



UkrainianAgribusinessClub

# Doing Agribusiness in Ukraine

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2013







## Dear colleagues!

The agricultural sector of the national economy is rightly considered as its backbone, and along with other sectors it constitutes the basis for the living of our state and for the welfare of the citizens.

Nowadays agriculture is becoming more and more important; it is the question number one on the agenda of our society, because agriculture in Ukraine is among the major branches of the economy and ensures stability and confidence in the future of our country.

However, to achieve good results we shall have an elaborate and clear agricultural policy. It is necessary to note that to this end there has been done a lot in recent years, including measures like state support for the sector, an attractive taxation regime and many other things.

Still, in 2013 the agricultural sector is facing certain challenges.

These are first of all the land tenure system which is the basis for sustainable agricultural production, and preferential taxation which is employed in many countries and considered as a common tool in agricultural relations for motivating and giving incentives to farmers and ensuring a functioning market for agricultural products, provision for and maintenance of food security, and other important issues.

It is worth mentioning that a draft law was developed "On Turnover of Lands of Agricultural Use" establishing legal, economic, social and organizational mechanisms for realization of the state policy in this sphere. This draft law is economically accentuated and provides a set of rules for solving issues which have already accumulated in the sphere of land relations.

Therefore I would like to stress: only united efforts and interests of agribusiness and the state may lead to the most positive results and help the country reach a level where it will become a powerful competitor on global markets and a strong agrarian country with great potential and capacities!

Respectfully,  
Minister of Agricultural Policy  
and Food of Ukraine

**Mykola  
Prysyazhnyuk**



## Dear colleagues!

It is not a secret that political events in Ukraine often have an impact on the economic situation, and economic instability never leads towards positive outcomes. In this sense, it is of utmost importance that Parliamentary Elections of 2012, while somehow having changed the political landscape, nevertheless provided for furthering reforms that are urgently needed by our country.

The Committee of the Verkhovna Rada of Ukraine on Agricultural Policy and Land Relations — unprecedented in terms of the number of Committee's members — does not stand aloof. The Committee was joined by many professionals with firsthand experience in agricultural production. And while it is true that many of our colleagues need time to grasp the nuances of the law-making process, there is no doubt that the professional level of the Committee gives reason to count on effective and fruitful work.

Whether good or bad, the level and the scale of tasks and challenges we are facing are unprecedented as well. This is the regulation of land relations, also with a view to logical finalization of the last year's achievements in the field of demarcation and division of state and municipal land and improvement of the registration system. This is also completion of the process of de-regulation in the agro-industrial complex. We shall not omit the issue of establishment of modern financial tools for farmers, elaboration of regulation of agricultural markets, improvement of effectiveness of state support for the sector and many other aspects. The development of the biofuel industry and organic farming are also high on the agenda.

I am pleased to note that belonging of the Committee's members to different political parties has not prevented us from establishing and maintaining professional discussion about profile draft laws, and has not deprived us of the desire to build the most appropriate legislative basis for the development of the sector.

Respectfully,  
Chairman of the Committee of  
the Verkhovna Rada of Ukraine  
on Issues of Agricultural Policy  
and Land Relations

A handwritten signature in black ink, appearing to read 'Hryhoriy Kaletnik', written in a cursive style.

**Hryhoriy  
Kaletnik**



## Dear colleagues!

Today Ukrainian agri-food business plays a prominent role not only in the economy of our young country but also at a global level. Close integration with and leading positions at the world grain and oilseed markets, supplies of agricultural commodities to Asia, huge investments into Ukrainian, Russian and the EU economies, super-active participation at the international capital markets, etc. — this list of recent achievements of Ukrainian agribusiness is far from being exhaustive.

Most of these results are being achieved in spite of numerous obstacles. Post-crisis dynamics are exacerbated by volatility of global agricultural and input markets, unfavorable weather conditions as well as unstable agricultural policy, which is in search for balance among a) food security, b) social development of rural areas and c) creation of favorable business environment. While consensus on the first of these issues has been achieved by agricultural market players, discussions on the other two issues will be even tougher in 2013 than in previous years.

Despite progress in moving towards a full-fledged market of agricultural land, the steps made in this direction can be considered as rather technical preparation. A lot of work has to be done to establish framework conditions which, in their comprehensiveness, would encompass not only short-term interests of market participants but also the preconditions for long-term efficient agribusiness. This also concerns taxation in agriculture — the issue which is fiercely debated nowadays.

Nevertheless, as the year of 2012 showed, agricultural producers are aware of manifold requirements they face. To some extent, extensive development of agriculture has already achieved its apogee. Today agricultural companies are actively involved in realization of social projects, investing in latest technologies and human capital because they understand that this is the future of Ukrainian agribusiness.

Wishing successful business,  
President of the Association  
"Ukrainian Agribusiness Club"

**Alex  
Lissitsa**

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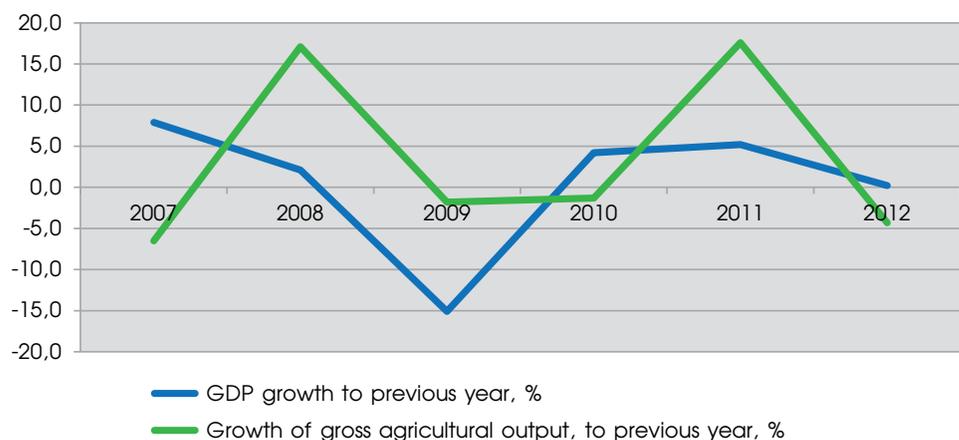
## MACROECONOMIC TRENDS AND AGRICULTURAL SECTOR

In 2012 Ukraine experienced stagnation in nearly all sectors of the country's economy. One major trend was sharp decline of the economic growth rate<sup>1</sup>. Secondly, there was a significant deterioration of the situation of external accounts that had negative impact on the exchange rate expectation of businesses. So, the deficit of balance of payments in 2012 grew up to 8.4% of GDP (and exceeded this indicator of the crisis year 2008 which equaled 7.1% of GDP) against the background of worsening external demand for Ukrainian export goods and growth of consumer import due to the increase of social expenditures in view of forthcoming Parliamentary elections. Thirdly, the tendency of the National Bank of Ukraine to preserve stability of the national currency in the context of a growing deficit of balance of payments resulted in serious tightening of monetary policy.

The agricultural sector was not an exception; compared to 2011 when breakthrough growth was recorded (17.6%), in 2012 the sector reported decline of gross production by 4.3%.

This negative dynamics was mostly caused by adverse weather conditions which prevented complete exploitation of production potential, first of all, in crop production.

Dynamics of Gross Domestic Product  
and Gross Agricultural Output, 2007-2012

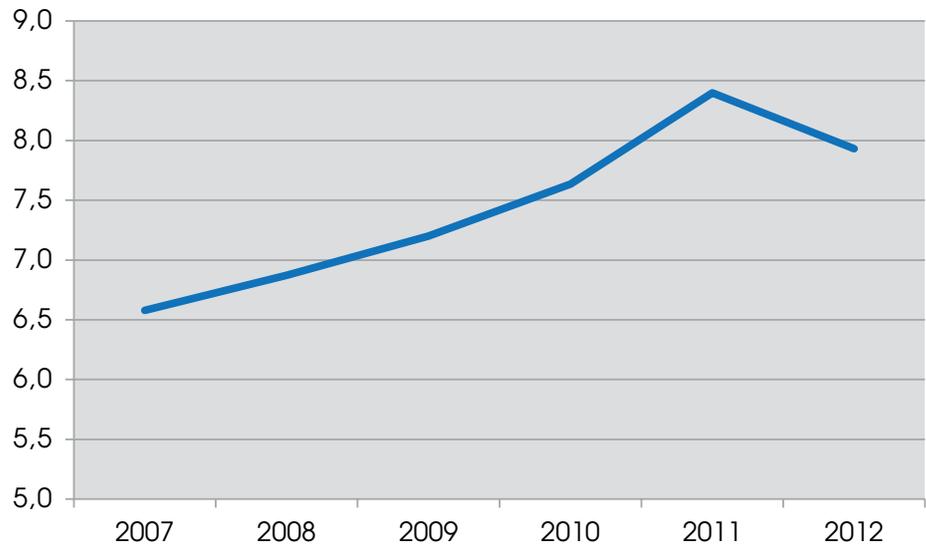


Source: State Statistics Service of Ukraine

The share of the agricultural sector in GDP in 2012 also dropped from 8.3% down to 7.9%, and by doing so it diverted the trend of recent years towards steady contribution increase of agriculture to gross value added.

<sup>1</sup> See D. Solohub "Ukrainian Economy: Quo Vadis?", LFM Journal #2 (2013)

## Share of agricultural output in GDP, %



Source: State Statistics Service of Ukraine

Besides poor weather conditions, deteriorating macroeconomic indicators in agricultural sector are explained by a national economic slowdown, tightening of monetary, budgetary and taxation policies of the Government. Therefore our forecasts made at the beginning of 2012 came true.<sup>2</sup>

According to the National Bank of Ukraine (hereinafter referred to as NBU), GDP growth in 2013 will make up about 2.5-3.4%. Nevertheless, International Monetary Fund (IMF), European Bank for Development and Reconstruction (EBRD) and other international organizations expect in 2013 much weaker growth, 1% only.

Stagnation of the economy is also evidenced by the low rate of product inflation; it was ensured by a good harvest of cereals and vegetables sufficient for meeting domestic demand, and also by the improvement of milk production and by the state regulation of prices for socially sensitive goods.

The situation of production of major crops in 2013 looks promising as compared to the last year (currently 92% of sown areas are in good and satisfactory conditions, while in 2012 this figure did not exceed 67%). We estimate that gross cereal yield of 2013 will surpass the 2012 harvest by 20% and make up 55 million t. According to the expectations of the Government, the rate of inflation in 2013 will be 4.8%, while the growth of the consumer price index will be kept at the level of 4-6%, according to mid-term goals provided by the Monetary Policy for 2013.

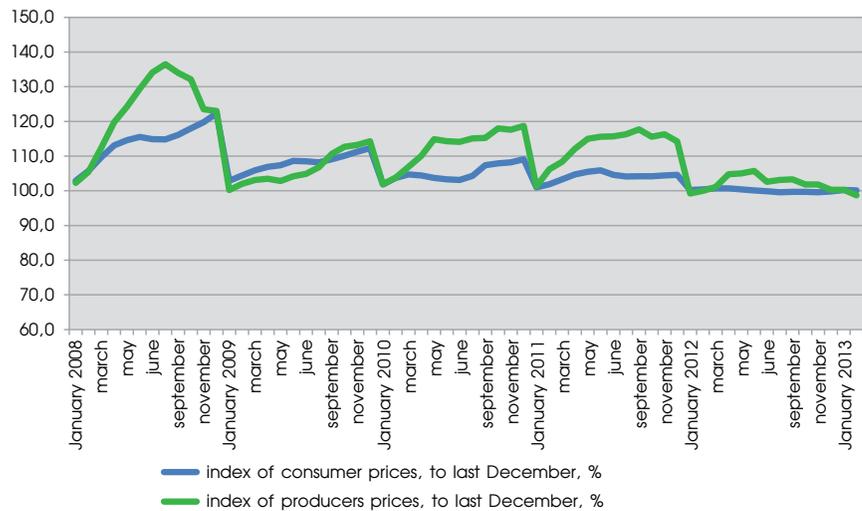
Despite deterioration of macroeconomic indicators, 2012 observed some growth of capital investments in agriculture (by 10.5%). When compared to 2011 (48.7%), it may be taken as a sign of reaching a certain threshold in building-up of material and technical capacity

*Gross cereal yield of 2013 will surpass the 2012 harvest by 20%*

<sup>2</sup> See "Doing Agribusiness in Ukraine 2012" [http://www.agribusiness.kiev.ua/img/zstored/files/service/AgriSurvey/doing\\_agribusiness\\_eng%202012.pdf](http://www.agribusiness.kiev.ua/img/zstored/files/service/AgriSurvey/doing_agribusiness_eng%202012.pdf)

and power; businesses became more concerned with improvement of their effectiveness in production as well as in management.

### Dynamics of Consumer and Producer Price Indices, 2008-2013\*

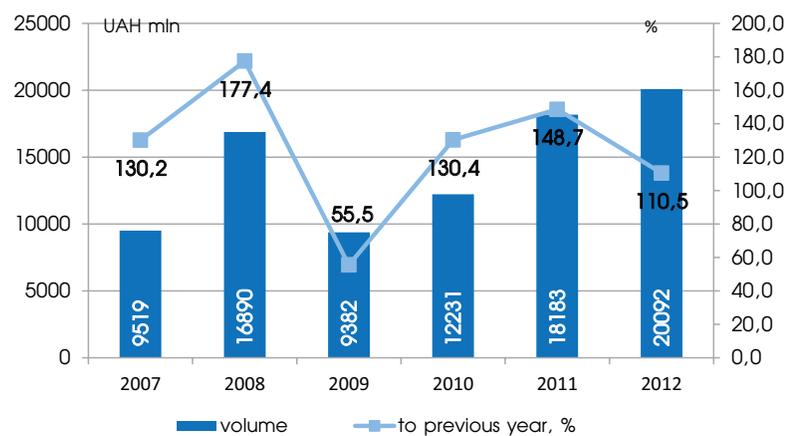


\*January

Source: NBU

Expectations of improved effectiveness are often linked to the inflow of foreign investments. In 2012 the volume of foreign investments grew by 15.7%, which indicates a comparatively favorable investment climate in Ukrainian agriculture in 2012.

