, Paris, p. 16.

¹¹⁵ Finance.ua (2017): Бізнес став більше скаржитися на СБУ - бізнес-омбудсмен, URL: <http://news.finance.ua/ua/news/-/407410/biznes-stav-bilshe-skarzhytysya-na-sbu-biznes-ombudsmen> (accessed 29.07.2017)

Existing problems include a ban on land sales in Ukraine, underdeveloped infrastructure, ambiguities in legislation, the prevalence of corruption, unnecessary licensing and certification requirements, etc. A peculiarity of the Ukrainian context is the design of the VAT system.

In the field of agricultural policy an extremely erratic approach can be observed, leading to very different patterns of instruments affecting the various sectors differently: especially protected are sugar, sugar beets, and sunflower seeds. Since the WTO accession, however, a more coherent orientation can be perceived in terms of dealing with trade partners via bilateral trade agreements.

Whether the erratic developments outlined above can be explained by the context of clientelism and oligarchic structures prevalent in other sectors of the Ukrainian economy will be explored in the next chapter, which will focus on the political framework in which Ukrainian agricultural policy is developed, as well as on key businessmen in the sector who possess significant political influence.

3. The political economy of agricultural policy in Ukraine

This chapter aims to evaluate the possible impact of Ukrainian agricultural oligarchs on policy elaboration and implementation from 2005 to the present. While the use of the term “oligarchs” is familiar to those dealing with Ukraine, it has generally been confined to businesspeople outside the agricultural sector. Important players such as Rinat Akhmetov or Ihor Kolomoiskii, who combine major business empires with direct and indirect political influence, have been frequently analyzed with regard to their impact on the political (Annex 5) and economic environment in Ukraine.¹¹⁶

While these and other major oligarchs are not completely absent from the agricultural sector, their primary interests lie elsewhere. The only potential

¹¹⁶ Steffen Halling, Susan Stewart, “Deoligarchisation” in Ukraine: Promising Visions, Murky Realities. SWP Comments 2016/C 51, December 2016; Wojciech Konończuk, Keystone of the System: Old and New Oligarchs in Ukraine, Point of View 59, Centre for Eastern Studies (OSW), Warsaw, August 2016, https://www.osw.waw.pl/sites/default/files/pw_59_ang_keystone_system_net_0.pdf; Pleines, Heiko (2016): Oligarchs and Politics in Ukraine, in: *Demokratizatsiya* 24:1, 105-127; Susan Stewart, Regionen und Oligarchen: Einflüsse auf die ukrainische Außenpolitik. SWP-Studien 2011/S 23, September 2011; Andrew Wilson, Survival of the Richest: How Oligarchs Block Reform in Ukraine, ECFR Policy Brief, April 2016, http://www.ecfr.eu/page/-/ECFR_160_SURVIVAL_OF_THE_RICHEST-_HOW_OLIGARCHI_BLOCK_REFORM_IN_UKRAINE.pdf.

exception to this rule is Petro Poroshenko, who is significantly involved in agricultural business pursuits (see Annex 4). However, as the current president of Ukraine, he plays first and foremost a political role, although his economic interests should not be forgotten and, indeed, will be analyzed to some extent below. Nonetheless, our principal goal in this chapter is to assess the interests and capacity for political influence of a selection of businessmen who are key players in Ukrainian agriculture. Our assumption is that the analytical approach which has proven useful for exploring influence mechanisms utilized by other Ukrainian oligarchs will also be fruitful in the agricultural context.

There are more than 50 wealthy individuals who have built their fortune in agribusiness in Ukraine. They include both Ukrainian and foreign citizens, but arguably not all of them possess the necessary political connections to influence the development of agricultural policy. After studying the available data on agricultural companies' capital, quantity of land, etc. and conducting an evaluation of their possible links with politicians, we identified 12 key players in the Ukrainian agricultural sector (Annex 4). However, in this paper we concentrate our attention primarily on the first five, considering others only occasionally.

We thus proceed in three steps. First, we briefly sketch the political framework which is relevant for the agricultural sector, including both domestic and external actors. Second, we inquire into the potential of the five businessmen who appear to be the top economic players in this sector to influence policy via their political connections, based on their articulated and presumed interests. It is worth mentioning here that – to our knowledge - virtually no analysis of this sort has previously been attempted. This chapter thus represents a first effort and as such possesses an exploratory character. It concludes, third, with an assessment of the current efforts at land reform and the various interests involved. Not only is this topic closely related to the business affairs and political connections of the agricultural oligarchs analyzed in this chapter, it is also extremely topical, having recently been singled out by both the IMF and the World Bank as an area in which reform needs to occur in the near future.

3.1 The institutional framework relevant to the agricultural sector

Ukraine's agricultural policy is shaped directly and indirectly by a number of Ukrainian and foreign official institutions. Among the Ukrainian institutions of legislative and executive power which directly influence agrarian policy are:

- 1) The Verkhovna Rada of Ukraine (the parliament) with its specialised Committee on Agrarian Policy and Land Relations;
- 2) The President of Ukraine, who through his right of legislative initiative and right of veto can influence policy;

- 3) The Presidential Administration, which uses a variety of formal and informal mechanisms to influence various political and economic actors;
- 4) The Cabinet of Ministers of Ukraine;
- 5) The Ministry of Agrarian Policy and Foodstuffs of Ukraine, including its sub-divisions for agrarian policy implementation: The State Veterinary and Phytosanitary Service, the State Service for Geodesy, Cartography and Cadastre, the State Agency for Forest Resources, the State Agency for Fisheries, the State Agricultural Inspection. The last coordinates and controls the coherent implementation of agrarian policy by different institutions and across various regions.

As for political parties inside Ukraine, they have generally focused primarily or exclusively on questions of land ownership. Most parties do not support free circulation of agricultural land. Instead, there are propositions to increase land rental prices or set a minimum rent. Some parties see the state as the only player legitimately entitled to buy land from those citizens who currently own it. Another position many parties have in common is that only Ukrainian citizens should have a right to own agricultural land. This is in any case one of the crucial issues for agricultural policies in any country context.

In principle, the Agrarian Party should play a role in debates and policymaking on agricultural questions in the country, but in fact its impact is relatively small. In its current form the Agrarian Party was founded in 2006. The party is not represented in the national parliament; however, it does have over 3000 deputies in regional and local legislatures. Its influence varies strongly across regions. Although the party is seen to support the interests of larger agroholdings rather than those of small farmers, this does not mean that all major players in the agrarian sphere endorse it. Even those who do may not do so publicly or may back a variety of political forces in order to hedge their bets and ensure some form of influence in a changing political constellation.¹¹⁷

In recent years the Agrarian Party has been financed by Cypriot companies linked to Ukrainian Svarog Capital Ltd., which belongs to Maryna Buryak, wife of parliamentarian Oleksandr Buryak.¹¹⁸ He and his brother Serhii were active in the banking business, owned a group of agricultural companies called “Svarog West Group” and were previously both members of parliament from Yuliia

¹¹⁷ AgroPolit.com (2016): Максим Розумний: Агрополітика в Україні — наймолодший син, який тільки починає златити з печі... (Maksym Rozumnyi: Agrarian Policy in Ukraine - the youngest son, who is only beginning to get off the oven), URL: <https://agropolit.com/interview/35-maksim-rozumnyi-agropolitika-v-ukrayini--yak-naymolodshiy-sin-yakiy-tilki-pochinaye-zlaziti-z-pechi> (accessed 14.04.2017).

¹¹⁸ Світлий, І. (2016): Аграрна Партія України. Придивись уважніше (Agrarian Party of Ukraine. Look more carefully), Актуально, URL: <http://aktualno.km.ua/aktualno-dlya-podolyan/agrarna-partiya-ukrayini-pridivis-uvazhnishe/> (accessed 18.04.2017).

