Antirecessionary Regulation of Ukrainian Economy Agrarian Sector under Conditions of Formation The Zone of Free Trade with European Union

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At the present stage of world economy development, the increasing of international integration groups’ number and their participants is typical. This process facilitates the external economic links development, trade turnover increasing, raises the level of international collaboration etc. The example of European Union (EU) is demonstrative, for the present time it is the economic unit of European independent countries, the topmost form of integration in the world and the largest global market with would-be consumption of 505 million people [2]. For Ukraine and especially its agrarian sector which trade turnover with EU in 2014 was about 7 bln 690 million dollars (export amounted approximately 5 billion dollars) [7], the opening of this market is very important.

In the context of this, 21 March 2014 it was signed the political part of Agreement about association between Ukraine form one side and EU with its partners of agreement about ZFT in the agro sphere: at first, the high level of sector support in EU and low one in Ukraine stipulate the increased risks from ZFT establishment exactly for Ukrainian agriculture. in 2010–2012 general expenses for agrarian markets EU were more than 55 bln. euro a year [4] on the average at the same time in Ukraine for analogous support it was given a bit more than 6 bln. hryvnia annually [6];

The problems of position the agrarian sector of Ukraine economy under the conditions of increasing integration processes with EU are the subject of active discussions of public figures, politicians, experts and full group of scientists; especially we should to note the works [1; 6]. Individually discussed by some scientists [2; 3; 4] is a problem of sectoral prospects of Ukrainian agrarian sector in the connection of would-be ZFT forming with EU. As a fundamental aim of Agreement about ZFT for agrarian sector was proclaimed the value of provision trade turnover accumulation and large-scale of investment streams between EU and Ukraine by means of trade liberalization and harmonization of regulated environment, while the opportunities realization and decrease of threats (risks) for particular spheres of agrarian sector will depend on specific of Agreement statements implementation. After Ukraine joining the WTO main part of Ukrainian agriculture commodity producers and processors lost their competition advantages at the home market not in the last place with a help of strict and in some statement even enslaving WTO provisos for goods of provision groups of Ukrainian origin. We have to emphasize those provisos were known to the producers, practiced experts and sector lobbyists only after Ukraine joined WTO. The typical peculiarity is in the asymmetric relationships between would-be partners of agreement about ZFT in the agro sphere: at second, there is an asymmetric in trade regimes, especially at the rates of agriculture tariff shelter. In EU the average so called “linked” agriculture products import tariff is 15,9 %, there-after Ukraine joining the WTO obligated itself to establish the agriculture goods tariffs at 11,1 % rate [5]. The highest level of tariff shelter has milk and dairy products market EU, where the average tariff is 64,1 %, thereafter in Ukraine – it is only 9,8 %. In EU as a result of tariff quotas operating, the maximum animal products tariffs overcome 200 %.

EU supports tariff quotas at 15,1 % within bound by contract tariff lines of
agriculture products. These are big horned cattle (BHC), high-quality beef, frozen BHC meat, frozen beef for alteration, butter, cheese, dry skimmed milk, milk, sugarcane, sugar, garlic, tinned mushrooms, pork products, chicken and turkey products, egg products and albumen, wheat, barley, maize and sorghum, oats, rice, grapes juice and must.

For import within the framework of tariff quotas there were used import licence. That regime establishes additional non tariff barriers for Ukrainian agro production export. Ukraine, by [2] data, uses only sugarcane tariff quota with import tariff 50 % over this quota.

Besides, in EU the non tariff shelter is rather higher than in Ukraine. Especially it concerns technical barriers in trade, established by EU and regulate the packing and marking procedure, methods of elementary alteration and final producing, also they determine consumer characteristics of final product. Monitoring the materials of Committee session about technical barriers in provision trade showed that 25 % of all these interpellations concerned exactly technical barriers, established by EU.

The level of EU trade shelter by sanitary and phytosanitary control measure is one of the highest in the world and highly overcome the Ukrainian level. The activity in EU as to the ensuring the provision safety envelopes the whole provision chain – from plant and animal health to particular commodity groups. To be impartial we have to denote that to execute the plan of measures about accomplishment the regulations Cabinet of Ministers of Ukraine is rather strict than those which are allowed by EU. At the same time it is probable that EU will insist on including to the agreement text about ZFT the prohibition of restrictions insertion to grain export from Ukraine, what can constrict the means of governmental regulation of national grain market with the aim to save the provision security of Ukraine in low productive years.

The threats for sectors of oil crops growing and vegetable oil producing are rather higher than for grain sector, because the domestic seeds producing is highly flexible to the import tariff decrease. At the Ukraine joining the WTO it was done the exclusion for sunflower oil concerning the top 20 % measure of "linked" tariff, and sunflower oil tariff is still on 30 % level. He subject for negotiation could be further reduction or even abolition the sunflower seeds export duty and representation in the agreement the prohibition of rape export duty insertion. All this will considerably complicate as it is not so irreplaceable governmental market regulation will make some obstacles in interests coordination among agriculture producers and processors also it will produce additional threats to provision security of the state.