### Capital Investments in Agriculture

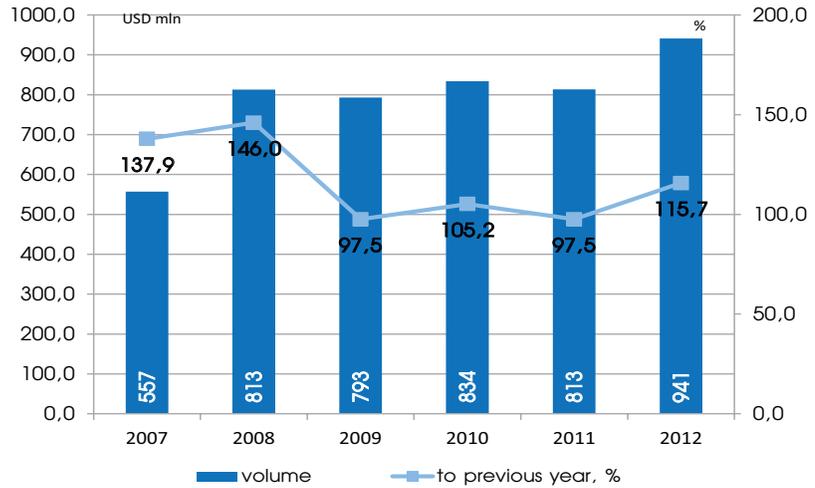


Source: State Statistics Service of Ukraine

Nevertheless, in 2012 Ukrainian agribusiness encountered serious problems and difficulties when trying to attract foreign finance, in particular, on international capital markets. Not a single company of the national agro-sector managed to go for an IPO, and that was first of all related to the situation on European capital markets and the crisis of Euro zone. In view of that, Ukrainian agribusinesses started thinking about attraction of capital on Asian markets. This was demonstrated by an unprecedented number of participants of the IV. Agribusiness Investment Forum which, among other

things, explored the opportunities of Asian capital markets<sup>3</sup>. This new niche was in fact pioneered by the Government of Ukraine which managed to attract a so-called “Chinese loan”.

### Foreign Direct Investments in Agriculture

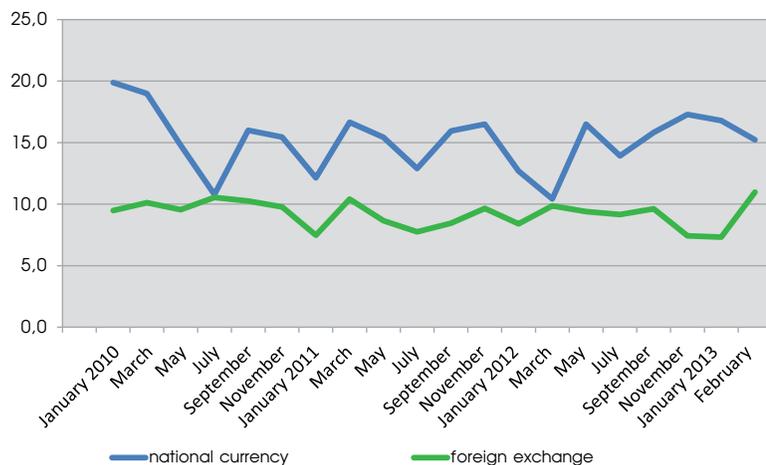


Source: State Statistics Service of Ukraine

For agribusinesses there are a number of instruments for attracting funding, even under conditions of an unfavorable situation on European capital markets<sup>4</sup>. In line with our forecasts of 2012, several listed Ukrainian companies succeeded in raising capital by means of corporate bonds issued already in the first quarter of 2013.

As regards borrowed capital, the interest rates of commercial banks in Ukraine are still too high.

### Average Interest Rates for Long-Term Loans Issued by Commercial Banks to Businesses



Source: NBU

<sup>3</sup> The IV. Agribusiness Investment Forum “Investment Strategies for Foreign Investors in Ukraine: Expectations and Realities” was held by UCAB and AgriEvent agency on April 16, 2013. It was attended by 250 participants.

<sup>4</sup> See issue # 2 LFM Journal “Management of Large Agrarian Business” focused on issues of funding of agriculture.

# AGRICULTURAL POLICY OF UKRAINE

## KEY LEGISLATIVE CHANGES AFFECTING AGRICULTURAL BUSINESS IN 2012-2013

Since the beginning of 2012 till April 2013 a series of laws and regulations have been adopted affecting agribusiness in Ukraine. This survey briefly describes the main changes that have taken place over the outlined period of time.

### Turnover of Land and Land Reform

The Law of Ukraine "On Amendments to the Land Code of Ukraine" dated November 20, 2012, yet again continued the restraint on the alienation of certain categories of agricultural land — the so-called "moratorium". At this time, the moratorium has been prolonged until the law on the turnover of agricultural land will come into force, but no earlier than January 1, 2016. The previous statutory wording associated the lifting of the moratorium with the adoption of the law on land market. However, despite the active debate over the bill in 2012, a consensus was not achieved and the law has not been passed.

Starting from January 1, 2013, lands of state and communal property are to be considered demarcated. Demarcation criteria are defined in the Law "On Amendments to Some Legislative Acts of Ukraine Regarding the Delimitation of State and Municipal Property" of September 6, 2012. These amendments, among other things, redistributed powers between the bodies of state power: now, instead of state administrations, the State Agency of Land Resources of Ukraine and its territorial bodies will manage the agricultural land in state property.

Amendments to Articles 135-139 of the Land Code of Ukraine provisioned by the Law of July 5, 2012, No. 5077-VI, finally legislatively regulate the procedure for conducting land auctions. Now, the competent authorities will be able to legally sell land plots of state and communal property and rights to them.

Pursuant to the Law "On Amendments to the Law of Ukraine 'On Banks and Banking Activity' Regarding the State Land Bank" of September 18, 2012, the State Land Bank was created. The Cabinet of Ministers of Ukraine Decree of July 25, 2012, No. 93 approved the statute of this agency and on March 14, 2013, the bank was registered as a public joint stock company with registered capital of 120 million Hryvnia. It can be expected that the State Land Bank will extend credit to domestic agricultural producers; especially small and medium size ones, using land as collateral and at an interest rate below the market.

At the beginning of 2013, the Law "On the State Land Cadastre" came into force. According to the law, land plots are subject to state registration in the State Land Cadastre by opening land books for the land plots concerned, as evidenced by the appropriate extract. The State Land Cadastre includes quantitative and qualitative characteristics of the land, in particular, the cadastral number, location, description of the boundaries, area, intended use, normative



monetary valuation, and the like. The official website of the State Agency of Land Resources of Ukraine now features the Public Cadastre Map, which by cadastral number shows the boundaries of land plot and displays some data of the State Land Cadastre relative to it.

### **New Procedure for Registration of Rights to Immovable Property**

Starting January 1, 2013, the new procedure for registration property rights to real estate, including land, became effective provided by the Law "On State Registration of Proprietary Rights to Immovable Property and their Encumbrances". Rights to immovable property (with land inclusive) and their encumbrances are registered in the State Register of Proprietary Rights to Immovable Property and arise only after such registration. These rights and their encumbrances are to be registered by the state registrars of the State Registration Service, as well as notaries as special subjects within notarization of transactions involving immovable property in the "secondary market". Starting from 2013 no State Acts of Ownership Right to Land Plot shall be issued. Instead, the landowners' ownership to land will be confirmed by a Certificate of Ownership to Immovable Property. Under the new order, the right to lease land can only be registered after the registration of ownership right to the relevant land according to the new procedure, which in practice could prove challenging.

### **Land Management**

In the course of 2012, the Land Code, the Laws of Ukraine "On Land Management", "On the Topographic and Geodesic, and Mapping Activities", "On Licensing Certain Types of Business Activities", and some other acts regulating land management were amended. These changes, in particular, have specified the procedure for approval of land management projects by the competent authorities and a composition of a land management project. Instead of licensing land management works, a compulsory certification of engineers-land managers and geodetic engineers has been introduced with registration in the relevant registers.

### **Financial Aspects and State Support**

By the Decree No. 1185 of October 31, 2011, the Cabinet of Ministers of Ukraine increased the rental income index to 1.756 starting January 1, 2012, which consequently increased the normative monetary value of land. This, in turn, had a proportional impact on the land rent for the land, the size of which is set as a percentage of the relevant land plot normative value.

In March 2013, the Law "On Agricultural Receipts" adopted on November 6, 2012, became effective. The law introduces agricultural receipts that are title documents recording the debtor's absolute obligation to supply agricultural products (agricultural commodity receipts) or to pay money (agricultural financial receipts). Respective debtor's obligation is secured by a pledge of future crops from a particular land plot. Agricultural receipts will be certified by a notary, and then recorded in a special register. The law is designed to replicate a successful Brazilian practice in Ukraine and facilitate the access of agricultural enterprises to material resources.

The Law of Ukraine “On Amendments to Certain Laws of Ukraine on the Guarantee Fund of Performance under Warehouse Receipts for Grain” adopted on November 20, 2012, regulates the establishment and operation of the Guarantee Fund of Performance under Warehouse Receipts for Grain which is jointly liable for grain warehouses’ obligations and has to ensure the protection of rights and interests of the owners of warehouse documents for grain. The law provides for the mandatory participation of grain warehouses in the Guarantee Fund.

Individuals have been granted some benefits on the taxation of income from selling their agricultural products. Appropriate changes were made to the Tax Code of Ukraine under the law of October 2, 2012; however, the regime of taxation of agricultural producers which are legal entities may soon change. Thus, the Decree of the President of Ukraine “On the National Action Plan for 2010-2014 ‘Prosperous Society, Competitive Economy, Effective State’” dated March 12, 2013, No. 128/2013 provides for the submission to the Verkhovna Rada of Ukraine of a draft law on introducing amendments to the Tax Code of Ukraine concerning the reform of the fixed agricultural tax and the revision of the exemptions from payment of value added tax and corporate income tax.

The Law of Ukraine “On Specifics of Insuring Agricultural Goods with State Support” dated February 9, 2012, provides for government support in the form of subsidies to agricultural producers to compensate for part of the insurance premium on insurance of agricultural products.

On June 1, 2012, the new Customs Code of Ukraine became effective.

### **Specialized Laws**

The Law of Ukraine “On Seeds and Planting Material” was redrafted in a new version (effective starting December 4, 2012). Particularly, the new version of the law stipulates the State Agriculture Inspection of Ukraine as being the governance body regulating seeds and planting sector and empowers it to execute state control, manage the state register of producers of seeds, planting materials, conduct verification, certification of seeds, planting materials, etc.





Adopted on September 18, 2012, the Law "On Aquaculture", starting from the entry into force on July 1, 2013, will regulate the legal relations in the field of aquaculture, which are carried out in internal water bodies, waters of technological fisheries, internal sea waters, territorial sea and the exclusive (maritime) economic zone of Ukraine, as well as areas of land in Ukraine, which are used for aquaculture. The Law of Ukraine "On State Regulation of Production and Circulation of Ethyl Alcohol, Cognac Spirit and Fruit Alcohol, Alcoholic Drinks and Tobacco" was amended in 2012-2013 introducing a number of changes, particularly regarding the control of activities, which are regulated by the law.

#### **Other Legislative Acts**

In January 2013 a new version of the Law of Ukraine "On Restoring Debtor Solvency or Declaring a Debtor Bankrupt" came into force, which, in particular, provides the specifics of bankruptcy of agricultural enterprises and farms.

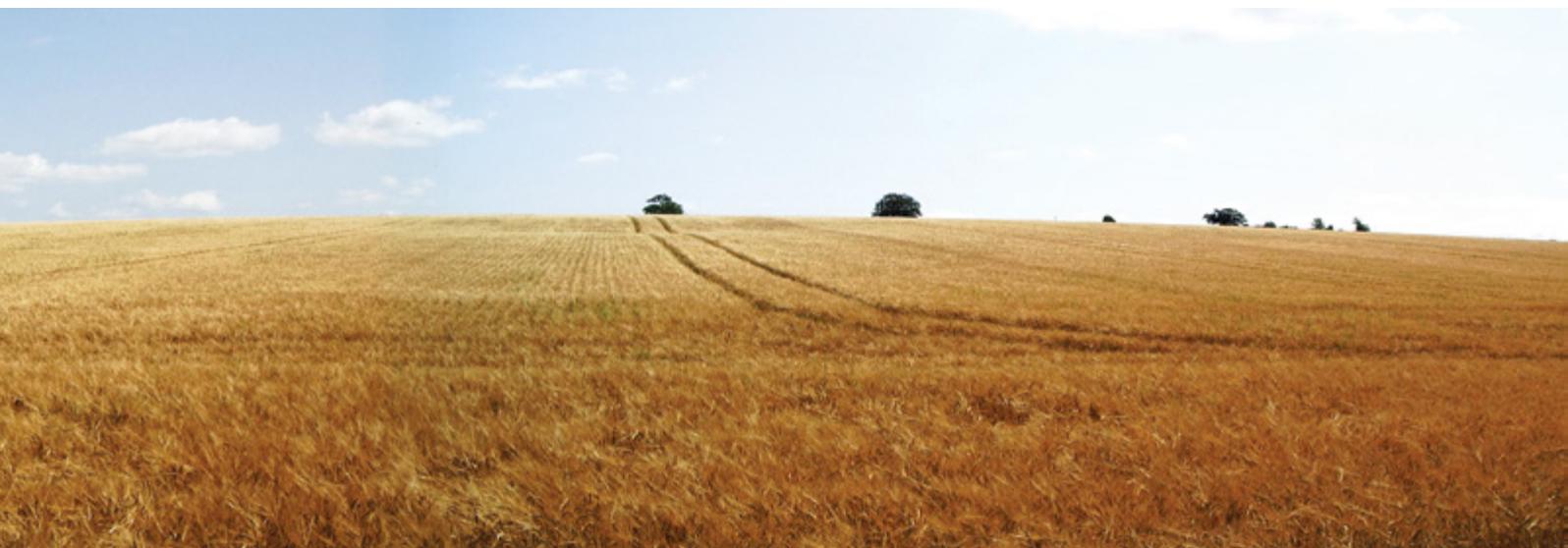
In 2012 the List of Permits in the Area of Economic Activity, approved by the relevant Law of May 19, 2011 (with further amendments), was extended to include the following documents: (1) consent for the import into Ukraine of plant protection products; (2) the certificate of conformity of agricultural products and raw materials of plant origin with respect to the content of residual amounts of pesticides, agrochemicals and heavy metals; and (3) the certificate of compliance with allowed use of pesticides and agrochemicals (only plant growth regulators) in agricultural products and raw materials of plant origin. The procedure for issuing these permits is established by the Law of Ukraine "On Protection of Plants".