Tymoshenko’s party “Batkivschina”. Serhii later moved to the Party of Regions (the party of the former Ukrainian president Viktor Yanukovich). He also headed the State Tax Service of Ukraine from 2007 to 2010. This appears to point to a rather narrow type of backing for the party, and a limit to the kind of interests it promotes.

According to Forbes Ukraine, a shift in the power of the economic elites is currently taking place. The business elite linked primarily to the gas and steel industries has been losing its wealth faster than the agrarians (Figure 6), thereby also reducing its political influence. Despite having lost wealth generally in 2016 Petro Poroshenko’s agricultural holding “Ukrprominvest-Agro” and his confectionary corporation Roshen both yielded significant profits to their owner. A rise in net income was also enjoyed by the agro-holdings “Nibulon” (Oleksii Vadaturskyi), “Kernel” (Andriy Verevskyi), and “Astarta” (Viktor Ivanchik).¹¹⁹ It therefore seems logical to explore the backgrounds and interests of these increasingly important actors and their potential impact on Ukrainian policy, as we do in the next section.

Figure 6. Changes in key Ukrainian oligarchs’ wealth in oil-gas, steel industries and agriculture

Name	Industry	Wealth, US\$ mn.		Change, US\$ mn.	% of change
		2013	2016		
Rinat Akhmetov	Steel, energy	154000	2300	-13100	-85%
Viktor Pinchuk	Steel	3800	1200	-2600	-68%
Konstantin Zhevago	Steel	1500	431	-1069	-71.30%
Nestor Shufrich	Energy	273	108	-165	-60.40%
Yuriy Kosiuk	Agro	1600	1000	-600	-37.50%
Petro Poroshenko	Agro, media	1600	858	-742	-46.40%
Andriy Vadaturskyi	Agro	810	840	30	3.70%
Andriy Verevskyi	Agro	1000	694	-306	-30.60%

Sources: *Forbes Україна (2013): 100 богатейших – 2013 (The 100 wealthiest - 2013)*, URL: <http://forbes.net.ua/business/1351729-100-bogatejshih-2013>, *Forbes Україна (2016): Рейтинг Forbes: 100 найбагатших-2016 (Forbes rating: The 100 wealthiest - 2016)*, URL: <http://forbes.net.ua/ua/ratings/4>

¹¹⁹ Forbes Україна: Рейтинг Forbes: 100 найбагатших-2016 (Forbes rating: 100 the richest-2016), URL: <http://forbes.net.ua/ua/ratings/4> (accessed 03.04.2017).

3.2 Mechanisms of oligarchic influence on agricultural policy

As Steffen Halling and Susan Stewart point out, there are three primary strategies used by Ukrainian oligarchs to influence both policy and public opinion. These include holding political office, building (often corrupt) networks to access key political decision-makers and institutions of power, and acquiring ownership of important media outlets capable of reaching a large number of viewers/listeners.¹²⁰ In the following we draw on these three categories to describe and evaluate the activities of major businessmen in the agricultural sector in Ukraine. This approach helps a) to situate them in the political context, b) to assess their interests as well as their potential influence on policy, and c) to determine the degree of similarity of approach between them and the more traditional oligarchs in other sectors.

1) Occupying high-level political positions

Among the traditional oligarchs, there has been a clear trend over time moving away from the strategy of occupying political positions. For the agricultural businessmen we focus on here, there is no clear pattern which emerges, although it is possible to say that the preferred strategy appears to be installing their supporters in key posts (see 2) below).

The owner of Kernel Holding, *Andriy Verevskiy*, for example, decided to represent his business in the halls of political power himself. In 2002 Andriy Verevskiy was elected to the Parliament as an independent deputy from Poltava region. Later he joined then President Leonid Kuchma's party "Yedyna Ukraina", but eventually moved to the Yulia Tymoshenko's Bloc, abandoning it in turn in 2010 for the Party of Regions.¹²¹

Verevskiy thus demonstrated his willingness to change political allegiances in exchange for political support for his businesses. This strategy appears to have paid off. He appears to have benefited from his position in parliament and his proximity to Yulia Tymoshenko during her term as Prime Minister (2007-2010). When due to the consequences of the financial crisis and periods of serious drought she initiated quotas on sunflower oil export, Andriy Verevskiy's companies continued to export this oil without limitations, taking advantage of the constraints on their competitors. However, Andriy Verevskiy was not the only one who benefited – poultry producers, including Yuriy Kosiuk, managed to reduce their production costs because poultry feed became cheaper.

¹²⁰ Halling/Stewart, op cit. (see footnote 106).

¹²¹ Національне бюро розслідувань України (2016): Андрей Вереvский. История успеха бывшего регионала и БЮТовца. Расследование (Andriy Verevskiy. The history of success of the former member of the Party of Regions and Fatherland. Investigation), URL: <http://nacburo.org/18851#> (accessed 12.04.2017).

When Verevskiy understood that political power would soon shift, he left Yulia Tymoshenko's party and joined the Party of Regions. This new affiliation helped him to circumvent the quotas on grain export introduced by the government during the Yanukovich presidency.¹²² These beneficial years helped the oligarch to build resources for further extending his business. In 2004, he managed to combine his assets in one holding – Kernel Holding S. A. Starting then, the business grew significantly from year to year. In 2010, Verevskiy purchased a large Ukrainian vegetable oil producer and grain trader, Allseeds,¹²³ and in 2013 he acquired the highly profitable medium-sized company Druzhba-Nova,¹²⁴ Then, in 2014-2015, Kernel's owner increased his stake to 100% in two sugar beet and crops planting companies.¹²⁵

For the steel magnates leading the Party of Regions Andriy Verevskiy had never been a priority, so in 2013 the Parliament deprived Verevskiy's of his mandate because he had illegally combined business activity with his political role. Unofficially this move is seen as a punishment intended to frighten other deputies into being more disciplined.¹²⁶ In Verevskiy's case the objectionable behaviour was particularly blatant, since he was residing primarily in Switzerland at the time and rarely bothered to attend sessions of parliament.

The biggest landowner in Ukraine, *Oleh Bakhmatiuk*, has never occupied political positions, but from 2005 to 2007 he held an important position in a state enterprise, serving as the head of the division on expert evaluation of investment and corporate financing at Naftohaz Ukrainy. During this short term Bakhmatiuk managed to launch the Prykarpatska Financial Corporation and bought controlling stakes in five local gas companies. With the financial resources from this activity, *inter alia*, his Avangard holding (later transformed into Ukrlandfarming) began to trade its shares on London stock exchange in 2010.¹²⁷

While *Petro Poroshenko* rules the country as the President of Ukraine, his business is thriving. Poroshenko's assets include confectionary production, media, an

¹²² Ibid.

¹²³ Forbes Україна: Андрій Веревський (Andriy Verevskiy), URL:

<http://forbes.net.ua/ua/persons/601-verevskij-andrij-mihajlovich> (accessed 12.04.2017).

¹²⁴ Forbes Україна (2014): Ціна дружби: як купують агроактиви (The price of friendship: How agro-assets are bought), URL: <http://forbes.net.ua/ua/magazine/forbes/1380682-cina-druzhbi-yak-kupuyut-agroaktiv> (accessed 12.04.2017).

¹²⁵ Forbes Україна (2014): «Кернел» докупив частки у двох агрокомпаніях (Kernel bought out shares in two agro-companies), URL: <http://forbes.net.ua/ua/news/1383639-kernel-dokupiv-chastki-u-dvoh-agrokompaniyah> (accessed 12.04.2017).

¹²⁶ Національне бюро розслідувань України (2016): Андрей Веревский. История успеха бывшего регионала и БЮТовца. Расследование (Andriy Verevskiy. The history of success of the former member of the Party of Regions and Fatherland. Investigation), URL: <http://nacburo.org/18851#> (accessed 12.04.2017).