Sugar market is one of the most unstable and problematic in Ukraine. The problems of the sector and reasons of its decline are well known, and one of the main reasons – is low fertility of sugar beet within the disastrously high level of marginal costs of sugar mills. Under such conditions abolition or decline of import duty brings the threat of total sector destruction, what can’t be admitted taking into consideration the highly probable social results from the point of provision and energetic state security. For its part, domestic producing of confectionery considerably depends on sugar producing. Thus export and import of Ukrainian confectionery in goods operations with EU are almost synchronous, but under ZFT conditions it will be the potential for export extension. As to sugar market, in EU is going on the durable sugar sector reform and this trade position would be to the purpose to exclude from negotiations about ZFT.

To the contrast to sugar market, the honey market has competition advantages at the markets of EU countries and its export in these countries increases unceasingly, and the realization of honey market advantages is expected from ZFT. So, according to the words of deputy Minister of agrarian policy and food of Ukraine Vladyslava Rutytska “....Ukraine at the first quarter 2015 at the honey group of goods has already depleted the year quota of EU (5 thousand tons) given in the frames of autonomous trade preferential regime” [7].

Risks from ZFT for vegetables, fruit and grapes connected first of all with increasing the physical volume of import almost at all main goods positions during last years (starting from 2005 when import duties for these products were decreased [11]). This market is characterized by high price flexibility of import, so a trend to decreasing or total abolition of customs tariff will cause the following increasing of import physical values of appropriate products, what in succession, can make some threats for Ukrainian producers.

Thus the largest misgiving because of ZFT making appears relatively to meat group of goods (meat and products of its alteration), which were the most sensitive to customs tariffs decline and to decline of
non tariff protection after Ukraine joined WTO. In consequence of it the volume of import form EU countries substantially enlarged as result of trade regimes liberalization. The main threats from ZFT connected with meat and meat products market because of:

1) considerable flexibility to customs tariffs decline;
2) not effective system of state support of cattle breeding;
3) crisis in the sector as a result of national currency unit devaluation;
4) not correspondent to the EU standards and lack of pecuniary means at enterprise-producer for standards harmonization, except poultry farmers.

As it was mentioned at the meat markets of Ukraine and EU there is a considerable asymmetric in the values of sector state support at the level of tariff (exactly in EU the tariff quotas are used for the most kinds of meat and meat products) and non tariff protection.

To the number of advantages form ZFT it was possible to refer some potential profits for Ukrainian producers on condition that it would be the abolition of export subsidy of EU for: beef, dried and smoked hams, not boiled sausages, which don’t content the meat of poultry and offal, alive chickens, turkeys and geese, frozen chicken carcasses. Although after the hryvna devaluation under the condition of financial-economic recession the competitive of some goods from EU (especially frozen chicken carcasses) could be supported for the future at Ukrainian market but only on condition of export subsidy saving. But we have to note that abolishing the export subsidy form EU is low credit because the protection of own agriculture producers interests till the present day was a quintessence of Common agrarian policy (CAP).

For the dairy sector the main threats during the ZFT making connected with the problems of technical certification of milk alteration enterprises and renewing their assortment-goods range, applicable for further export to the EU countries. Reconstruction of the Ukrainian dairy sector according to the EU standards is complicated with problems of low quality of input raw materials to the milk altered enterprises and disastrous lack of raw materials as a result of nationwide and long-lived trend to cutback of milk caws herd livestock.

Besides from the end of 2014, as a result of lack of raw milk, dairy products price increasing on the background of disastrous solvent demand decrease for dairy products, it appeared the threat to competition position of Ukrainian producers at the domestic market. Especially under the conditions of dairy sector subsiding volume increasing, which was demanded by EU producers at the beginning of financial-economic crisis, and subsiding amount increasing of dairy products export in new edition CAP (2014), and it is on the background of EU quotas abolition to milk producing from 1 April 2015.

So, after the ZFT making with EU exactly meat and milk products producers will face the threat to be excluded from the domestic agro-provision market and all this on the background of disastrous dropping of real salary index for January – February 2015 for 17,7 %, what can make considerable obstacles for money accumulating at meat and milk products producers for further investment into the technical-technology enterprises re-equipment.

To pay attention to the critical pass of Ukrainian meat and milk sectors, we’ll make the evaluation of price competitive meat and milk products of Ukrainian producing at the domestic market during ZFT making. Thus these conditions and possible parametric exclusion from ZFT are not defined yet, so the prognostic model of evaluation we’ll complete by the following suitable approach: with preservation of efficient import duty, with null rate of customs tariff, with preservation of EU export subsidies and their abolition on ZFT conditions. From the beginning we give the results of analysis of price competitive of potentially import meat and milk goods form EU at the Ukraine domestic market. In addition to that as a comparison object we propose Poland – the leading producer of EU agrarian products with the largest innovative agro technologies of growing and alteration of agriculture products and a country, which considerably similar to Ukraine by natural-climate circumstances.