#### **Free Trade Area with CIS**

On September 20, 2012 a Free Trade Agreement between CIS countries signed on October 18, 2011, became effective for Ukraine. The treaty still provides for a number of exceptions to the free trade area, inter alia, including exports of Ukrainian sugar.

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## LAND MARKET

Land Relations  
in Ukraine

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Transfer of the ownership to land parcels designated for commercial farming is not possible in Ukraine due to prohibition effective from 2000 (the moratorium).

During the past years cancellation of the moratorium was postponed several times, however, a condition has always been uttered for such postponement: adoption of the Law "On the Land Market" and the Law "On the State Land Cadaster".

The Law of Ukraine "On the State Land Cadaster" has now entered into force. An open cadastral map that can be used to identify location of a land parcel is one of the novelties that the stated law has introduced. However, at present, the cadastral map contains a large number of inconsistencies and technical errors.

### Draft law "On Circulation of Farmland"

After extended discussions the draft law "On Circulation of Farmland" was revoked, and as a replacement the Parliament received a new draft law "On Circulation of Farmland" for review.

The new draft law "On Circulation of Farmland" provides for a number of restrictions relating to ownership title to farmland. Pursuant to the draft law foreign individuals as well as foreign and Ukrainian legal entities are prohibited to acquire the ownership of farmland in the territory of Ukraine. Pursuant to the law only the state and citizens of Ukraine can be the buyers of farmland.

The draft law also stipulates that Ukrainian citizens can own maximum 100 ha of farmland. This restriction is quite controversial because area of 100 ha is unlikely to be sufficient for commercial farming in conditions of Ukrainian market.

While previous draft laws suggested restriction of maximum area of leased land, the new draft laws misses such restriction. The legislator also offers to establish the minimum lease term of farmland of 7 years leaving the maximum term of lease of 50 years.

Moreover, the draft law "On Circulation of Farmland" provides for a minimum rent payment for use of farmland in the amount of 3% of the land value as well as an additional duty onto development of infrastructure in the territories of population centers of village councils in the amount of 1% of the standard land evaluation.

The draft law "On Circulation of Farmland" is expected to undergo extended discussions and amendments; additional restrictions may be added to the draft.

### General changes in land laws

In recent years the legislator has adopted a number of governmental regulations expected by the market for quite lengthy period of time and which are aimed at improvement of legal leasehold relations. For instance, regulations covered are holding of land auctions which allow sale of ownership title and lease rights to (non-agricultural) state and municipal land parcels.

In addition, new procedures for registration of rights to immovable property, including land parcels, have come into force. As a re-



sult, there is no need to undergo double registration of rights to a land parcel: such registration is now carried out by a unified state registration service which is a sub-division of the Ministry of Justice of Ukraine. However, not all peculiarities have been settled and practice often reveals many issues. Very often problems arise during the registration of lease rights to land parcels if ownership has not been registered yet. Most of state and municipal land does not have any registered ownership title which results in delays during the registration of lease right.

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# YOU CAN CERTAINLY GET LEGAL ADVICE ELSEWHERE BUT WILL IT BE TAILORED TO YOUR NEEDS IN AGRICULTURE?

If you want a law firm that understands your business, that not only identifies problems but offers solutions, if you expect your legal advisers to be forward thinkers and to proactively assist with strategic commercial planning instead of merely discussing complex legal issues, and if you want your lawyers to take an entrepreneurial approach and meet you "on equal footing", then look no further.

With nine years of activity in Ukraine, BEITEN BURKHARDT Kyiv has provided comprehensive advice to local agricultural companies and international investors in this sector. Clients regularly engage our dedicated lawyers to act for them in investment structures, acquisition of farming businesses and day-to-day legal business needs. In addition, we offer comprehensive and prudent advice on corporate, real estate and financing matters regarding the agricultural business, including access to EU capital markets.

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## TAXATION

Taxation  
and Land Tenure

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**Land tax**

Land tax is paid by a landowner or a land user. The payment is calculated in relation to (basis of taxation):

- for evaluated land parcels — normative monetary value of a plot, with coefficients of indexation thereof;
- for land parcels without evaluation — area of a land plot.

**Rates applied to agricultural land**

The Land Code defines the following rates of the land tax:

- for agricultural lands (arable land, hayfields, pastures) — 0.1% of normative monetary value;
- for areas under perennial plantations — 0.03% of normative monetary value.

For agricultural land allocated to users according to regular procedure and used for agricultural needs the land tax is paid based on the category attributed to the land.

Some categories of landowners and land users enjoy exemption from the land tax. Among them are, first of all, landlords leasing their land to enterprises with the status of payer of a fixed agricultural tax.

Land tax is also not paid for:

- agricultural land parcels located in radioactively contaminated or chemically polluted areas;
- agricultural land parcels under temporary conservation or agricultural reclamation;
- agricultural land parcels of state stations used for testing of agricultural crops;
- land parcels of agricultural enterprises occupied with young gardens, vineyards and berry-fields till they enter the period of fruit bearing, and also parcels under hybrid plantations, seed farms and nursery gardens.

**Land lease**

Land rent for the use of farmland is determined on the basis of a lease agreement. The rate of rent shall be equal at least to the rate of land tax (i.e. 0.1% of normative monetary value), and cannot be lower than 3% of normative monetary value computed in accordance with legislative provisions, pursuant to the Presidential Decree. Nevertheless, Ukrainian courts treat the latter requirement as a recommendation only.

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Today there is no doubt that in terms of land relations 2013 may well become the most difficult year over the whole history of observation. Despite optimistic declarations of officials, transfer to the new system of registration of ownership and lease rights to land in many regions of Ukraine has not yet been completed, as of April 2013. In fact, registration of lease rights is paralyzed. In places, where it works, it is going at a very slow rate (no more than 15 lease contracts a week, at best). Traditionally, the relevant authorities restrain from provision of satisfactory explanations of the new system and new rules. As a result, one may feel local specifics of interpretation and application of new rules and procedures.

In addition to overall uncertainty regarding registration of lease rights to land, agrarians also face challenges of contradictory judicial practice in respect of (a) declaration of lease contracts null and void and (b) application of tax benefits in case of unregistered contracts for lease of land. And all this is taking place against the background of a radical change of attitudes and approaches of tax authorities towards agrarians featuring direct or indirect withdrawal and cutting of tax benefits (application of which is linked to and based upon lease of land).

The last important issue related to use of agricultural land in 2013 is a legislative requirement to observe rules on crop rotation. Despite informal moratorium imposed upon control inquiries into this matter, this requirement has failed to become either clearer or easier.

### **Registering contracts for lease of land in a new way**

Nowadays registering authorities register not a contract for lease, but the right of lease being one of encumbrances on the property (land). The very registration itself, upon which lease becomes effective and binding, is a registration in the State Registry of Rights to Immovable Property (State Registry) and not in the State Land Cadastre (State Cadastre). State Registry belongs to the domain of the Ministry of Justice, and the registration is done by registrars of local (Rayon) departments of the State Registration Service, and in some instances (when a deal with property is notarized) — state or private notaries. Accordingly, State Cadastre retains only a function of keeping data on main features and characteristics of land plots and on users thereof, on the basis of information received from the State Registry (namely, data on real rights to land plots).

Major problems with introduction of new registration. Most regions of Ukraine today are being challenged by the same issues related to registration of land lease asking for a solution at the national level:

1. **“Here we go again” or registering ownership anew and again.** Any registration of rights in the State Registry, including registration of lease, requires preliminary registration of ownership in the same State Registry. In other words, there has been no automatic transfer of data from the State Cadastre to the State Registry. In practice, such “manual” re-registration of ownership to land is very burdensome for agribusinesses having to deal with thousands or even tens of thousands

of private landowners whose ownership shall be registered again. It requires a new notarized letter of authorization, new payment for registration, drafting of new papers about land plots and, the worst, “delivery” of landowners to registration offices due to unwillingness and reluctance of the latter to accept papers and application from authorized persons or unwillingness of landowners to part with originals of land titles.

The scale of this problem has already made authorities recognize the existence of this problem. The Ministry of Agrarian Policy and Food of Ukraine and the State Land Agency reassure that they are elaborating a draft law aiming at elimination of the requirement of new registration of ownership in the State Registry or significant simplification thereof. Nevertheless, so far these are only declarations of intent.

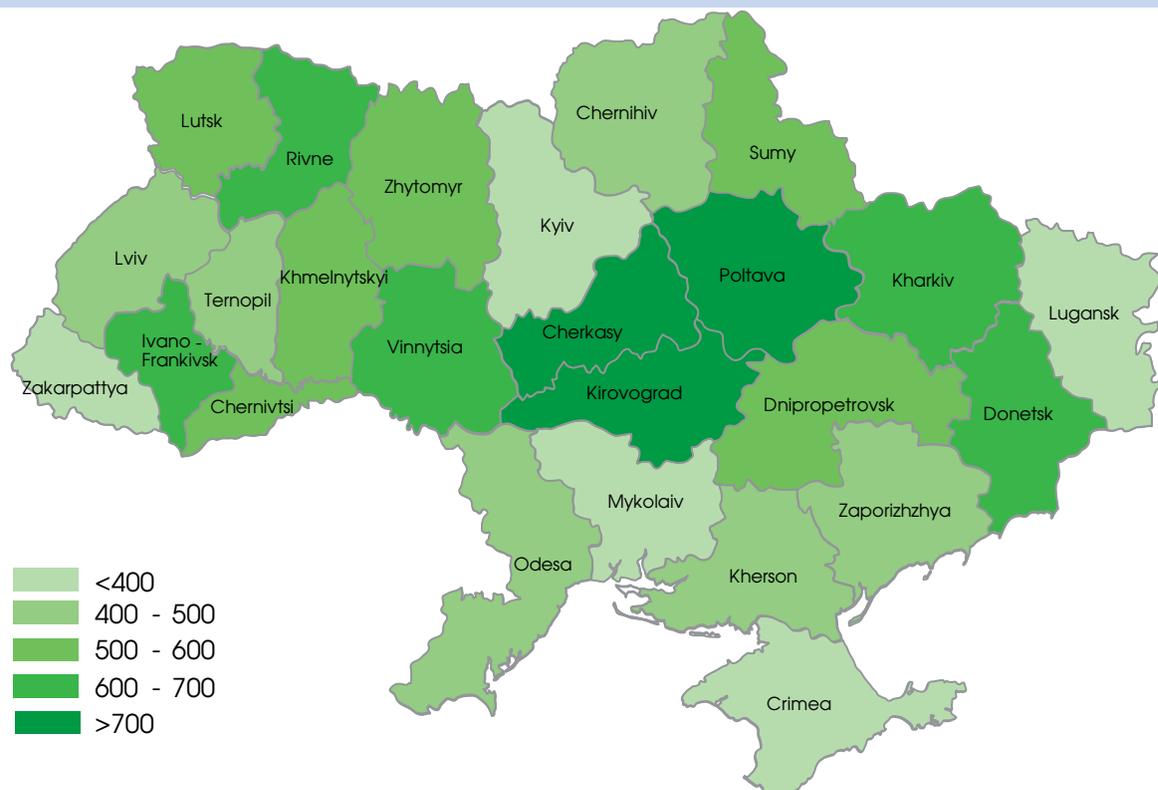
2. **“The subscriber cannot be reached at the moment”**. Despite assurance and statements of creators of the new registration system about continuity and automation of electronic communications between the State Registry and the State Cadastre, in practice information exchange between the two is done through applicants themselves. At that State Cadastre often refuses to hand over papers required for the registration of rights in the State Registry (in particular, references, or extracts, from the State Cadastre), and State Registry, in turn, has no idea which documents and how it shall hand them over to applicants, and in non-standard situations — which documents to ask for. For example, problems appear when the original of a land title (state act) is unavailable due to different reasons (it is lost or not issued because of bureaucratic procedures which may take years etc.); at that a new land title may not be issued as the issue of any land titles is not provided for by new legislation.
3. **Succession of lease of land**. It is still unclear and uncertain how termination of contracts for lease is registered in the State Registry. It used to be registered as a separate action, independently from registration of new contracts for lease of the same plot, in the State Cadastre. Nowadays registrars refuse to register the termination of lease contracts; what then if there are several tenants with competing rights?
4. **Unsatisfactory provision of resources**. State registry replaced several registration procedures, in particular registration of ownership to buildings, separate registration of ownership to land and registration of encumbrances on property. Unfortunately, having assumed all those functions, State Registry does possess neither capacity nor professionalism necessary to deal with the workload. For example, Kyiv today is suffering from queues in registration offices. First, this problem was solved by issuing coupons for certain dates, but soon the closest available time for registration was in September only. After numerous allegations and complaints the coupon system was abandoned, and usual “live” queues — exhaustive and ineffective — were restored. Lack of explanations and stan-

standardization of practice on the part of the Ministry of Justice are additionally slowing down the process because neither registrars nor notaries have a clear idea what and how to do.