¹²⁷ LB.ua: Бахматюк Олег Романович (Bakhmatiuk Oleh Romanovych), URL: http://lb.ua/file/person/2933_bahmatyuk_oleg_romanovich.html (accessed 14.04.2017).

agricultural holding, starch production, automobile and shipbuilding, glass production, and fitness centers.¹²⁸ Part of Posroshenko's assets belong to a so-called 'blind' trust, but he still possesses many of them.¹²⁹ As of 2014 Poroshenko's agro-holding UKRPROMINVEST-AGRO included 6 companies.¹³⁰ The holding takes the leading position in flour production and is building up its capacities in sugar production: in 2014 it was the third biggest producer of sugar in Ukraine,¹³¹ while nowadays it holds second place¹³². The sugar market in Ukraine is highly regulated and each marketing year companies receive from the state authorities a certain quota for the quantity of sugar a given company may sell on the Ukrainian market. Not surprisingly, Petro Poroshenko's sugar production plants received the highest quotas in the marketing years 2013/2014 and 2015/2016.¹³³

Poroshenko held several political posts previously as well. Between 1998 and 2007 (and again in 2012) he was a member of the Ukrainian parliament. In addition, he has served as Minister of Foreign Affairs, Minister of Economics and Trade, and Secretary of the National Security and Defence Council. He is therefore more of a politician than a businessman, and in that sense in a different category than the other people described here. At the same time, he clearly combines political and economic influence, just in different proportions when compared with the other oligarchs.

The owner of the agro-holding "Myronivskyi Hliboproduct" (MHP) *Yurii Kosiuk* has good relations with the current president. In July 2014, Kosiuk was appointed First Deputy Head of the Presidential Administration and made responsible for

¹²⁸ Корреспондент.net (2014): Весь бизнес Порошенко. Журналисты составили список активов президента-олигарха (All Poroshenko's business. Journalists have made a list of the President-oligarch's assets), URL: <http://korrespondent.net/ukraine/politics/3371259-ves-byznes-poroshenko-zhurnalysty-sostavyly-spysook-aktyvov-prezydenta-olyharkha> (accessed 27.05.2017).

¹²⁹ Saakov, V. (2016): "Forbes Україна": Активи Порошенка зросли на 100 мільйонів доларів (Forbes Ukraine: Poroshenko's assets raised on US\$ 100mn.), in Deutsche Welle, URL: <https://goo.gl/uCE7ct> (accessed 27.05.2017).

¹³⁰ Корреспондент.net (2014): Весь бизнес Порошенко. Журналисты составили список активов президента-олигарха (All Poroshenko's business. Journalists have made a list of the President-oligarch's assets), URL: <http://korrespondent.net/ukraine/politics/3371259-ves-byznes-poroshenko-zhurnalysty-sostavyly-spysook-aktyvov-prezydenta-olyharkha> (accessed 27.05.2017).

¹³¹ Антикор (2015): Життя - цукор. Бізнес Порошенка нарощує оберти, решта – знижують (Life is sugar. Poroshenko's business expands, others reduce turnover), URL: <http://antikor.com.ua/articles/69282-stali-izvestny-posledstviya-metodov-prestupnoj-mobilizatsii-na-harjkovshchine-foto> (accessed 15.04.2017).

¹³² UKRPROMINVEST-AGRO, URL: <http://www.upi-agro.com.ua/en/Content/Sugar> (accessed 27.05.2017).

¹³³ Антикор (2015): Життя - цукор. Бізнес Порошенка нарощує оберти, решта – знижують (Life is sugar. Poroshenko's business expands, others reduce turnover), URL: <http://antikor.com.ua/articles/69282-stali-izvestny-posledstviya-metodov-prestupnoj-mobilizatsii-na-harjkovshchine-foto> (accessed 15.04.2017).

army supplies and logistics. However, he resigned from this position only six months later, in December of the same year. The reasons for this appointment and resignation are not adequately covered in open sources, though it appears plausible that Yuriy Kosiuk used his position in the Presidential Administration to obtain significant VAT reimbursements to his businesses.¹³⁴

2) *Placing friends and relatives in high-level political positions*

In addition to being closely connected to the current president, *Yurii Kosiuk* also had profitable and friendly relations with President Victor Yushchenko (2005-2010). During Yushchenko's presidency, Kosiuk managed to place at least two of his allies in high positions. First, Ihor Tarasiuk, who according to unconfirmed information is a co-owner of MHP, was appointed Head of the State Administration (Державне управління справами) in 2005 and occupied the position till 2010.¹³⁵ Second, Yuriy Melnyk became Minister of Agrarian Policy in 2006 as part of the Communist party quota of ministerial posts.¹³⁶ Melnyk's appointment occurred during the government of Victor Yanukovich,¹³⁷ who became Prime-Minister in 2006 despite his political opposition to Victor Yushchenko. This situation indicates Yuriy Kosiuk's ability to find common interests with different politicians. Indeed, Yuriy Melnyk managed to occupy high-level positions such as adviser to the prime minister on agricultural matters or the Minister of Agrarian Policy under three different prime ministers – Yulia Tymoshenko, Yuriy Yekhanurov, and Viktor Yanukovich. With the start of Yanukovich's presidency, however, Melnyk returned to business, becoming First Deputy Chairman of the Board at MHP.¹³⁸

Currently Yuriy Kosiuk has expressed disappointment with some of the DCFTA provisions, in particular the quotas on Ukrainian agricultural export to the EU. He stated that due to those limitations he had not managed to extend his chicken export business to the EU market.¹³⁹ However, instead of strongly lobbying for the

¹³⁴ Українські реалії (2015): Пока фермери бастують. Лещенко показав супер-яхты аграрного олігарха (While farmers are on strike. Leschenko showed the super yacht of the agrarian oligarch), URL: <http://ukrreal.info/ru/politika/80199-poka-fermery-bastuyut-leschenko-pokazal-super-yakhty-agrarnogo-oligarkha-videodokument> (accessed 13.04.2017).

¹³⁵ This little-known institution is responsible for some aspects of the development of numerous state-owned enterprises and thus has some power over them and over related actors.

¹³⁶ Till 2015 ministers of Ukraine were appointed according to certain quotas, which each political party had to bring their representatives to government.

¹³⁷ Українська Правда (2015): Аграрний олігарх Косюк відпочиває на двох яхтах вартістю близько \$200 млн (Agricultural tycoon Kosyuk rests on two yachts worth about US\$ 200 million), URL: <https://www.pravda.com.ua/news/2015/12/30/7094164/> (accessed 07.04.2017).

¹³⁸ Latifundist.com: Мельник Юрий Федорович (Melnyk Yuriy Fedorovich), URL: <http://latifundist.com/dosye/melnik-yurij-fedorovich> (accessed 07.04.2017).

¹³⁹ Антикор (2016): Хозяин «Нашей Рыбы»: ЗСТ с Евросоюзом – обман (Owner of “Nasha Riaba”: DCFTA with European Union is a scam), URL: <http://antikor.com.ua/articles/82490-hozjain-nashej-ryaby-zst-s-evrosojuzom-obman> (accessed 11.04.2017).

elimination of the relevant quota, he opted to enter the EU market through another route by launching chicken meat production in the Netherlands.