To evaluate the competitive of Ukrainian BHC meat we compare the price of Ukrainian beef and good-substitute of Polish origin at the domestic market of Ukraine on the condition of existing customs tariff and null rate of import duty.

In 2010–2011 Poland subsided beef export from the EU budget at quantity of 15 euro for 100 kg. [6]. If we keep to out attention that by statistic agency data of Poland in January 2015 at the domestic market of this country wholesale prices of beef realization (quarter of carcasses) by meat-altering enterprises were 11,63 of Polish zloty for 1 kg. (without VAT), as far as with taking into account export subsidy, present duty (15 %), VAT and minimal 5 % traders profitable the price of import meat could be, as minimum, 4,03 euro for 1 kg, on the condition of null rate of customs duty, minimal settlement price of Polish beef at the Ukraine domestic market would reach 3,53 euro for 1 kg., what approximately 50–60 % overcome the price of Ukrainian producer.

So, beef of own producing wins the price competition at the domestic market from EU import good-substitute. On the condition of unstable currency course and volatility of market situation Ukrainian beef producers have the stock of price strength at competition with European good-substitute.

At the same time one very unfavorable factor acts here – the reduction of domestic producing of BHC meat, what has already become a “national tradition”. At the period 2009–2014 by the [3] data, meat-alteration enterprises of Ukraine reduced a third of the cooled and frozen beef producing.

The similar analysis we will implement according to the price competitive of import pork at the Ukrainian market. Firstly we compare the purchase prices of swine (at living weight) in Ukraine and Poland.

According to our calculation on the base of official statistic researches data, in January 2015 pork purchase prices at euro equivalent in Ukraine were 58–61 % higher than in domestic market in Poland. It lays the basis for Polish pork competitive price at the Ukrainian market. During 2010–2014 Poland with Brazil and Canada was a pork export leader in Ukrainian market. At the results of preliminary calculations, minimal estimated import price taking into account customs tariff (12 %), VAT and 5 % of profitability, was almost 1 % lower than wholesale prices of selling from Ukrainian producers storages. On the condition of import duty null rate the contrast in wholesale prices of Ukrainian producing pork and imported pork from Poland will increase in range from 10 to 13 %.

So, on the condition of import duty null rate competitive position of Ukrainian producer will be weaker and pork import from the EU countries can arise.

In EU there is a rate of subsiding of poultry meat export (frozen chicken carcasses) at amount 55 euro for 100 kg on the condition of supply to CIS countries. At the result, Polish importers have price advantage in the sector of frozen poultry meat: minimal estimated price for import meat is 20–23 % lower than for Ukrainian meat. Calculating of price competitive shows that the Ukrainian producer could have the price advantage at the domestic market, if in EU export wouldn’t be subsided. Then the minimal import estimated price with customs tariff (15 % – for fresh and cooled carcasses and 12 % – for frozen one) and VAT would exceed the wholesale price of Ukrainian producer for 17 %. Besides at the duty null rate and on condition of export subsidies absence Polish poultry meat would be 25–30 % cheaper.

So, thus after the considerable hryvna devaluation on the conditions of long financial-economic recession poultry meat of Ukrainian producing at the second part of 2014 got additional competitive advantages over the EU import poultry, but at the 2015 beginning there was a question of the whole sector physical surviving (see table 1) – according to our calculation at USA dollar exchange rate 25 hry., level every produced kilo of broiler chicken meat with a formed at the market price will generate to its producer 6 kopiykas loss from the every hryvna of the net profit; the analogue situation is with industrial eggs producing (see table 2).
Simultaneously at the price, Ukrainian produced cheese would be competitive at import duty null rate. Thus, as a result of hryvna devaluation, what caused the sudden rise in price of Ukrainian produced cheese; its price was particularly similar to the price of Polish imported cheese. If under the condition of ZFT it wasn’t done the exception for cheese, so this product of Ukrainian producing would lost the price competition to the imported one, by our calculations, cheese would be 7–10 % expensive.

In such a way, the lion’s share of Ukraine national agrarian sector spheres would be very vulnerable under the ZFT conditions and their products would need additional protection even at domestic provisional market. The afore-cited calculations are preliminary and require following additional verification procedures, making more precise definition as so on, but sectoral authenticity of exactly such a development scenario is confirmed by statistic data, which were announced by V. Rutytska: “For the present day we have four quotas, according to which the given volumes were emptied before the term is over – this is quota for meat export (400 thousand tons), honey export (5 thousand tons), it was almost emptied the position of apple and grape juice – for 98,4 % (the remainder is 157 tons from thousand ands) and quarter quota for pork meat (4 thousand tons)” [7].