**Interesting ideas (what if?).** In response to unsatisfactory functioning of state registration of lease rights, first of all at the level of the State Registry, the market has started producing alternative solutions through local notaries who already have the rights and necessary permits for working with the State Registry. Currently there are two loopholes:

- Introduction of information about lease of land into the State Registry through notarization of contracts for lease of land (it significantly speeds up the process, because the notary himself performs registration of ownership in the State Registry and then, immediately afterwards, the registration of the lease right). All necessary steps are done in presence of applicants — tenant and landowner — within a few hours (with efficient equipment a notary may perform up to four registrations of ownership and lease rights a day). However, registration through private notaries is more expensive than through State Registration Service;
- Change of lease into unlimited emphyteusis — a notary, again, enters data on emphyteusis into the State Registry simultaneously with notarization of a respective contract (like the first alternative, it also speeds up the process and allows

The rent price for 1 ha of agricultural land in 2012, UAH / ha



Source: State Agency of Land Resources of Ukraine



for the establishment of unlimited or very long land tenure). However, practice of using such contracts as emphyteusis is only being shaped today; thus it is quite hard to adequately estimate risks related to potential disputes with land owners and authorities.

It is necessary to mention that reformed procedure for registration of lease in fact has at least one significant advantage as compared to the old system. If under the old legislation (i.e. before January 1, 2013) contracts for lease became effective upon their state registration only, now registration itself has no effect on the validity and binding nature of lease contracts themselves. Registration in the State Registry brings the right to lease into existence. Therefore one may lawfully assert that contracts for lease of land become effective and legally binding for parties immediately after signing; thus such contracts may be terminated (in order to conclude new ones, for instance) only in the course of a judicial procedure (unless, of course, parties agreed differently in their contracts).

### **Will court help us?**

As a gift for New Year 2012, Ukrainian agrarians got two opinions of Ukrainian judges about lease of land.

Invalidity of Non-Essentials. The first gift was made by the Supreme Specialized Court of Ukraine which in its letter of September 27, 2012 opted for invalidity of contracts for lease of land in cases when such contracts are missing at least one condition recognized by legislation as essential.

Strictly speaking, this opinion is well-founded and just from the point of view of Ukrainian laws. Nevertheless, the reality challenges us with regular changes of legal rules along with local practices of using standard forms of contracts (often lagging behind new rules), and thus it makes this approach unreasonably and unjustifiably burdensome for agrarians. Let alone the risk of abusing this approach during “wars” for land.

It seems that a more balanced and just approach would require taking into account bona fide and careful performance of parties. Otherwise after four or five years of lease any Ukrainian court would be able to declare contracts for lease null and void only because, for instance, such contracts did not contain prohibition on contributing the rights of lease into capital of companies, while that is anyway prohibited by the law due to the moratorium. Such judgments are usually and mostly part of a raider attack and the consequences of the letter could be really destructive for tenants and land users. This is indeed a very strange justice and spirit of law. Unfortunately, in this case, just like in many other cases, the lack of a unified voice of agrarians stands in the way of bringing sector’s ideas to statesmen.

Oddities of our justice. The second gift is even more interesting — it is the opinion of the Supreme Administrative Court which on December 28, 2012 decided to clarify the question of beginning of lease for the purpose of tax benefits. In its letter the Court expressed

the opinion that rules of land legislation regarding the moment of emergence of lease right (i.e. state registration of lease right) shall not affect taxation because the latter is governed by its own rules. So, the Court thinks that calculation of own agricultural production of an agricultural enterprise for the purposes of FAT application shall be based upon the area of cultivated land in respect of which contracts for lease have already been signed. It is hard to overestimate the significance of such an opinion for Ukrainian agribusinesses. Today the average number of signed contracts of lease which are yet to be registered covers up to 20% of the total sown area. In view of problems with registration, this share may only grow.

Unfortunately, this gift of the Court is rather dubious. First of all, the logic behind this opinion is disputable, to put it mildly. Indeed, if according to legislation the right of lease has not emerged, then the legality of cultivation of land itself is questionable. Secondly, Court's opinion is not mandatory for tax authorities (it is known that the latter have already asked the Court to call this letter back). The third and the most important is that we are witnessing another clumsy "band aid" approach to state regulation. "Creative" and wishful interpretation of laws should have been replaced by a comprehensive solution of the problem of calculating the share of agricultural production in overall turnover of business with a view to application of tax benefits. Again, this is a question to the sector and its ability to interact effectively with the state when solving sectoral problems.

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In order to support agrarian sector of economy and to reduce the fiscal burden upon agricultural enterprises and farmers, legislation established special taxation regimes for enterprises of the sector, namely:

- a fixed agricultural tax (FAT);
- special regime of VAT application.

### Fixed Agricultural Tax

FAT is a tax, which is estimated and collected in relation to a unit of land area as a percent of normative monetary value of land. FAT replaces the following taxes, levies and contributions:

- tax on profit of enterprises, including advance payment at disbursement of dividends;
- land tax (for land used for agricultural production);
- contribution for special use of water resources;
- contribution for undertaking of some types of entrepreneurial activities (several trade activities).

All other taxes, duties, levies and contributions are paid on the usual terms and grounds including a single social contribution for social insurance.

FAT eligibility is subject to the following prerequisites:

- taxpayer is involved in production of agricultural products and/or breeding and catching of fish in lakes, ponds and artificial water reservoirs, processing of the said products with use of own or leased facilities and equipment, including tolling schemes;
- it uses agricultural lands (own or leased);
- a share of agricultural production in the previous year equals or exceeds 75%. This share comprises the income from agricultural production, processing and realization and relates to the overall income.

The following enterprises are not eligible for FAT:

- enterprises that earned over 50% of their income from selling ornamental plants, wild animals and birds, fur (with some exemptions);
- enterprises that produce and/or sell items subject to excise tax (except for sale of grape wine-making materials by enterprises of initial wine-making);
- enterprises that have tax debt as of January 1 of the reporting year, except for uncollectible debts as result of force majeure.

In recent years tax authorities have been closely scrutinizing whether a company has met the requirements to become a FAT payer. In particular, they pay scrupulous attention to the fact whether produce of the company is agricultural and on what grounds the company uses the land (e.g. whether there is a registered lease agreement).

The following types of agricultural land owned by an agricultural producer are subject to FAT:

- Arable land;
- Hay-fields;
- Pastures;
- Perennial plantations;
- Land of water fund (internal water basins, lakes, ponds, water storage reservoirs).

The basis for calculation of FAT is the normative monetary value of one hectare of agricultural grounds as determined by July 1, 1995.

### FAT rates

Types of land parcels	FAT rates (% of normative monetary value)		
	General	In mountain regions and on Polissya territories	For greenhouses
Arable land, hay-fields and pastures	0.15	0.09	1.0
Perennial plantations	0.09	0.03	-
Land of water fund	0.45	-	-

For the purposes of FAT a calendar year is taken as a basic reporting period. The tax is calculated by taxpayers as of January 1 of the current year.

Estimated sum of FAT is divided by quarters as follows:

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

Sums of FAT due in a respective quarter are divided into three equal installments and paid monthly to a respective account of a local budget, according to the location of the land parcel.

Expediency of FAT and possible changes of tax rates are currently being discussed.

Special regime of VAT (in force till January 1, 2018)

Any enterprise operating in the fields of agriculture, forestry or fisheries may choose special regime of taxation by value added tax (VAT) provided that:

- Main activity of an enterprise is the supply of own agricultural output (goods or/and services) produced at its own or leased production facilities, including tolling schemes;
- The share of agricultural output (goods and/or services) makes up at least 75% of the total value of all goods and/or services produced and/or provided during 12 preceding consecutive reporting periods in aggregate.



In case this special regime is chosen, an enterprise shall transfer the due amount of VAT not to the budget, but to a special bank account. This sum may be used by the enterprise as a tax credit according to a general procedure; the remaining sum, if any, is not transferred to the budget and may be used for other production purposes.

Expediency of maintaining this benefit and its possible substitution with a reduced VAT for agrarians up to 7% are currently being discussed.

Special VAT regime for supply of cereals and technical crops

For the period till January 1, 2014, the following transactions are exempt from VAT:

- supplies of grain crops relating to commodity items 1001-1008 (except for commodity item 1006 and commodity sub-item 1008 10 00 00);
- supplies of technical crops relating to commodity items 1205 and 1206, except for the first supply performed by agricultural producers;
- supply of wood relating to commodity items 4401, 4403, 4404 (pursuant to the Ukrainian Classification of Goods for Foreign Economic Activity).

Export of such products is also exempt from VAT.

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### Tax Benefits for the Agro-Industrial Complex (AIC) of Ukraine: Effectiveness of Application

#### General taxation regime for AIC

It is a commonplace that tax benefits for the agro-industrial complex (AIC) are among the most powerful tools of state support for the sector. At the same time, effectiveness of tax benefits from time to time is called into question and challenged by initiatives aiming at revision of benefits.

From a macroeconomic point of view, the analysis of effectiveness of tax benefits seems practical only in the context of changes of beneficial regime of taxation for agrarians that were taking place over time.

#### Estimation of Effectiveness of Preferential Tax Regimes in AIC, UAH million

Indicator	2001	2006	2012
VAT benefits	487,1	1 714,6	13 916,1
Non-reimbursed export VAT	0	0	9 559
Profit	3 465	2 445	20 100
Profit tax rate, %	30%	25%	21%
Benefit on account of profit tax	1 039	611	4221
<b>Benefit on account of profit tax and VAT</b>	<b>1 526</b>	<b>2 326</b>	<b>8 578</b>
Wages, UAH/month	145	552	2 023
Employees, thousand people	2 093	1 156	644
Labor cost	3 641	7 660	15 638
Rate of contribution to Pension Fund, %	0%	6%	33%
Contributions to Pension Fund	0	495	5 192
Budgetary compensation of contributions to Pension Fund	0	1 670	0
<b>Tax burden on labor cost</b>	<b>0</b>	<b>495</b>	<b>5 192</b>
Tax benefits, in total	1 526	1 831	3 386
Agrarian VAT	65 100	94 300	25 8270
Share of agricultural enterprises in GDP	42%	43%	51%
GDP of agricultural enterprises	27 213	40 360	131 033
Share of tax benefits in GDP	6%	5%	3%

Source: UCAB calculations on the basis of data of State Statistics Service of Ukraine

*Non-reimbursement  
of VAT at export  
results in UAH 9 bn  
costs in total*

*Real benefits and  
preferences reduced  
remarkably between  
2001 and 2012*

So, two major sources of support for agrarians are VAT benefits<sup>5</sup> and the fixed agricultural tax (FAT); the latter, in particular, exempts agricultural enterprises from paying tax on profit. In nominal terms, the volume of these benefits grew from UAH 1.5 billion in 2001 up to over UAH 18 billion in 2012.

At the same time in that period there were other changes in taxation which significantly reduced real tax benefits for the sector.

First of all, this refers to the cases of non-reimbursement of VAT at export of cereals and industrial crops. Estimations show that non-reimbursement of VAT at export leads to a decrease in purchase prices amounting to over UAH 9 billion in total; that means that the balance of tax benefits (including VAT exemptions and FAT) in 2012 made up about UAH 8.5 billion only. Among other things, that also means that in case of abolition of the preferential regime of taxation and restoration of reimbursement of VAT at export of cereals and industrial crops, budgetary proceeds will be remarkably lower than expected.

Another significant change that took place in the specified period was exemption of mandatory contributions to the State Pension Fund from the list of taxes, levies and contributions replaced by FAT. This process developed between 2005 and 2009; from 2010 agricultural businesses were making contributions to the State Pension Fund, later on replaced by a unified social contribution. In 2012 the estimated tax burden related to labor cost made up over UAH 5 billion, and with it taken into account, the volume of tax benefits for agrarians reduced down to UAH 3.4 billion (in equivalent of the preferential regime effective at the beginning of the 2000s).

So, while the nominal value of tax benefits and preferences is looking very impressive, real benefits and preferences reduced remarkably between 2001 and 2012; the share of tax benefits in the gross output decreased from 6% in 2001 down to 3% in 2012. That means that constant growth of agricultural production in Ukraine is taking place against the background of shrinking volumes of tax incentives. Therefore the conclusion about high effectiveness of preferential taxation in agriculture seems justified.

Besides supporting profitability of agricultural producers, preferential taxation also plays an important role from the point of view of leveling economic incentives in different sectors of agricultural production. For example, FAT, calculation of which is based upon normative value of land in cultivation, seems to be more preferential for livestock farming. Nevertheless, despite application of FAT, the average profitability of livestock sector over the last 12 years has been lower than the same in crop production. Therefore application of FAT is partly eliminating imbalances in profitability of crop production and livestock farming.

### **Specific conditions of taxation**

It is worth mentioning that some specific conditions of agricultural taxation to a certain extent reduce and dilute the effect of tax benefits for agrarians.

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<sup>5</sup> Article 209 of Tax Code of Ukraine

For instance, point 15 of Subsection 2 of Section XX of the Tax Code of Ukraine is providing for temporary, till January 1, 2014, exemption from VAT of operations consisting of delivery within the customs territory of Ukraine of cereals qualified under commodity items 1001-1008 of Ukrainian Classification of Commodities for Foreign Economic Activity (UCC) and of industrial crops qualified under commodity items 1205 and 1206 UCC, except for the first delivery of cereals and industrial crops by agricultural enterprises, except for the first delivery of cereals and industrial crops made by agricultural producers and by enterprises that acquired cereals and industrial crops directly from such producers. Export of cereals and industrial crops is exempt from VAT.

It is also necessary to mention that a purchaser of cereals and industrial crops who makes such purchases from an intermediary and not from the agricultural producer may count on tax credit only if purchased commodities will be used for operations subject to taxation (i.e. processing). If cereals and industrial crops are purchased from an intermediary (first, second or else, regardless) for further sale, such purchaser has no right to tax credit on such operations.

Therefore, only the immediate agricultural producer may count on reimbursement of VAT at export of cereals and industrial crops, but this opportunity is significantly limited by a very long period between procurement of material and technical inputs (when tax credit is generated) and sales of commodities.

In fact, that means impossibility of reimbursement of VAT at export of cereals and industrial crops. This is reducing the income of an exporter and, accordingly, the purchase prices for cereals and industrial crops.

Precise calculation of losses of agrarians is hard to make, in particular because the share of tax credit at carrying out of operations is unknown, but an approximation of losses is presented in the following table (for 2012).