In February 2016 Kosiuk successfully lobbied for the Vice-President of the National Academy of Agrarian Sciences and leader of the Agrarian Party in the Kyiv region, Maksym Melnychuk, to become the head of the Kyiv regional administration. Kosiuk's financial support for this party is public knowledge.¹⁴⁰ However, in September 2016 Melnychuk was forced to resign after his deputy was arrested on bribery charges and Melnychuk himself was accused of the same practice.¹⁴¹ From 2010 to 2011 Melnychuk occupied the position of Deputy Minister of Agrarian Policy in Mykola Azarov's government, not least due to the unofficial support of Yuriy Kosiuk.¹⁴²

The founder and owner of Nibulon *Oleksiy Vadaturskyi* managed to have his son Andriy elected to the national parliament and selected as a member of the Committee on Agrarian Policy and Land Relations. Andriy Vadaturskyi entered the Verkhova Rada for the first time in 2014 and is currently a member of the President's parliamentary faction – Bloc Petro Poroshenko (BPP).¹⁴³

Andriy Vadaturskyi was among the deputies who advocated an extension on the moratorium on land sales, although he promotes political debates on the land ownership regime in Ukraine. It appears plausible that Andriy shares his father's opinion that the rapid introduction of a land market in Ukraine would lead to severe chaos in this area.¹⁴⁴ Among Andriy Vadaturskyi's projects have been a few legislative initiatives on easing bureaucratic requirements for agro-business, including tax facilitations, e.g. concerning the land rental process. He was also a co-author of the bill on lobbying,¹⁴⁵ which is not surprising, taking into account that agrarians are currently seeking ways to legalise lobbying to ensure better representation of their interests in the institutions of political power.

¹⁴⁰ Антикор (2016): «Нашей рябе» дарят Киевскую область? (Is Kyiv region is presented to “Nasha Riaba”?), URL: http://antikor.com.ua/articles/85415-nashej_rjabe_darjat_kievskuju_oblasti (accessed 11.04.2017).

¹⁴¹ Українські новини (2016): Порошенко звільнив голову Київської ОДА (Poroshenko fired the head of Kyiv regional state administration), URL: <http://ukranews.com/ua/news/448286-poroshenko-zvilnyv-golovu-kyivskoi-oda> (accessed 11.04.2017).

¹⁴² Антикор (2016): «Нашей рябе» дарят Киевскую область? (Is Kyiv region is presented to “Nasha Riaba”?), URL: http://antikor.com.ua/articles/85415-nashej_rjabe_darjat_kievskuju_oblasti (accessed 11.04.2017).

¹⁴³ Верховна Рада України: Андрій Олексійович Вадатурський (Andriy Oleksiyovych Vadaturskyi), URL: <http://itd.rada.gov.ua/mps/info/page/18067> (accessed 13.04.2017).

¹⁴⁴ AgroPortal (2016): Вадатурський: відкриття ринку землі призведе до хаосу (Vadaturskyi: Land market opening will lead to chaos), URL: <http://agroportal.ua/ua/news/ukraina/vadaturskii-otkrytie-rynka-zemli-privedet-k-khaosu/> (accessed 14.04.2017).

¹⁴⁵ Верховна Рада України: Андрій Олексійович Вадатурський: Законопроекти, подані суб'єктом права законодавчої ініціативи (Andriy Oleksiyovych Vadaturskyi: Bills submitted by the subject of legislative initiative), URL: <http://wl.c1.rada.gov.ua/pls/pt2/reports.dep2?PERSON=18067&SKL=9> (accessed 13.04.2017).

Ukrainian businessman *Andriy Verevskiy* has also used the tactic of placing loyal people in positions of power in local authorities. For instance, he financed a newly created party “Sovist Ukrainy” (“Conscience of Ukraine”) and its leader Oleksandr Mamay during the election campaign in the city of Poltava, the capital of an important agrarian region in Ukraine, in 2010. As a result, the party won a significant majority in the Poltava legislature, and Mamay became the city’s mayor.¹⁴⁶ Oleksandr Mamay was an agrarian in his own right, but in 2012 he sold his company, Inter-Agro, to Andriy Verevskiy.¹⁴⁷ The cooperation between Verevskiy and Mamay is underpinned by family ties: Mamay’s daughter is married to Verevskiy’s cousin.¹⁴⁸

In fact, Andriy Verevskiy was also close to Mamay’s predecessor Andriy Matkovskiy, who held the post of Poltava mayor from 2006 to 2010. Moreover, Matkovskiy is known to have helped Verevskiy to receive quick and complete VAT reimbursement during his tenure as head of the tax administration in Poltava city in 1999-2001.¹⁴⁹ It appears likely that Matkovskiy helped Verevskiy with this and other issues during his mayoral term as well. Nonetheless, during the elections in 2010 Andriy Verevskiy supported Matkovskiy’s opponent, Oleksandr Mamay, as described above.

Turning to the largest landowner, *Oleh Bakhmatiuk*, it is known that starting in 2003 he worked closely with Ihor Yeremeev, who was a member of parliament in 2002-2006 and then again from 2012 until his death in 2015. This cooperation began when Bakhmatiuk purchased six local gas-companies from Yeremeev.¹⁵⁰ The latter was an active member of Volodymyr Lytvyn’s National Party, which was formed from many members of the Agrarian Party, but starting in 2012, when the party did not manage to enter parliament, he served as an independent

¹⁴⁶ Петров, А. (2010): Київські аналітики: «Перемога «Совісті України» буде покладена на вівтар Партії Регіонів» (Kyiv analysts: “Victory of “Conscience of Ukraine” will be placed on the altar of the Party of Regions”), Інтернет видання Полтавщина, URL: <http://poltava.to/news/6102/> (accessed 13.04.2017).

¹⁴⁷ Антікор (2015): Полтава в очікуванні виборів 2015 (Poltava is waiting for results of the elections 2015), URL: http://antikor.com.ua/articles/33081-poltava_v_ochikuvanni_viboriv_2015/print (accessed 14.04.2017).

¹⁴⁸ Укррудпром (2015): Регіональні князі (Regional princes), URL: http://www.ukrudprom.com/digest/Regonaln_knyaz.html?print (accessed 18.04.2017).

¹⁴⁹ Національне бюро розслідувань України (2016): Андрей Вереvский. История успеха бывшего регионала и БЮТовца. Расследование (Andriy Verevskiy. The history of success of the former member of the Party of Regions and Fatherland. Investigation), URL: <http://nacbuo.org/18851#> (accessed 12.04.2017).

¹⁵⁰ Правда: Івченко, Бахматюк, Круць, брати Келестини, Насалик, Заріцький та Лопушанський – найбагатші прикарпатці (Ivchenko, Bakhmatiuk, Kruts, brothers Kelestyn, Nasalyk, Zaritskiy and Lopushanskiy - rich pre-Carpathians), URL: <http://pravda.if.ua/news-2817.html> (accessed 15.04.2017).

deputy.¹⁵¹ Two ministers of agriculture previously worked for Bakhmatiuk. He believes that businesspeople in the agricultural sector primarily need new markets for their products and new sources of capital. In this conjunction he expects assistance from the agricultural ministry to access Asian markets. Furthermore, he is well-connected inside parliament, where he claims to support the creation of a broader transparent agricultural lobby, not associated with specific producers.

As alluded to above, this strategy of placing one's own people in influential positions is the one favoured by both traditional and agricultural oligarchs. It creates the possibility not only to have an impact on policy but also to circumvent existing laws and regulations through mechanisms of informal control. Nonetheless, it has its limits. For example, the forms of influence available to the agricultural businessmen investigated here were insufficient to save the special VAT regime for agricultural companies at the end of 2016, when it was abolished at the demand of the IMF.

3) Media control

In general, Ukrainian agricultural magnates have not been seen to purchase and utilize media outlets in the same way as the traditional oligarchs, many of whom own or control their own television and radio stations. The exception is Petro Poroshenko, who is called by media as an owner of TV channel "5 kanal".¹⁵² However, Poroshenko is clearly an exception in other ways as well, since he holds the highest possible political office and has quite diversified business interests. It is therefore not possible to see his media activity as directly related to his agricultural interests. Although it seems logical to assume that agrarians with close connections to the president such as Yuriy Kosiuk or Oleksiy Vadaturskyi may have somewhat easier access to Poroshenko's media resources than others, evidence of their doing so is scarce. On the whole, in their actions regarding the media sphere, the agrarians considered here do not conform to the behaviour observed in other Ukrainian oligarchs.