#### Losses suffered by agrarians because of non-reimbursement of VAT at export of cereals and industrial crops in 2012

Item	Indicator
Volumes of cereals export, commodity items 1001 – 1008 UCC, USD million (a)	7 000
Volumes of industrial crops export, commodity items 1205 and 1206 UCC, USD million (b)	957
Volumes of cereals and industrial crops export, USD million (c = a + b)	7 957
Volumes of cereals and industrial crops export, UAH billion (d = c * 8)	63.7
Calculation of reimbursed VAT at 15% share of tax credit in export price (e = d * 0,15)	9.55

Source: UCAB calculations on the basis of data of State Statistics Service of Ukraine



*The sector may find itself in fiscal conditions which may be worse than those for other sectors*

Accordingly, over UAH 9.5 billion losses are suffered by agrarians due to non-reimbursement of VAT at export of cereals and industrial crops. In case of abolition (or revision) of tax benefits the sector may find itself in fiscal conditions which may be worse than those for other sectors, and that is clearly contradicting the declared status of agriculture as a “locomotive of the economy” during the crisis. Therefore the conclusion is that real tax benefits for enterprises of AIC, on account of all tax preferences, benefits and exemptions, and in view of non-reimbursement of VAT at export of cereals and industrial crops, make up about UAH 10 billion, and maintenance of these benefits is critically important for ensuring profitability of, first of all, livestock farming.

### **Volumes of budgetary proceeds**

Over the period of application of tax benefits for AIC (1998-2012), budgetary revenues of budgets of all levels from agricultural businesses multiplied by 11 times and grew from UAH 3.8 billion in 1998 up to UAH 42 billion in 2012. This sum is remarkably higher than estimated benefits for the sector. One may then conclude that tax benefits for agrarians stimulate increases of not only volumes of production, but of volumes of processing of agricultural products as well, and thus generate additional revenues for the state budget.

*Additional proceeds of budgets will be lower than losses of budgets*

In case of abolition of tax benefits one shall expect a reverse effect, namely, additional revenues of budgets due to elimination of tax benefits will be lower than losses of budgets due to reduction of production in neighboring sectors with proportionate reduction of tax and other mandatory payments.

### **Capital Investments**

Tax benefits for agrarians support an inflow of investments into agricultural production, in particular, through:

- ensuring profitability of agricultural enterprises and, respectively, availability of their own financial resources for capital investments;
- a taxation system favorable and predictable in mid-term perspective shaping conditions attractive to investors.

For example, in 2012 the volume of capital investments in agriculture made up UAH 20.0 billion and grew by 10.5% as compared to the previous year (according to official statistics). It is obvious that the volume of investments somewhat exceeded the volume of tax benefits, and that supports our conclusion about direct (income of farmers) and indirect (investment attractiveness) effects. Abolition of tax benefits will have a negative influence on both factors of investment attractiveness and entail reduction of investment activity and suspension of further development of agricultural production in Ukraine.

### **Potential decrease of production volumes in case of abolition of tax benefits**

Over the period of application of tax benefits the gross volumes of agricultural output increased considerably. For example, between 1999 and 2011 these volumes gained 70%.

Along with that, the potential of growth in the sector has not been exhausted yet; in particular, productivity of crop production and livestock farming are still about two times lower than the same in developed countries. Therefore maintenance of tax benefits gives ground for hope for further increases of gross production volumes in the sector.

At the same time, a significant number of agricultural enterprises are operating on the brink of profitability, even under conditions of tax benefits. For instance, this refers to potato growing (according to the official stats, profitability made up minus 21.4% in 2012), horticulture (-7.4%), cattle breeding (-29.5%), production of poultry meat (-6% for enterprises not having own feeding base) and some others. For these sectors and also for some producers still struggling to reach the optimal level of production efficiency (in general, the share of unprofitable enterprises in recent years varied from 17 to 30%) abolition of tax benefits will entail not the reduction of investments but shrinking of production.

Estimations of economists show that the effect of tax benefits' abolition for the agricultural sector may cause reduction of the gross agricultural output by 8-10%. Notwithstanding the protracted period of realization of this effect, stagnation and abortion of further development of agriculture upon abolition of tax benefits look very probable.

#### **Balance of foreign trade**

Growth of production volumes of agricultural products and food led to the increase of positive balance of foreign trade in AIC output. For example, between 2001 and 2012 agricultural export improved from USD 1.8 billion up to USD 17.9 billion, or nearly decupled, and the positive balance of foreign trade grew from USD 700 million up to USD 10.4 billion, or by 15 times.

Abolition of tax benefits at best will lead to improbability of further improvement of the positive balance of foreign trade; at worst to its deterioration in mid-term perspective, and that will have negative impact on the foreign exchange market.

#### **Administration of taxes and levies**

An undisputed advantage of the existing system of taxation of agricultural producers is simplicity of administration of taxes, a very important asset, especially for small- and medium-size farmers who are unable to employ teams of lawyers and accountants. Abolition of tax benefits or introduction of special taxation regimes implying dependence of taxes on results of economic activity will lead to noticeable increases of cost of administration of taxes for agrarians as well as to risks of distortion of information on results of economic activity, in particular, on the level of productivity in crop production and animal farming. Inevitably, the ability of the state to have effective influence on the situation on food markets will be questioned.

#### **Sum of tax benefits for AIC in 2013**

Estimated sum of tax benefits for AIC in 2013 is presented in the table below.

*The ability of the state to have effective influence on the situation on food markets will be questioned*

## Tax benefits for AIC

Preferential Taxation Regime	Benefits, UAH million
Special VAT regime	14 775
FAT	3 500
VAT of meat-packing and dairy industry enterprises	1 625
TOTAL	19 900
Calculation of reimbursed VAT at 15% share of tax credit in export price ( $e = d * 0,15$ )	9.55

Source: UCAB calculations on the basis of data of State Statistics Service of Ukraine

The significance of preferential taxation regimes for agricultural producers is stressed by the fact that tax benefits ensure about 50% of the total profitability of agricultural enterprises; in some sectors (in livestock farming) further maintenance of positive economic results of operations wholly depends on tax benefits.



## STATE SUPPORT

State Support to  
Agrarian Sector

BEITEN BURKHARDT

Agriculture is one of the most important sectors of Ukraine's economy. Agriculture was nearly the only sector of Ukraine's economy which showed growth during the economic crisis; in this sense the growth of crop production is the most remarkable one since it lasts already since 1990. Development of agriculture is also stimulated by measures of state support, though, mostly of insignificant amount.

Profit tax exemption is a considerable measure of support of agricultural enterprises which allows them to pay instead an extremely low fixed agricultural tax on parcel area. Also, agricultural enterprises enjoy VAT tax reliefs. Moreover, there are also subsidies provided to certain types of farming though in very small volumes (as of today).

For instance, state budget- 2013 allocates an aggregate of UAH 96.7 million for funding measures of state support to the agro-industrial sector (which is 1/10th of the same item provided for by budget-2012); however, the amount of state funding into agricultural sector is likely to be increased this year. Such funds may be used for the following measures of support:

- establishment and keeping of reserve stock of certified seed and hybrid seed;
- selection in crop growing;
- development of livestock breeding;
- partial reimbursement of the cost of heavy agricultural machinery of domestic origin;
- implementation of financial support through the mechanisms of cheaper loans and compensation of lease payments;
- provision of support to the establishment of agricultural wholesale markets;
- partial refund of the cost of construction and reconstruction of animal farms and feed plants;
- funding of measures for protection, restoration and improvement of soil fertility;
- support to agricultural service cooperatives;
- partial reimbursement of the cost of construction of new greenhouses;
- realization of selection programs in livestock breeding;
- subsidies paid per ha of cultivated area etc.

Below some types of state support are described.

#### **Reduction of cost of borrowings for enterprises of the agricultural sector and reimbursement of leasing payments**

Agro-industrial enterprises have an opportunity to claim, on a competitive basis, the partial compensation of current interest rates on loans and borrowings in national and foreign currencies. The procedure for use of budget funds meant for the purpose is regulated by the Resolution of the Cabinet of Ministers of Ukraine No.794 of August 11, 2010 (with subsequent changes and amendments). This act provides for the subsidies limited by:

- maximum double interest rate of the NBU effective as of the moment of calculation of the interest on loans issued in Hryvnia. Starting from March 2012, the NBU interest rate is 7.5%;
- 7% p.a. on loans issued in foreign currencies.

It is necessary to note that support with regard to loans issued in 2007-2009 is provided regardless of effective interest rates stipulated by loan contracts. And with regard to loans issued in 2010-2012 and in the current year the subsidy may be granted only for contracts where the interest rate does not exceed the level established by Resolution 749.

Loans to which the support applies are qualified as follows:

- short-term (up to 12 months);
- mid-term (up to 36 months);
- long-term (longer than 36 months).

It is important that loans eligible for state support also include borrowings restructured in 2011 and 2012.

The list of agricultural enterprises and agriculture-related institutions, along with farms of agricultural higher educational establishments, eligible for the state support, includes:

- livestock and poultry farms;
- fisheries and fish processing factories;
- sugar refineries;
- grain elevators and canneries;
- bakeries;
- National Joint-Stock Company "Hlib Ukrainy" and its branches;
- wholesale markets of agricultural products.

Resolution No.794 also describes the priority areas of expenditures (compensable) for agricultural enterprises.

Reimbursement of leasing installments is provided in respect of payments made for agricultural machinery and equipment purchased on conditions of financial leasing, according to the list approved by the Interdepartmental Expert Council and tender commission, and covers:

- lease payments in the amount of up to 40% of the cost of machinery and equipment of domestic origin;
- commission fees of a leasing company equal to 1.5 interest rate of the NBU.

Decision on reimbursement is taken by a tender board at MAPF; preliminary selection is performed by tender boards in every region (i.e. in Regions, Crimea, cities of Kyiv and Sevastopol).

The State Budget of Ukraine for 2013 provides separately only for the reimbursement of leasing installments and does not presuppose any special funding for partial compensation of interest rates on loans and borrowings. Moreover, the total amount assigned for financial support of agro-industrial sector of economy does not meet the existing demands of the sector, and if there are no increased

expenses on agricultural sector, such support would hardly have a significant impact on the sector's development.

#### **Livestock subsidy**

The Special Fund of the state budget for 2013 provides UAH 650 million for paying subsidies to enterprises producing animal products. Such subsidies will be payable per cow.

#### **Renewal of fixed assets of agricultural cooperatives**

The State Budget of Ukraine for 2013 did not provide support to agricultural coops as a separate expense item, but such support is meant to be realized within overall state funding of agro-industrial complex, which remain insufficient.

In its Resolution No.272 as of March 9, 2011 (Resolution No.272) the Cabinet of Ministers of Ukraine approved the procedure for utilization of funds assigned for support of agricultural service cooperatives. Pursuant to Resolution No. 272, funds shall be directed to financial support (on a competitive basis) of agricultural service cooperatives consisting exclusively of households, family farms and entrepreneurs engaged in agricultural production for the purpose of acquiring of agricultural machinery and equipment from domestic manufacturers.

A coop that has successfully passed through the tender may count on reimbursement up to 90% of cost incurred when purchasing machinery (equipment) net of VAT sums, provided the coop has already paid to the machinery (equipment) supplier 10% of the cost and concluded an agreement with the respective local department for agro-industrial development.

However, such type of support will unlikely be popular due to insufficient funding of agro-industrial complex, unless funding into the sector is increased though raised expenditures on agriculture.

#### **Compensation of cost of agricultural machinery**

Resolution of the Cabinet of Ministers No.647 as of July 28, 2010 (with further changes and amendments) establishes a procedure for the use of funds for partial reimbursement of costs for the purchase of complex agricultural machinery of domestic manufacture with partial compensation of up to 30% of the cost of agricultural machinery, excluding VAT.

Bidders for compensation are selected on a competitive basis by specially set up commissions.

It also must be noted that such type of support may be used in 2013 provided funding of agricultural sector is increased.

Efficient support of development of agriculture in Ukraine would require assignment of quite large sums from the State Budget, which Ukraine is unlikely to be able to afford at present due to unstable economic situation.

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<http://www.beitenburkhardt.com>*

## State Support in 2013

Analysis of agricultural budgets shows that the level of state support to agricultural production is decreasing. While reductions of state support in 2009-2010 could be explained by the aftermaths of economic crisis, so continuation of this trend in 2012-2013, after limited increase of 2011, evidences either a strongly prolonged crisis or — what is more likely — futility of all hopes for state subsidies and support programs for agrarians in the nearest future.

### Distribution of agricultural budgets, UAH million

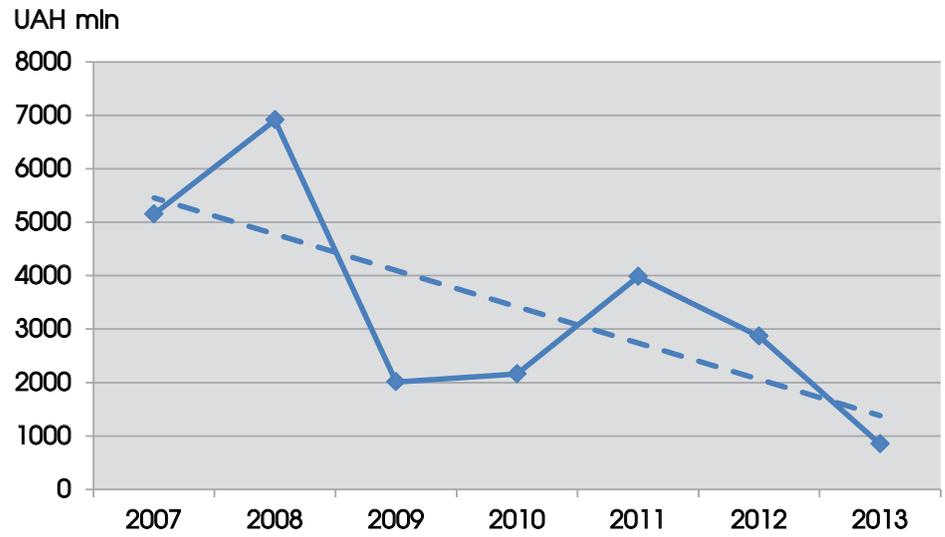
Item	2009	2010	2011	2012	2013	Share of item in 2013
Direct support	2 010	2 158	3 982	2 864	847	10%
Education and science	2 379	2 654	2 927	856	3 270	39%
Management	651	654	1 081	1 682	1 409	17%
Quality and safety	1 128	1 270	1 803	1 963	2 266	27%
Rural Development	68	135	65	226	44	1%
Food Security	78	2 442	465	766	500	6%
Other	52	302	146	274	77	1%
Total	6 365	9 615	10 469	8 631	8 414	100%

Source: UCAB calculations on the basis of data of State Statistics Service of Ukraine

The budget for 2013 allocates for agriculture only 10%; these UAH 847 million — against the background of UAH 260 billion worth agrarian GDP — barely can support development of the sector as a whole. UAH 650 million out of this UAH 847 million shall be allocated for the support of livestock sector and UAH 100 million for the support of gardening. Producers dealing exclusively with cereals and industrial crops may count only on the leftover making up UAH 97 million; divided by the area of agricultural land in cultivation of the said producers, these are about UAH 5 per hectare, and that hardly may be called “support”.

In general, recent years featured obvious concentration of state support on the livestock sector. In 2012 UAH 300 million were allocated as subsidies, to be paid by hectare of winter crops, only because of unfavorable weather conditions; subsidies of 2010 were all consumed by sugar beet root sector. For a program for development of gardening which used to have constant support in 2013 was allocated only UAH 100 million. The only funded program of support available to all multi-profile producers was financial support through the mechanism of reduction of cost of loans and borrowings, but the state budget of 2013 does not provide for funding of this program.

## Direct support



Source: UCAB calculations on the basis of data of State Statistics Service of Ukraine





# MARKETS OF AGRICULTURAL INPUTS

## LABOR MARKET

The labor market in agriculture in 2012-2013 features positive as well as negative tendencies.

### Negative

Growing deficit of qualified personnel	Unpreparedness regarding personnel of companies at the beginning of season	High turnover rate of employees	Brain drain: migration of workforce abroad
Deficit is especially acute in respect of agri-technological professions; over 60% of companies are constantly in search of agronomists, animal breeders, engineers, specialists in production	42% of companies start looking for personnel in mid-April/ the beginning of May, when sowing campaign has nearly started.	Labor market is currently offering very few qualified specialists, and these are being regularly headhunted by competitors offering higher wages.	Initially many specialists leave for Denmark, Russia, Netherlands or Slovak Republic to earn money, but after several years they decide to stay for good. Main reasons: stable and secure income, adequate conditions of living in rural areas, opportunities for working within profession.

### Positive

Orientation to young professionals	Emerging HR management and development policy at agricultural enterprises	Interest of foreign companies in development of agribusiness in Ukraine
Many companies — mostly agriholdings — allocate material, personnel and information resources for education of young graduates for themselves. Companies are trying to participate in the process of education and training, organize workshops, practical training, visits to farms and enterprises, days of young agronomists etc. in order to instigate and increase interest of the youth and involve students into production process during their third and fourth years of study. Besides, the loyalty to the company starts shaping already during the study at university; in turn, employers may select graduates demonstrating best compliance with company's expectations, needs and policies. Practice shows that a young graduate, who was accompanied by a company during his two last years at the university, lists salary only on the third place among incentives to work, while the first two incentives are loyalty and attachment to the company and a clear vision of career perspectives.	The last three years featured a visible trend towards development and improvement of HR management policy at agricultural enterprises; the policy is expressed in establishment of additional incentives, profile training, advanced training, annual revision of wages, increases of wages, shift towards Western-style management.	Starting agribusiness in Ukraine, foreign companies are trying to hire Ukrainian specialists and to train them in new technologies. Besides, employment with foreign companies let Ukrainian professionals acquire priceless experience in production, personnel management, approaches to doing business etc.



The question of wages is still the most important one for the agricultural as well as any other sector of Ukraine's economy. The table below presents results of a labor market survey concerning wages and compensations in crop production and animal farming. 90% of wages of agrarians combine fixed and variable components.

### Compensation package for different job families in crop production of Ukraine, 2012-2013\*

Position	Average monthly salary, UAH	Revision of salary, times annually	Social package	Average daily workload during high season, hours	Readiness to leave for job with better salary, %
Director	13 000 – 15 000	2	Accommodation, car, insurance	9	32.5%
Chief Agronomist	9 000 – 11 000	1	Accommodation, car, insurance	12	30%
Agronomist	7 000 – 9 000	1	Accommodation, insurance	12	20%
Chief Engineer	8 000 – 9 500	1	Accommodation, car, insurance	12	25%
Engineer-mechanic	4 500 – 5 500	1	Accommodation, insurance	10	17.2%
Chief Accountant	5 000 – 6 500	2	Accommodation	9	20%
Economist	2 500 – 3 500	1	Accommodation	8	16.8%

\*For agricultural enterprises with 10-15 thousand ha cultivated area

Most agrarian companies pay bonuses to their production specialists once a year, according to the results of the season. In cases when employees performed very well and exceeded the production target, bonuses of directors of farms and chief agronomists may amount up to their annual position salaries.

Moreover, during the season when personnel works around the clock, wages increase remarkably. While a "regular" month brings a tractor or a harvester driver UAH 2-2.5 thousand, during sowing and harvesting they earn UAH 10-15 thousand, depending on results and duration of work.

In the next 5 years agrarian labor market will experience the following transformations:

- strengthening of information component (in five years 90% of the population, including rural population, will be registered in social networks thus allowing for quick and effective closing of vacancies via Internet);
- salaries of agrarians will grow by 20-25% on average;

- huge deficit of specialists at the age of 30-40 years; candidates at the age of 50+ and young graduates at the age of 23-27 years will prevail;
- most agriholdings will establish their own training centers, schools, programs for students etc.;
- employers will become more open to the idea of hiring foreign specialists due to a lack of Ukrainian ones;
- agrarian companies will be investing into social infrastructure of rural settlements and building roads, schools, hospitals, clubs etc.

### Compensation package for different job families in animal farming of Ukraine, 2012-2013\*

Position	Average monthly salary, UAH	Bonus, % of target — % of salary	Revision of salary, times annually	Social package	Preferred work experience in countries
Deputy Director on animal production	15 000 -18 000	90-95%: +20% ≥ 100%: +30% ≤ 90%: -20%	2	Accommodation, car, insurance	Russia, Denmark, Slovak Republic, Netherlands, Belarus
Chief animal breeder	10 000-12 000	90-95%: +10% ≥100%: +20% ≤ 90%: -10%	2	Accommodation, car, insurance	Russia, Denmark, Slovak Republic, Netherlands, Belarus
Animal breeder	7 000 – 9 000	90-95%: +7% ≥ 100%: +10% ≤ 90%: -7%	1	Accommodation, insurance	Russia, Belarus, Denmark
Chief veterinarian	8 000 – 10 000	90-95%: +10% ≥100%: +20% ≤ 90%: -10%	2	Accommodation, car, insurance	Denmark, Netherlands, Russia
Veterinarian	4 000 – 6 000	90-95%: +7% ≥100%: +10% ≤ 90%: -7%	1	Accommodation, insurance	Russia, Belarus, Denmark
Complex engineer	4 000 – 5 500	By results of semi-year, in view of cost/savings of facilities cost	1	Accommodation, insurance	Netherlands, Denmark, Belarus

\*For farms with a total herd size of 5000-7000 cows and 20000-30000 pigs





**Igor Kutovoy,**  
General Director,  
John Deere Ukraine

*John Deere considers Ukraine as one of the global agricultural leaders. Ukrainian farmers are striving towards improvement of efficiency of production, and the opportunity of assisting them is an honor for our company. Ukraine is currently undergoing a process of fundamental modernization of its fleet of agricultural machinery, and this process supports the development of Ukraine's economy and strengthens positions of Ukraine on global markets.*

*John Deere invests significant resources into development of a dealer network in Ukraine, as well as into widening of the spectrum of services provided to Ukrainian farmers. Thousands of jobs have been created in the agricultural sector of the country over the recent years, and many of them due to the supply of new machines to Ukraine. We anticipate continuation of this trend in the nearest future and work hard to keep our position as one of the leading partners of Ukrainian farmers.*

*In 2012 John Deere sold over 1400 units of machines for UAH 1.5 billion. The dealer network of the company was joined by two new dealerships — "Jupiter 9" and "RDO Ukraine". We increase sales by over 30% as compared to the preceding year. For 2013 we are planning further growth of our business in Ukraine, in line with active development of the country's agricultural sector.*

*John Deere is interested in producing machines in Ukraine, provided there is a sufficient supply base, and production is economically feasible.*

*We are open to opportunities for organizing local production of some components and spare parts for our machines and also for cooperating with local producers in order to produce some of our machines in Ukraine. At the same time we see that the majority of effective and efficient agricultural enterprises are to be found in countries where markets are fully open and farmers are having access to state-of-the-art technologies.*

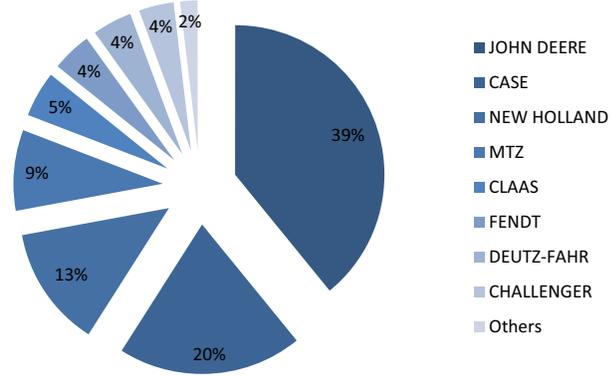
## MARKET OF AGRICULTURAL MACHINERY

At the beginning of 2012 players of the agricultural machinery market were well aware of the fact that there would not be another 90% growth as observed during previous post-crisis years; nevertheless they had hope for 10-15% growth. But an extremely hot summer in Steppe zone of Ukraine heavily influenced the development of the market, and by the end of the year the market volume decreased by 2-3%. By looking at the structure of the market, we see a certain redistribution of market shares. Sales of combines, forage and beet harvesters decreased. The share of tractors with a capacity of 80-100 hp also dropped. Market shares of tractors with a capacity of over 100 hp, seeding machines and groundcare machinery demonstrated positive growth.

The market of agricultural machinery can be divided into three segments: tractors — 37 % of the market in money terms (35% in 2011), harvesters — 18 % (25% in 2011), towing and detachable equipment —

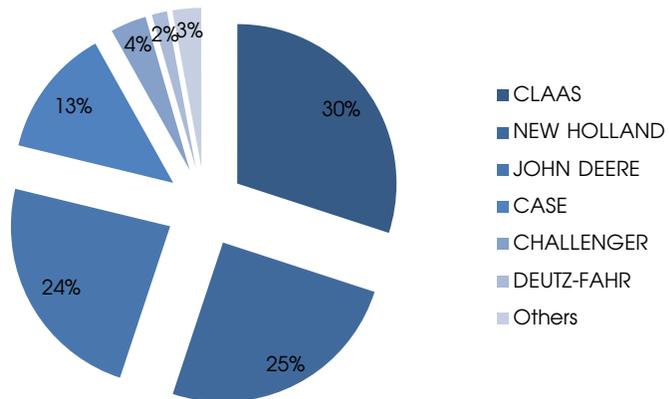
about 45%<sup>6</sup> (40% in 2011). Brands having the most visible representation are John Deere, Claas, Case, New Holland, MTZ, Fendt, Challenger, Great Plains, Kinze, Horsch, Lemken.

Market of tractors with a capacity >120 h.p.



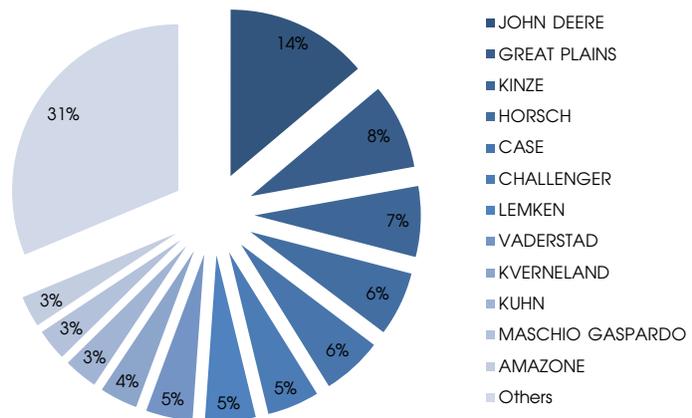
Source: data of market operators

Market of harvesters



Source: data of market operators

Market of trailing, towing and detachable equipment



Source: data of market operators

<sup>6</sup> These figures take into account self-propelled spraying machines (about 6% of the market) and other self-propelled aggregates (about 2%).

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One hundred years  
working with you



German company CLAAS, world-renowned manufacturer of agricultural machinery, today celebrates its 100 year anniversary. During this time, CLAAS has patented more than 5,000 technical inventions, of which three thousand are in place today. The CLAAS group has 11 manufacturing plants worldwide. Sales, service and supply of spare parts in more than 100 countries are performed by three regional centers of CLAAS, 16 sales companies and more than 1000 distribution centers. The CLAAS group employs 9,000 workers on their own enterprises.

Today, under the brand CLAAS various kinds of products are produced: combines and forage harvesters, tractors of different capacities, forage harvesting towing equipment, balers and telescopic loaders. The whole product line totals several hundred models of machines and equipment.

Every year CLAAS expands its innovation activities in manufacturing, investing more than 5% of annual turnover (177 million Euros in 2012) in the development of new models and new technologies.

CLAAS has its own academy, where in seminars and master classes annually 4,500 professionals from more than 30 countries are trained on the highest technical level.

CLAAS is the European market leader of combines and world market leader of forage harvesters. This allowed for increasing the company's turnover once again, which in 2012 reached a record of 3.4 billion Euros.