3.3 Sale of agricultural land: Positions and possible developments

The most controversial issue in Ukrainian agricultural sector is the sale of agricultural land. As stated above, in 2001 a moratorium on agricultural land sales was introduced and has since been extended 8 times. The moratorium prohibits selling such land, as well as using it as collateral or equity until a law on

¹⁵¹ LB.ua: Еремеев Игорь Миронович (Yeremeev Ihor Myronovych), URL: https://lb.ua/file/person/368_eremeev_igor_mironovich.html (accessed 14.04.2017).

¹⁵² Віталій Червоненко (2015): Карта олігархів України та їхній вплив на владу (The map of oligarchs of Ukraine and their influence on government), BBC Україна, URL: http://www.bbc.com/ukrainian/politics/2015/03/150326_oligarch_ukraine_map_vc (accessed 13.04.2017).

agricultural land circulation is adopted, but not longer than January 1, 2018 (unless a further extension is approved, which appears likely).¹⁵³

Initially, land reform in the 1990s followed the socially correct slogan: “Land for those who work on it”,¹⁵⁴ which led to the liquidation of 12,000 collective farms and the distribution of land among the former employees of those farms. Each person received an average 4 ha of land and another up to 0.4 ha from the Land Reserve Fund for small-scale domestic farming.¹⁵⁵ Obtaining the right to land ownership did not lead to immediate possession, however; until May 2003 the process of land entitlement was not legally regulated. Moreover, land demarcation took time. Eventually small landowners began to lease their plots, usually at low prices, to private farms or entities and were then employed by those entities.¹⁵⁶ Only a few created their own small farms.

Eventually, land reform was supposed to result in the establishment of a land market. However, due to claims that appropriate conditions in terms of legislation and institutional infrastructure were not yet in place, a moratorium was imposed on agricultural land sales, and on using land as collateral or equity. In the ensuing years almost nothing was done to create the conditions necessary for making a smooth transition to the sale of land, and over time the actors involved became accustomed to and adept at working within the leasing framework.

Currently, debates on lifting the moratorium appear to divide the Ukrainian political elite, at least on a rhetorical level. Such a step will eventually become necessary since launching an agricultural land market is one of the key IMF conditions for continuing financial support to Ukraine. This is why the issue has now come to the forefront of the Ukrainian political agenda. However, recent developments indicate that the IMF is willing to accept further delays in this area in exchange for progress in other spheres, such as pension reform. Already Ukraine missed the deadline of May 2017 for passing a law regulating land sales which was specified in the latest Memorandum of Understanding with the IMF. And with the Ukrainian political elite already gearing up for multiple elections in 2019, it is unlikely that a reform which is unpopular with both key economic actors and the Ukrainian populace will be undertaken.

¹⁵³ Земельний кодекс України від 25.10.2015 (Land Code of Ukraine of 25.10.2015): Розділ X. Прикінцеві положення, пункти 14 та 15, URL: <http://zakon3.rada.gov.ua/laws/show/2768-14/page9> (accessed 13.03.2017).

¹⁵⁴ Sarna, A. (2014): The transformation of agriculture in Ukraine: From collective farms to agroholdings, in OSW Commentary, Center for Eastern Studies, No. 127, p. 2.

¹⁵⁵ Sarna, A. (2014): The transformation of agriculture in Ukraine: From collective farms to agroholdings, in OSW Commentary, Center for Eastern Studies, No. 127, p. 3.

¹⁵⁶ Sarna, A. (2014): The transformation of agriculture in Ukraine: From collective farms to agroholdings, in OSW Commentary, Center for Eastern Studies, No. 127, p. 3.

As of 2017 almost half of Ukrainians (49.7%) are against the idea of treating land as a commodity, while 35.1% support the idea of a land market in general, but believe that it should be implemented only if there are special conditions for preventing land sales at very low prices. Only 8.9% support launching the land market as soon as possible.¹⁵⁷

In the political debate, the idea of launching an agricultural land market is also linked to the constitutional right of Ukrainian citizens to possess land. Article 14 of the Ukrainian Constitution states that the right to land ownership is guaranteed. According to Ukrainian legislation, this right can be realised by citizens, private entities and the state. Some members of parliament have approached the Constitutional Court with the argument that the current moratorium on land sales contradicts this right.¹⁵⁸ The Court was to begin discussing this issue on May 25, but later the question was postponed and eventually eliminated from the agenda. The new date for a discussion of the moratorium question is unknown.¹⁵⁹ This can be interpreted as yet another indication that there is no serious political interest in addressing the issue, since the as yet unreformed Constitutional Court is still vulnerable to political pressure.¹⁶⁰

Support for launching a market in agricultural land market in the Ukrainian political elite seems rather ambivalent, to say the least. In the context of signing the most recent memorandum with the IMF, both Poroshenko and Hroisman gave strong rhetorical backing to the idea. However, after the IMF agreed to postpone its requirement, Poroshenko did not hesitate to announce that he would not demand the passage of land reform by the Rada. Instead, he advocated for measures which would reassure the population about the consequences of a possible future reform and argued for more limited laws establishing, e.g., a minimum land price. This can be understood as the president's willingness to further delay the process significantly.

Prime Minister Hroisman voted for the previous extension of the moratorium during his tenure as parliamentary speaker. However, more recently he has been

¹⁵⁷ Все (2017): Рівненська компанія опитала українців щодо продажу сільськогосподарських земель (Rivne region company conducted a survey among Ukrainians on agricultural land sales), URL: <http://vse.rv.ua/article/rivnenska-kompania-opitala-ukrainciv-sodo-prodazu-silskogospodarskih-zemel.html> (accessed 21.08.2017).

¹⁵⁸ Українська Правда (2017): КС просять скасувати мораторій на продаж землі (Constitutional Court is being asked to cancel the moratorium on land selling), URL: <http://www.pravda.com.ua/news/2017/02/17/7135653/> (accessed 01.05.2017).

¹⁵⁹ Constitutional Court of Ukraine: Порядок денний пленарних засідань та засідань Конституційного Суду України на 23-25 травня 2017 р., URL: <http://www.ccu.gov.ua/novyna/poryadok-dennyi-plenarnyh-zasidan-ta-zasidan-konstytuciynogo-sudu-ukrayiny-na-23-25-travnya> (accessed 19.05.2017).

¹⁶⁰ A law on reforming the Constitutional Court was passed and signed by Poroshenko in July 2017. However, it has not yet been implemented, and many critics believe that its main aim is to intensify presidential control over the court.

supporting the idea of land reform rather adamantly, even after the IMF decision to accept a delay. Hroisman uses the issue to emphasize his backing for farmers at the expense of large agricultural holdings, and for typical citizens who are interested in receiving a fair price for their land plots. He also assured Ukrainians that the introduction of agricultural land sales would not allow foreigners to purchase Ukrainian land. Similar arguments have been made by the First Deputy Minister of Agrarian Policy and Foodstuffs, Maksym Martyniuk.¹⁶¹

Despite Martyniuk's statements, however, the (now former) Minister of Agrarian Policy and Foodstuffs, Taras Kutovyi, appears to disagree with these propositions. He stated that the Ministry would elaborate its own draft law on agricultural land turnover.¹⁶² The bill was to establish a certain period (up to 10 years), during which only small farmers will be allowed to buy land. Only later would this right be given to large companies. Any given person would not be allowed to own more than 200 ha of agricultural land. These constraints are aimed at protecting the interests of small business, and at preventing the reduction of employment in rural areas. The Ministry envisions that state-owned land may be sold starting in 2018, and privately owned land beginning in 2020. Other provisions of the bill were still under elaboration when Kutovyi resigned in May.¹⁶³

Criticism of the proposed limited land market also comes from the former Minister of Economy and Trade Aivaras Abromavičius and the parliamentarian Oleksii Mushak, a parliamentarian from BPP and member of the Committee on Agrarian Policy and Land Relations, who point out that such a scheme will discourage banks and foreign investors from financing the Ukrainian agricultural sector. Also, the more limitations are imposed, the lower the land price will be.¹⁶⁴ In fact, Mushak proposed his own draft law on the circulation of agricultural land in December

¹⁶¹ Урядовий портал (2017): Зважений запуск ринку землі стане драйвером розвитку сільських територій, - Максим Мартинюк (Weighted launch of the land market will become a driver of rural development - Махум Martyniuk), URL: http://www.kmu.gov.ua/control/uk/publish/article?art_id=249756106 (accessed 25.04.2017).