Claas entered the Ukrainian market in 1992 at the exhibition Agro-92 with the popular combine DOMINATOR 98 and forage harvester JAGUAR 690. Since then CLAAS has been working in Ukraine through a dealer network, which provides sales and financing of equipment, technical and warranty services for machines, supply of spare parts and training for the customers' employees. Offices and service centers of dealers are located in almost all regions of Ukraine.

At the beginning of 2013 CLAAS started together with the leasing company UniCredit Leasing and its dealers a leasing program, which aims to provide even small farmers with access to financing for the purchase of machinery at reasonable interest rates. In the framework of the program interest rates in foreign currency from 1-3% p.a. apply for one year financing and 6-9% for two and three years respectively. Advance payment amounts to 25% of the machinery. Available is also long-term financing with periods of up to five years with comfortable repayment schedules, taking into account seasonality and peculiarity of the buyer's business.

Regarding questions about machinery purchase, technical service and supply of spare parts, please contact your nearest authorized dealer of CLAAS in Ukraine:

Agrotechsoyuz Ltd. ([www.ats.in.ua](http://www.ats.in.ua)): Sumy: 0542 67-8277, Chernihiv 04631 68-186;

Konkord ([www.konkord.in.ua](http://www.konkord.in.ua)): Kyiv region 04571 71-060, Vinnytsya 0432 55-66-88

Eridon Tech Ltd. ([www.eridon-tech.com.ua](http://www.eridon-tech.com.ua)): Rivne 0362 64-2566, Zhitomir 0412 48-0201, Cherkasy 0472 71-23-78, Poltava 0532 66-8552;

LAN Ltd. ([www.lanclaas.com.ua](http://www.lanclaas.com.ua)): Ternopil 0352 25-4435, Lviv 0322 42 0663, Chernivtsi 0372 90 0678, Volyn region. 0332 293-031;

Privat Leasing Ltd. ([www.pleasing.com.ua](http://www.pleasing.com.ua)): Khmelnytskyi 0382 72-0080, Kherson 0552 356-740, Odesa 067 567-1270;

Subdealer Agrofirma Dobrobut Ltd. ([www.dobrobut.kr.ua](http://www.dobrobut.kr.ua)): Kirovograd 0522 551-266;

Technic Machines International Ltd. ([www.tmi-claas.com](http://www.tmi-claas.com)): Dnepropetrovsk 0562 35-6491, Donetsk 050 320-4636, Lugansk 097 656-5565, Melitopol 0619 432-458, Kharkiv 097 656-5565;

CLAAS Representative Office in Ukraine  
03150 Kyiv, 77A, Velyka Vasylkivska street  
Tel. 044 585-4280, fax 044 585-4281

## MARKET OF MINERAL FERTILIZERS

*Increased  
concentration  
on the market  
of nitrogen fertilizers*

*Strengthening  
of the role  
of importers*

The last year showed increased use of main types of mineral fertilizers as well as of compound fertilizers. Major products of the nitrogen group (ammonium nitrate, carbamide) will also be in demand in 2013.

### Main trends of mineral fertilizers market in 2012

Consolidation of agrochemical production in 2012 in Ukraine strengthened. Besides coordination of business processes at enterprises belonging to OSTCHEM Holding, the latter also started active development of its own retail chain (by the end of 2012 the chain consisted of 18 divisions). That led to a transformation of sales on the national market in favor of the above mentioned structure. Other traders began feeling pressure, especially during off-season.

Besides, seasonal slowdown of sales in summer 2012 was less substantial. The warehouse network of OSTCHEM assumed a role of inter-seasonal buffer and that somewhat stabilized price situation. Even compared to 2011, periods of price stability were longer and the price fluctuations took place less frequently. Moreover, when compared to dynamics five to seven years ago, prices in 2011-2012 did not fall below self-costs.

Importers of fertilizers started paying more attention to price positions of the leader than to fluctuations in the global market. However, the trend towards globalization in pricing that we observed last year maintained itself in full, but consolidated Ukrainian agrochemical industry managed to make a reverse influence. While earlier price quotation depended on export prices, today domestic prices and level of fertilizers consumption in Ukraine have heavy influence on global quotations.

Positions of importers are traditionally strong in the segments of compound, potassium and phosphorous fertilizers. But 2012 demonstrated growing influence of importers in such traditionally "domestic" product niches like carbamide, carbomide-ammonium mixture and ammonium sulfate.

Russian producer of mineral fertilizers Eurochim achieved remarkable success in advancing its products to Ukrainian market. In some segments it became a major alternative to the products of OSTCHEM. In general, importers ensured a supply of 13% nitrite fertilizer<sup>7</sup> to the domestic market of Ukraine, 37% of carbamide and 71% of ammonium sulfate<sup>8</sup>.

It is worth paying attention to the qualitative change in positioning of importers of fertilizers. Importers used to be one of many channels for supplying fertilizers to Ukraine, but after consolidation of Ukrainian agrochemical industry they became a main alternative to the national supplier. Since these two market forces are fighting according to the rules of fair play and honest competition, this fight is for the benefit of the agricultural sector.

<sup>7</sup> Import of Russian potassium nitrate was burdened with antidumping duties, except for the products of Eurochim.

<sup>8</sup> Production facilities of Cherkasy Azot in the second semi-year of 2012 stood idle.

Development  
of independent  
traders

Since 2011 agrochemical traders have been feeling panic. Many market players anticipated that concentration of production assets in hands of OSTCHEM will drive independent traders out of the market.

The experience of 2012 and OSTCHEM's entry into the agrochemical retail market showed that panicking was too early. It is true that some traders lost their positions. However, the agrochemical sector as a whole transformed, adapted to new realities of the market and retained its role as an important component of Ukraine's AIC.

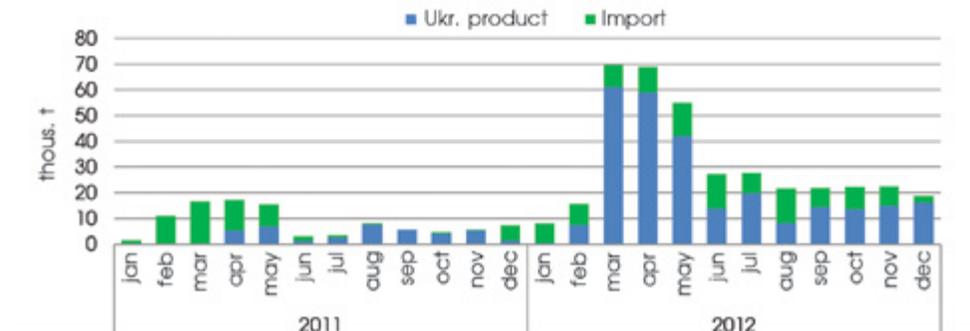
Despite strengthening of the role of the national producer at regional level, traders managed to occupy their market niche. They succeeded in offering to agrarians such a complex of services and such flexibility which are in most cases too burdensome for a large company.

### Situation on the Ukrainian market of mineral fertilizers in 2012

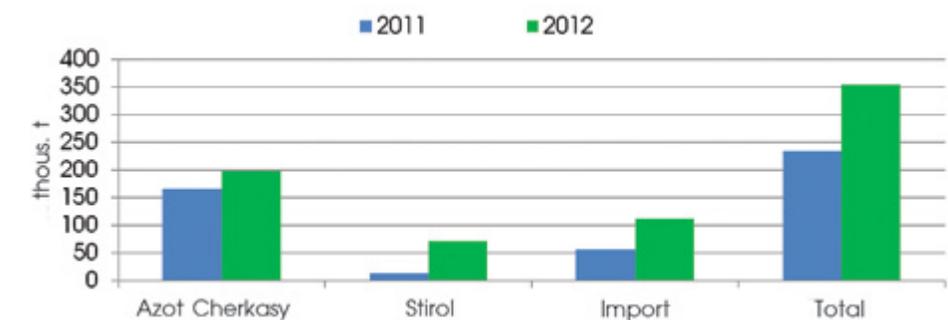
The most significant growth in the last year was observed on the market of carbamide-ammonium mixture (CAM). Among all fertilizers of nitrogen group, the market of this product features the highest rates of growth. In 2012 the volume of supply to the domestic market grew by nearly 100 thousand t as compared to 2011 and made up 382 thousand t in total. Import of carbamide-ammonium mixture over the same period also improved, by 30 thousand t, and amounted to 111 thousand t.

Nitrogen group

#### Dynamics of shipments of CAM in 2011-2012

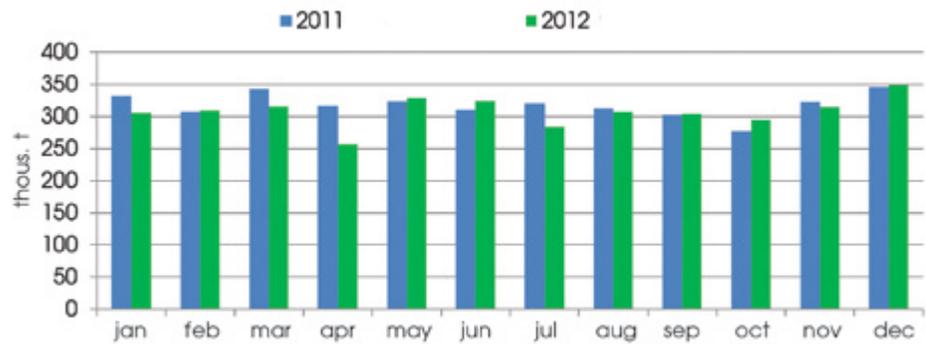


#### Production of CAM in Ukraine in 2011-2012



It is also necessary to mention the growth of domestic production. For example, Cherkasy Azot in 2012 increased the volumes of carbamide-ammonium mixture by 18% as compared to 2011, and Styrol by 82%. This growth of production was mostly supported by the increased demand for the commodity among Ukrainian agrarians. So, additional volumes were consumed by the national market.

## Dynamics of shipment of carbamide in 2011-2012

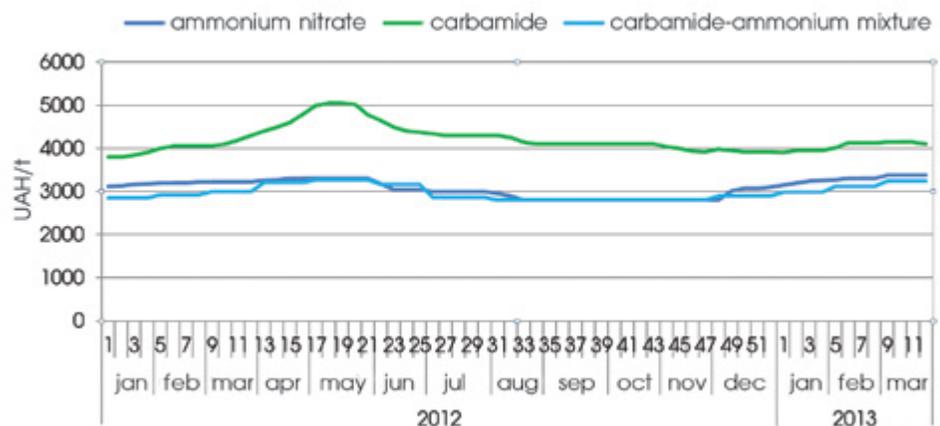


Carbamide prices traditionally demonstrated its dependence on the global market and followed global trends through the last year. For instance, a top carbamide price in 2012 was recorded in May when it reached the level of UAH 5200/t on retail market. Making of prices for Ukrainian carbamide will be further depending on global markets. In view of the similarity of the trend observed during January-March 2013 and the trend observed in the same period of 2012, one may expect that spring carbamide prices will not exceed UAH 4400/t.

If carbamide prices in Ukraine depend on the global market, prices for ammonium nitrate are mostly based on the availability of this product. Accordingly, speculative trading on the free market may happen again in the current year, especially in view of reduction of import supplies. Therefore if the trend of 2012 maintains, spring prices for ammonium nitrate may well reach the level of UAH 3600-3700/t.

In terms of price-making, carbamide-ammonium mixture is the least dependent on external markets. During 2012 its price was stable. The price of this product depends on the demand of the free market, therefore, in view of supplies which increased already in March, one may expect that EXW prices in spring will reach the level of UAH 3500/t or UAH 250/t above the top EXW price reported in 2012.

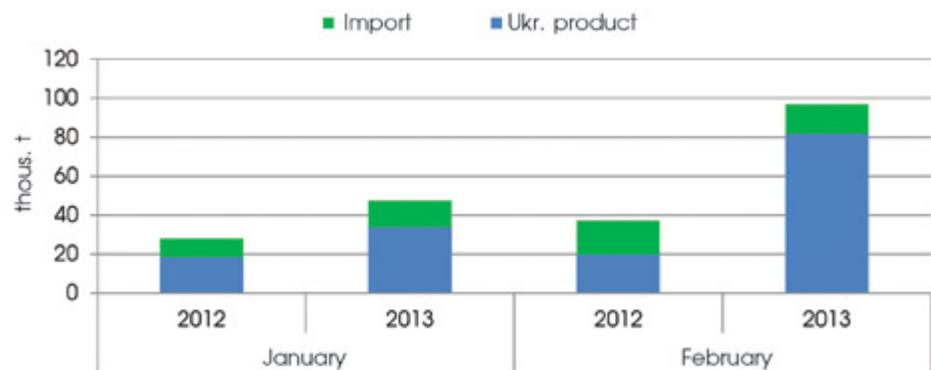
## Dynamics of prices for CAM, ammonium nitrate and carbamide



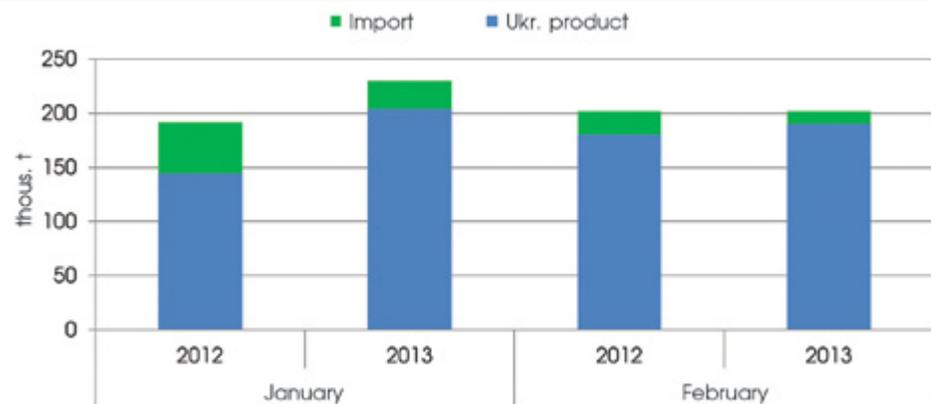
When analyzing dynamics of consumption of nitrogen fertilizers, we may see that ammonium nitrate and carbamide are keeping their positions as market leaders. The market share of Ukrainian production is constantly growing while the volume of import is gradually de-

creasing. So, in the first two months of the year the volume of supply of carbamide made up 144 thousand t and of ammonium nitrate 432 thousand t or by 79 thousand t and 39 thousand t above the level of the last year, respectively. Import from Russia started losing its positions on Ukraine's market of carbamide and ammonium nitrate.