¹⁶² Agravery (2017): Мінагрополітики подасть свій законопроект про обіг земель наприкінці місяця (Ministry on Agrarian Policy and Food will submit a bill agricultural land turnover till the end of the month), URL: <http://agravery.com/uk/posts/show/minagropolitiki-podast-svij-zakonoproekt-pro-obig-zemel-naprikinci-misaca> (accessed 25.04.2017).

¹⁶³ Білоусова, Н., (2017): Максим Мартинюк: Можна так виписати законопроект «Про обіг земель...», що він нічим не відрізнятиметься від діючого мораторію (Maksym Martyniuk: It is possible to formulate a bill on agricultural land circulation in a such way, that it will not differ from the effective moratorium on agricultural land selling), URL: <http://minagro.gov.ua/node/23495> (accessed 31.07.2017).

¹⁶⁴ Abromavičius, A., Mushak, A. (2017): The Right Land Reform Could Transform Ukraine Now, URL: <http://www.atlanticcouncil.org/blogs/ukrainealert/the-right-land-reform-could-transform-ukraine-now> (accessed 25.04.2017).

2016.¹⁶⁵ The proposed law establishes that agricultural land may be sold, purchased, inherited, or used as equity by private entities, but not used as collateral for credit obligations. A person may own up to 500 ha of land, except in cases of land inheritance; a private entity may not own more than 33% of agricultural land in a given territorial community or rayon. State lands are sold via an electronic bidding process and their price is estimated by expert evaluation. Also, the draft law envisions a certain transition period for the land market: private entities may start to participate in the market from January 1, 2020 and foreign ones from January 1, 2030.¹⁶⁶ Interestingly, Mushak is viewed as the representative in parliament of the richest Ukrainian agricultural oligarch, Yurii Kosiuk, to whom he is also related.¹⁶⁷

Finally, there is a partly complementary, partly alternative draft law on land circulation¹⁶⁸ in the parliament. It was proposed by another deputy from the Poroshenko Bloc, Arkadii Kornatskyi, who is also a member of the Committee on Agrarian Policy and Land Relations. This indicates that there is no unity within the BPP (or within the relevant parliamentary committee) on land reform questions. Kornatskyi's proposal identifies principles of land circulation for those areas which were not yet redivided or privatized. It establishes that only Ukrainian citizens and private entities which engage in agricultural activity may buy those plots. Foreign citizens or entities do not have such a right. The draft law gives the current owners and their relatives priority should they wish to purchase the land. Private entities are the last in line for land purchase. This provision allows us to assume that the draft law would primarily secure the interests of small farmers and current landowners. The minimum selling price of land is to be equivalent to twenty years of the rental price.¹⁶⁹

While none of these draft laws are likely to be passed anytime soon, due to the opposition to the reform described above as well as the withdrawal of pressure from the IMF, they nonetheless indicate certain points around which consensus seems likely at a later date. First of all, there is great hesitation about allowing

¹⁶⁵ Верховна Рада України: Проект Закону про обіг земель сільськогосподарського призначення № 5535 від 13.12.2016 (Bill on agricultural land turnover No. 5535 dd. 13.12.2016), URL: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?id=&pf3511=60724 (accessed 03.04.2017).

¹⁶⁶ Ibid.

¹⁶⁷ Григорьева, А. (2017): Мосийчук посоветовал разобраться с ущербом экологии внутри страны и агро-олигархами (Mosiychuk advised to deal with the damage to the environment in the country and agro-oligarchs), Ведомости-Украина, URL: <http://vedomosti-ua.com/53337-mosiychuk-posovetoval-razobratsya-s-uscherbom-ekologii-vnutri-strany-i-agro-oligarhami.html> (accessed 03.04.2017).

¹⁶⁸ Верховна Рада України: Проект Закону про обіг земель сільськогосподарського призначення № 5535-1 від 28.12.2016 (Bill on agricultural land turnover No. 5535-1 dd. 28.12.2016), URL: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?pf3511=60829 (accessed 03.04.2017).

¹⁶⁹ Ibid.

foreigners to participate in the market for agricultural land. Thus even if their participation is allowed, it is likely to be postponed for several years, allowing the market to consolidate internally first. This will hinder potential investments in the sector. Second, some sort of guarantees are likely to be made to protect owners of small plots, who are numerous and whose fears of having to sell out for a pittance are widespread. Nonetheless, a third point is that considering the levers of political influence held by wealthy agricultural businessmen as described in section 2, it is probable that mechanisms will be included in the law to protect their interests, or that loopholes will be left of which they can take advantage. The protection of small landowners/farmers may therefore possess a rather specious character.

Key politicians from the parliamentary opposition are also against launching a market for agricultural land. This include in particular Yuliia Tymoshenko (Batkivshchina) and Oleh Liashko (Radical Party). The former proposes extending the current moratorium on land sales until 2022,¹⁷⁰ while the latter argues in favour of banning such sales until three years after the territorial integrity of Ukraine has been re-established. He further warns against the possibility that Russians will be able to get their hands on Ukrainian lands through intermediaries.¹⁷¹ The Agrarian Party has also come out against creating a market for land under the existing conditions. The party positions itself as a defender of the majority public opinion: According to its estimations 70% of Ukrainians are against agricultural land sales.¹⁷² However, since it appears that most of the key businesspeople in the sector either overtly or covertly prefer the status quo to the establishment of a land market, the Agrarian Party can just as well be seen as supporting the interests of major agricultural holdings. As the analyst Vladyslav Rak points out, Ukrainian agro-oligarchs are not interested in significant investments, including investments into productivity increases, equipment renovation, etc. Rather, they prefer

¹⁷⁰ Верховна Рада України: Проект Закону про мораторій на відчуження земель сільськогосподарського призначення № 5476 від 01.12.2016 (Bill on moratorium on the alienation of agricultural land No. 5476 dd. 01.12.2016), URL: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?id=&pf3511=60620 (accessed 25.04.2017).

¹⁷¹ Верховна Рада України: Проект Закону про внесення змін до розділу X "Перехідні положення" Земельного кодексу України щодо встановлення мораторію на відчуження земель сільськогосподарського призначення до повного відновлення територіальної цілісності України (Bill on Amendments to Section X "Transitional Provisions" of the Land Code of Ukraine to establish a moratorium on the alienation of agricultural land to the full restoration of the territorial integrity of Ukraine), URL: http://w1.c1.rada.gov.ua/pls/zweb2/webproc4_1?id=&pf3511=60927 (accessed 25.04.2017).

¹⁷² Agravery (2017): Влада має зупинити кулуарну підготовку ринку землі – Аграрна партія (The government must stop behind the scenes preparing of the land market - Agrarian Party), URL: <http://agravery.com/uk/posts/show/vlada-mae-zupiniti-kuluarnu-pidgotovku-rinku-zemli-agrarna-partia> (accessed 25.04.2017).

extensive methods of output maximization, such as renting more lands at low prices.¹⁷³

Finally, some local as well as national state actors have a clear interest in retaining the current leasing arrangements. Establishing a land market will presumably lead to more regulation and registration mechanisms, which would facilitate greater transparency. This would negatively impact the possibility for activities such as informal lending of state-owned lands by state enterprises, taking advantage of errors and missing entries in the land cadastre, or land usage abuses related to insufficient boundary demarcation of towns and villages.¹⁷⁴ In some cases state actors and businesspeople collude to take part in these activities to their mutual benefit.

Some of these activities were restricted due to some steps taking in conjunction with land reform in 2015-2016. For instance, the government has tightened the auction rental rights requirement for state lands, established an inter-agency committee for land reform monitoring as well as reporting and land governance, provided public access to the Registry of Rights and State Land Cadastre and e-services for provision of cadastral extracts.¹⁷⁵ However, it is too early to determine how effective these mechanisms are.

At any rate, it seems evident that there is major opposition to the idea of selling agricultural land in Ukraine. This opposition encompasses large parts of the political landscape, key actors in the business realm, and a significant majority of the Ukrainian population. Many of these actors profit from the existing state of affairs and have no interest in changing the current parameters, while others are inherently conservative or fear a deterioration of their own situation. These interests and fears have become more entrenched over the years as people have learned to live with and even gain from the status quo. Thus it is not surprising that the moratorium on land sales has been repeatedly extended, nor that the IMF deadline of May 2017 for passing a law on land reform was missed. Although there is broad consensus on some aspects of such a law, there are virtually no actors genuinely pushing for this reform, and without such actors external pressure (from the IMF and others) will not be sufficient to propel change forward.

¹⁷³ Rak, V. (2017): Zwischen Land Grabbing und Nachhaltigkeit – Das Assoziierungsabkommen zwischen der EU und der Ukraine in Bezug auf den Agrarsektor, in: Wege der Ernährungswirtschaft – global, regional, europäisch, Forum Umwelt-, Agrar-, Klimaschutzrecht (ed. Ines Härtel), Nomos, Baden-Baden, §14.

¹⁷⁴ Deininger, K., Niyalov, D., (2016): 26 Years of Land Reform: the Glass is Half-Empty or Half-Full, The World Bank, URL: <http://www.worldbank.org/en/news/opinion/2016/10/17/26-years-of-land-reform-the-glass-is-half-empty-or-half-full> (accessed 26.04.2017)

¹⁷⁵ Ibid.

3.4 Conclusion

Three important conclusions have emerged with regard to the political economy of the Ukrainian agricultural sector. First, when reviewing the interests and networks of key businesspeople within the sector, certain parallels to Ukrainian oligarchs in other sectors can be seen. Thus, the main strategy of both groups is to place people loyal to them in key posts in order to receive a steady flow of reliable information and influence decision-making in important institutions, both formally and informally. The two groups also rely to some extent on holding office themselves, although this strategy was previously used more frequently by traditional oligarchs than is now the case, and does not occur with any regularity among their agricultural counterparts. A major difference can be found in the media realm. Here traditional oligarchs are extremely active in terms of owning and/or controlling major outlets, television channels in particular. Major businesspeople in the agricultural sphere have not pursued this strategy to any significant extent. Overall, agricultural questions can be characterized as being less dependent on any individual actor's influence than is the case in some other sectors where particular oligarchs have close to a monopoly in certain areas.

Second, the focus on land reform as a topic of current high relevance has led to the conclusion that no major Ukrainian actors are genuinely and credibly backing this reform. This applies to key political actors (president, prime minister, relevant ministry, parliament) as well as to the businessmen investigated and to Ukrainian society. All three of these categories of actors have over the years become accustomed to the existing moratorium on agricultural land sales and prefer retaining it to the idea of launching a land market as demanded by the IMF and seconded by the World Bank. Major civil society actors such as the Reanimation Package for Reforms have only very recently begun to focus on land reform, so there is no real civil society "lobby" behind this issue, in contrast to others such as judicial or anti-corruption reform. It therefore appears improbable that significant steps will be taken in the area of land reform in the near future. This means that the political economic context described above, i.e. the relevant institutions for producing agricultural policy and oligarchic strategies for influencing it, is likely to remain pertinent in the upcoming months and years.

And third, it is difficult to connect any given change in agricultural policy directly to the influence of an individual oligarch. While numerous policy measures have clearly been influenced by Ukraine's obligations to the WTO, in most cases the proportion of external and internal factors in decision-making processes remains murky. It appears likely that this proportion, as well as the actors involved, have varied depending on the policy measure concerned, since the steps taken have by no means added up to a coherent policy direction. With the agricultural sector

growing in importance and potential changes on the horizon, it will be important to continue monitoring developments in order to determine how the interests of key business players interact with the political and economic contexts described here to influence the trajectory of agriculture in Ukraine.

Annex 1. Deals on land leasing or concession in Ukraine

Year	Investments receiver	Investor	Investor's country	Contracted size (ha)
2001	Atlantic Farms	David D Sweere and Sons International Ltd	USA	3 000
2002	Agro Region	East Capital	Sweden	35 000
2002	Kernel Holding S.A.	Kernel Holding S.A.	Luxembourg	405 000
2002	Aslan Global Management	Aslan Global Management	USA	unknown
2006	Continental Farmers Group plc	Public Investment Fund (PIF) of Saudi Arabia, Saudi Al Rajhi Group, Almarai Co.	Saudi Arabia	34 000
2006	Agroprosperis	NCH Capital Inc.	USA	481 800
2006	Agro Invest Ukraine	MK Group	Serbia	50 000
2006	A/S Trigon Agri	Trigon Capital	Estonia	52 462
2008	Agrokultura AB	Agrokultura AB	Sweden	8 700
2013	Kusto Agro Group	Kusto Group Inc.	Singapore	12 300
unknown	Kernel	Kernel Holding S.A.	Luxembourg	109 000
unknown	AgroGeneration	AgroGeneration	France	120 000
unknown	Sintal Agriculture Plc	Sintal Agriculture Plc	Cyprus	150 000
unknown	UkrFarm Funding Limited	Renaissance Group	Russian Federation	220 000
unknown	DAN-MILK	DUI Holding A/S	Denmark	300
unknown	Astarta Kyiv LLC	Astarta Holding NV	Netherlands	245 000
unknown	Mriya Agro Holding Public Limited	Mriya Agro Holding Public Limited	Cyprus	298 000
unknown	Danam Farms LTD	DUI Holding A/S	Denmark	230
unknown	Alfred C. Toepfer International Ukraine Ltd.	Archer Daniels Midland Company (ADM)	USA	50 000
unknown	Subsidiary Atlantic Farms	DUI Holding A/S, David Sweere & Sons International Ltd	Denmark, USA	7 500
unknown	Lan LTD	Barnstädt e.G.	Germany	8 000
unknown	Glencore Grain Ukraine	Glencore Xstrata PLC	Switzerland	80 000
unknown	Ukrzernoprom Agro LLC	MCB Agricole	Austria	96 000
unknown	LLC Atlantic Farms II	David D Sweere and Sons International Ltd	USA	unknown
unknown	Chinese - Ukrainian Agricultural Company "FANDA"	DARA Group, Chinese Agricultural Corporation HuanFan Qu	Ukraine, China	unknown

Source: Land Matrix: Ukraine, URL: http://www.landmatrix.org/en/get-the-detail-by-target-country/ukraine/?order_by=investor_name&starts_with=U (accessed 10.03.2017)

Annex 2. Special Value Added Tax (VAT) Regimes for Ukrainian Agriculture

The Ministry of Finance of Ukraine identifies *VAT* as a tax applied to operations on goods and services supply on the customs territory of Ukraine. The *standard VAT rate is 20%* of the taxation base. This rate is also applicable to the agricultural sector.

Since VAT introduction in 1992, *a special VAT regime* was implemented for the agricultural sector with the aim of reducing the taxation burden on agrarian producers.

The special regime functioned in the following way: During a reporting period an eligible entity (one in which 75% of its production consists of agricultural products) should pay the positive difference between tax obligation and tax credit. One part of the deducted VAT obligations (usually 50%) was transferred to the state budget, another part (the remaining 50%) was accumulated on a special account in a bank or an authorized state financial institution. The accumulated part was left at the disposal of the agricultural producer.

The special VAT regime for agriculture was modified for a few times, but the main principle remained unchanged. As of *January 1, 2016 a special VAT regime* functioned as follows: The positive difference between tax obligation and tax credit was transferred to the following destinations depending on the activity of the entity:

- a) For operations with all agricultural products: 50% of the sum was transferred to the state budget, 50% accumulated on a special account;
- b) For operations with grain: 85% of the sum was transferred to the state budget, 15% accumulated on a special account;
- c) For operations with livestock production: 20% was transferred to the state budget, 80% accumulated on a special account.

On January 1, 2017 the special VAT regime for agricultural producers was abolished.

Source: Податковий кодекс України від 02.12.2010 (*Tax code of Ukraine of 02.12.2010*), URL: <http://zakon3.rada.gov.ua/laws/show/2755-17> (accessed 16.03.2017), *Аграробізнес сьогодні (2013): Реформа оподаткування агробізнесу*, URL: <http://www.agro-business.com.ua/pytannia-bukhgalteriii/1815-reforma-opodatkuвання-agrobiznesu.html> (accessed 16.03.2017).

Annex 3. Trade agreements of Ukraine, tariffs and duty-free quotas, WTO MNF tariffs as of 2015

Conclusion/ effective from	Partner	Simple average tariff rate (%)		Duty-free rates as a percentage of total tariff lines in each category (%)		Most important exemptions in trade from Ukrainian side
		agri.	non-agri.	agri.	non-agri.	
	MFN	Applied: 9.2	Applied: 3.7	14.9	43.9	
		Bound: 11	Bound: 5			
2014/2016	DCFTA (EU)	7.5	1.1	35.6	82.6	Ukraine imposes: <i>Export tariff</i> on sunflower seeds 9.1%, <i>import tariffs</i> on sugar beets 20%, <i>import quotas</i> on sugar 50%.
2010/2012	EFTA					Trade with agricultural products regulated by bilateral agreements (parts of general agreement on EFTA).
	Iceland	7.1	0.3	17.7	94.7	
	Norway	7.3	0.3	17.6	94.7	
	Switzerland	7.4	0.3	17.2	94.7	
2011/2012	CIS FTA					Ukraine imposes: <i>Export tariff</i> on sunflower seeds 10%, <i>import quotas</i> on sugar and sugar beets.
	Armenia	0	0	100	100	
	Belarus	0	0	100	100	
	Kazakhstan	0	0	100	100	
	Kyrgyz Rep.	0	0	100	100	
	Moldova	0.3	0	98.6	100	
	Russia	0	0	100	100	
	CIS					
1995/1996	Azerbaijan	0	0	100	100	
2001/2001	Tajikistan	0	0	100	100	
1994/1995	Turkmenistan	0	0	100	100	
1994/1995	Uzbekistan	0	0	100	100	
	Other FTAs					
2001/2001	Macedonia	2.0	0	19.8	74.8	
2011/2013	Montenegro	0.4	0	98.0	100	
1995/1996	Georgia	0.2	0	94.5	100	

Sources: WTO (2016): Trade Policy Review: Ukraine, WT/TPR/G/334, pp. 40-41; texts of agreements: DCFTA, EFTA, CIS FTA

Annex 4. Key agricultural players with visible political influence

#	Name(s)	Company(s)	Main operation activity	Land in property of renting, ha	Capitalisation of agro-assets, US\$ mn.
1	Yuriy Kosiuk	Myronivskiy Khiboproduct (MHP), TM Nashsa Riaba	The biggest producer of poultry. Involved in other types of meat production. Meat production - 80% of business, crops planting - 20%.	380 000	884
2	Oleksiy Vadaturyskiy	NIBULON Ltd.	Crops planting, grain trading, livestock, meat processing, crops storage and transportation.	82 500	836
3	Andriy Verevskiy	Kernel Holding S.A.	The biggest producer of sunflower oil. Also: crops planting, sugar production.	390 000	827
4	Oleg Bakhmatyuk	Ukrlandfarming PLC	Crops planting, dairy, meat production, eggs, sugar production, agromachinery and chemicals distribution, crops storage.	653 000	162
5	Petro and Oleksiy Poroshenko (brothers)	UKRPROMINVEST-AGRO, Roshen	Crops planting, sugar and mill production, dairy, livestock.	122 000	607
6	Rinat Akhmetov and Vadim Novinskyi	HarvEast Holding	Crops planting, dairy, livestock, crops storage.	97 000 (previously 220 000)	n/a
7	Ihor Kolomoyskiy and Hennadiy Bogolyubov	PryvatAgroHolding	Mainly livestock and dairy, but also crops and oil seeds planting.	150 000	n/a
8	Victor Ivanchik and Valery Korotkov	Astarta Holding	Sugar production, dairy, crops planting.	250 000	219
9	Serhiy Tihpko	TAS Agro	Crops planting, livestock, crops storage.	87 000	119
10	Borys Kolesnikov	PJSC APK-Invest, JSC Konti	Biggest producer of pigmeat. Confectionary, meat processing, crops planting.	41 000	113
11	Oleksandr and Serhiy Buryak (brothers)	Svarog West Group	Crops planting, livestock.	80 000	98
12	Oleksandr and Halyna Herehy (spouses) and Volodymyr Bartsios	Holding "Vinnytska AGRO Promyslova Grupa"	Crops planting, crops storage.	50 000	42

Sources: Landlord (2016): Рейтинг крупнейших игроков аграрной и пищевой отраслей Украины (Rating of the largest players in the agrarian and food industries of Ukraine), URL: <http://landlord.ua/rejting-krupneyshih-igrokov-agrarnoy-i-pishevoy-otrasley-ukraini/> ; Latifundist.com: Топ 100 латифундистов Украины (Top-100 latifundists of Ukraine), URL: <http://latifundist.com/rating/top100#136>

Annex 5. The structure of political power in Ukraine from 2005 to the present time with a focus on the agrarian sector

The President of Ukraine			Prime-minister of Ukraine			Minister of Agrarian Policy		
<i>Tenure</i>	<i>Name</i>	<i>Political Party</i>	<i>Tenure</i>	<i>Name</i>	<i>Political Party</i>	<i>Tenure</i>	<i>Name</i>	<i>Political Party</i>
01.2005 – 02.2010	Viktor Yuschenko	Our Ukraine	01.2005 – 09.2005	Yuliia Tymoshenko	Fatherland	02.2005 – 08.2006	Oleksandr Baranivskiy	Socialist Party
			09.2005 – 08.2006	Yuriy Yekhanurov	Our Ukraine			
			08.2006 – 12.2007	Viktor Yanukovych	Party of Regions	08.2006 – 03.2010	Yuriy Melnyk	Communist Party (most political life was a member of Ukrainian People’s Party of V. Lytvyn)
			12.2007 – 03.2010	Yuliia Tymoshenko	Fatherland			
02.2010 – 02.2014	Viktor Yanukovych	Party of Regions	03.2010 – 01.2014	Mykola Azarov	Party of Regions	03.2010 – 02.2014	Mykola Prysiashniuk	Party of Regions
06.2014 - present	Petro Poroshenko	Petro Poroshenko’s Block “Solidarnist”	02.2014 – 04.2016	Arseniy Yatseniuk	People’s Front	02.2014 – 12.2014	Ihor Shvaika	Party “Svoboda”
						12.2014 – 04. 2016	Mykhailo Pavlenko	No data for the tenure