Dynamics of shipments of carbamide in January-February 2012 and January-February 2013



Dynamics of shipments of potassium nitrate in January-February 2012 and January-February 2013



As regard to the current situation on the market of carbamide-ammonium mixture, during the first two months of 2013 the volume of domestic consumption has made up 59.5 thousand t or nearly 35 thousand t above the level of the respective period of the last year. In the same period import of the product dropped by 82% due to the growth of consumption of this product in Russia. Therefore, this product is positioned on the Ukrainian market as the main alternative to ammonium nitrate and carbamide.

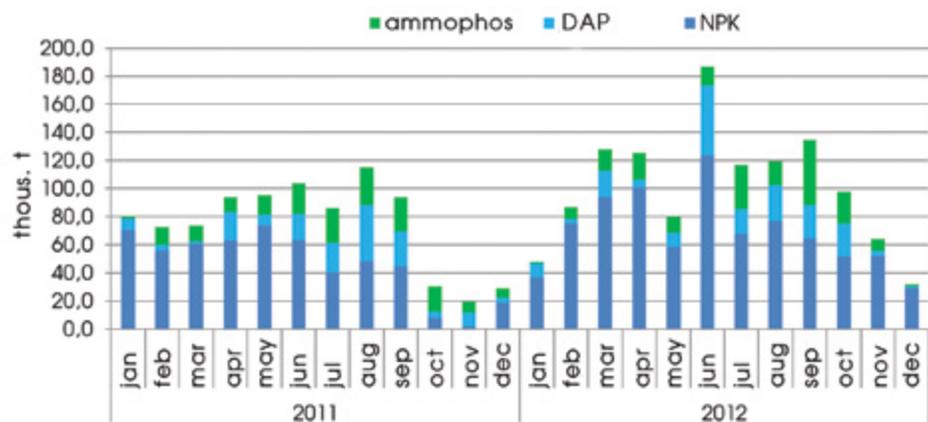
In view of the aforementioned, we may conclude that consumption of the main kinds of nitrogen fertilizers will continue growing. According to our preliminary forecasts, the trend towards increased consumption of ammonium nitrate will continue in the current year. One should not expect a significant growth of supply though. Constant price growth during periods of peak consumption as well as long queues at loading facilities work like psychological restraints for Ukrainian agrarians. The volumes of consumption of carbamide

## Compound fertilizers

in 2013 — despite orientation to export of Ukrainian agrochemical industry — will exceed 500 thousand t.

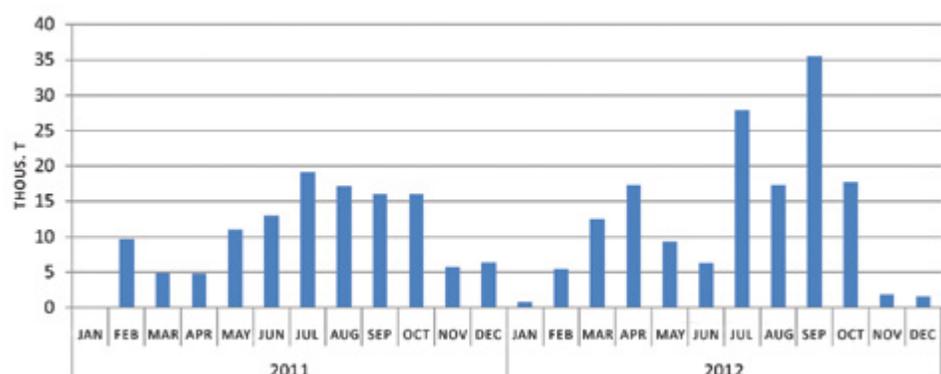
Preferences of agrarians in respect of compound fertilizers did not undergo any material changes in the last year. The most demanded compound fertilizer was ammonium nitrate phosphate fertilizer (ANP) of 16:16:16 grade. So, the volume of supplied ANP of 16:16:16 grade made up 813 thousand t in 2012 or almost 300 thousand t above the level of 2011. It is worth mentioning that the overall capacity of Ukrainian market of compound fertilizers in 2012 grew by 327 thousand t as compared to 2011 and amounted to 1.22 million t. This growth took place on account of such ratios as 10:26:26, 8:24:24 and 12:52.

### Capacity of market of compound fertilizers in 2011-2012



Import also showed some increase in the last years. It is noteworthy that the market share of Russian producers decreased. Redistribution of market shares was caused by improvement of supply from Ukrainian Sumykhimprom that in 2012 controlled 23% of the market or 9% more than in 2011. Accordingly, while in 2011 Russian companies all together controlled 65% of the market, in 2012 their aggregate share deteriorated down to 61%. The market share of the Belorussian supplier did not change and kept at the level of 16%. However, taking into account the overall growth of Ukrainian market, in absolute terms the Belorussian supplier improved his position and delivered to Ukrainian agrarians 156 thousand t as compared to 123 thousand t in 2011.

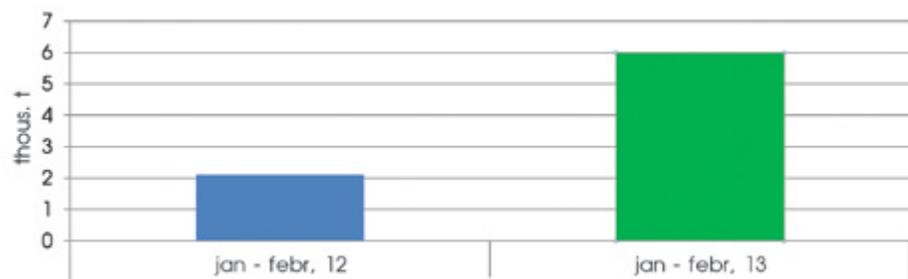
### Import of ammophos to Ukraine, 2011-2012



Consumption of ammophos (ammonium phosphate fertilizer) by Ukrainian agrarians in 2012 exceeded 200 thousand t and gained 50 thousand t as compared to the level of 2011. Just as it used to be, main suppliers of this item are importers which in 2012 managed to increase their shipments by 30 thousand t and in total supplied 153 thousand t of ammophos. At the same time volumes shipped by Ukrainian producers decreased. As before, the problem is the cost of raw materials, and that is the principal factor restraining development of Ukrainian production.

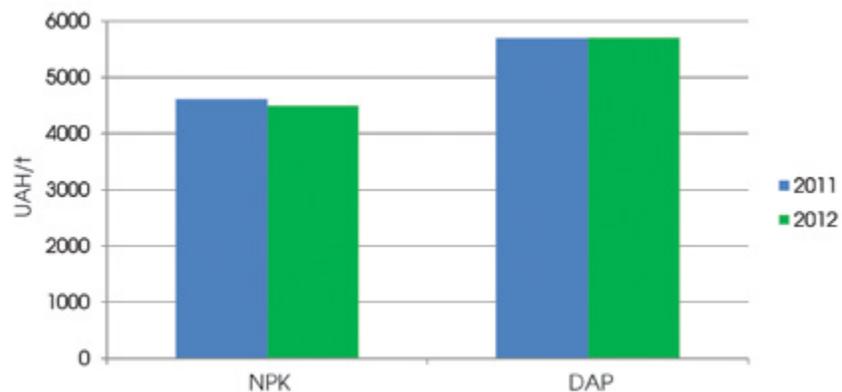
A positive dynamics has maintained itself in the current year, which signifies high interest of consumers towards the product. So, only in the first two months of 2013 the volume of shipments to Ukrainian market made up over 14 thousand t and exceeded the last year indicator by five thousand t. Provided, this dynamics keeps its positive pace, domestic market may well end up 2013 with a yearly consumption of 250 thousand t of ammophos.

#### Ammophos market capacity



A survey of compound fertilizers market for the period 2011-2012 revealed that the price range did not undergo any material change. So, average prices for ANP fertilizer grew by 1.5% as compared to 2011 and average prices for ammophos decreased by 4%. The average prices in 2012 looked as follows: ANP — UAH 4618/t, diamophos — UAH 5748/t, ammophos — UAH 6000/t. Taking into account that over the last two years average prices have practically not changed, one may not expect sharp price fluctuations in 2013.

#### Price dynamics of compound fertilizers market



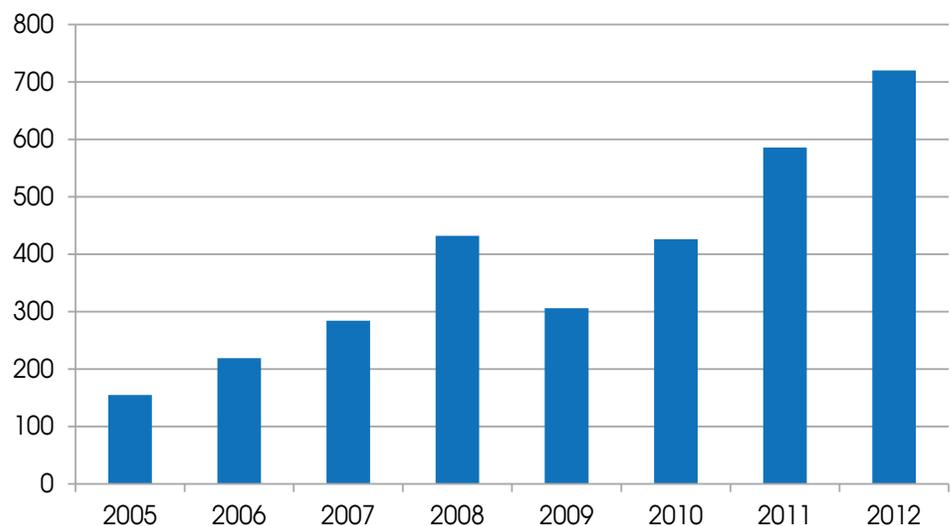
**Serhiy Pisotsky, Leader of the project "Marker"**

04114, Kyiv, 14-A, Kanivska street, <http://www.marker-i.com/>

## MARKET OF PLANT PROTECTION PRODUCTS

The market of crop protection products (CPP) in 2012 maintained its growth, and with the total volume of USD 720 million exceeded the indicator of 2011 by 23%. This development was ensured by the increase of cultivated areas under corn (maize), sunflower and soya as well as the more intensive application of herbicides to nearly all field crops.

### Dynamics of PPP market, USD million (producer prices)



Source: data of market operators

The major players on this market are Syngenta, Bayer, BASF, DuPont and Monsanto. Together, these companies perform about 70% of sales to Ukrainian agrarians. At that it is worth mentioning that in 2012 the market share of companies supplying CPP from China dropped down to 7%.

Speaking of perspectives we shall keep in mind that in the current year cultivated areas under sugar beetroot have decreased considerably while increase of sown areas under corn, sunflower and soya was limited. In view of the reduction of profitability of crop production in the last year, we are not anticipating a growth of agrarians' spending for purchase of CPP.

## SEED MARKET

The last year was very successful for suppliers of corn and sunflower seed. The extension of areas under corn by 30% and under sunflower by 3% with a simultaneous growth of seed prices by 10-25% led to a remarkable development of seed market volumes.

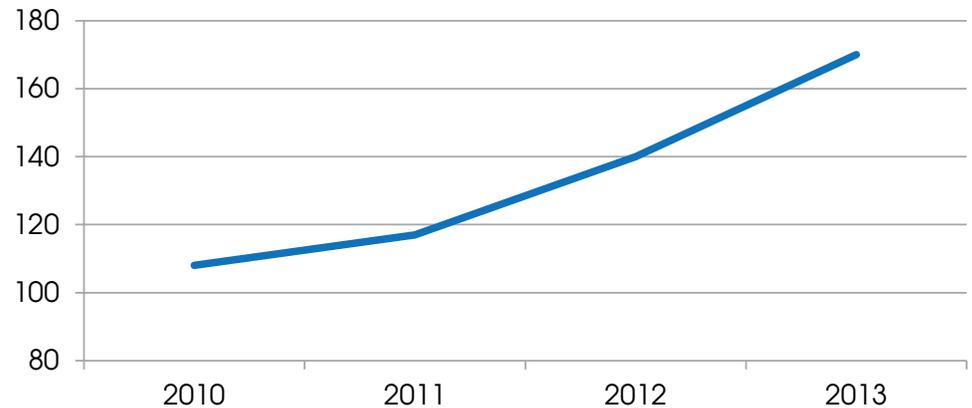
Pioneer, Monsanto (Dekalb), Syngenta and Euralis took the lead in the segment of corn seed in the last year. Syngenta, Pioneer and Limagrain held their leading positions in sunflower seed segment. Nevertheless, other international producers of seed are also trying to establish their niche on this developing market and invest heavily into strengthening of their positions.

On the other hand, traders of sugar beetroot seed are looking at perspectives of 2013 without optimism. Expected reduction of

cultivated areas under this crop — by 40% — is practically ruining producers of sugar beetroot seed.

Among niche crops it is necessary to mention widening up to 170 thousand ha of areas under sorghum, mostly hybrid. In view of gradual climate change, sorghum may turn into a good alternative to corn for farmers of Steppe zone of Ukraine.

Dynamics of development of corn seed prices during the last four years, for market leaders, USD/seed unit (80 thousand pieces)



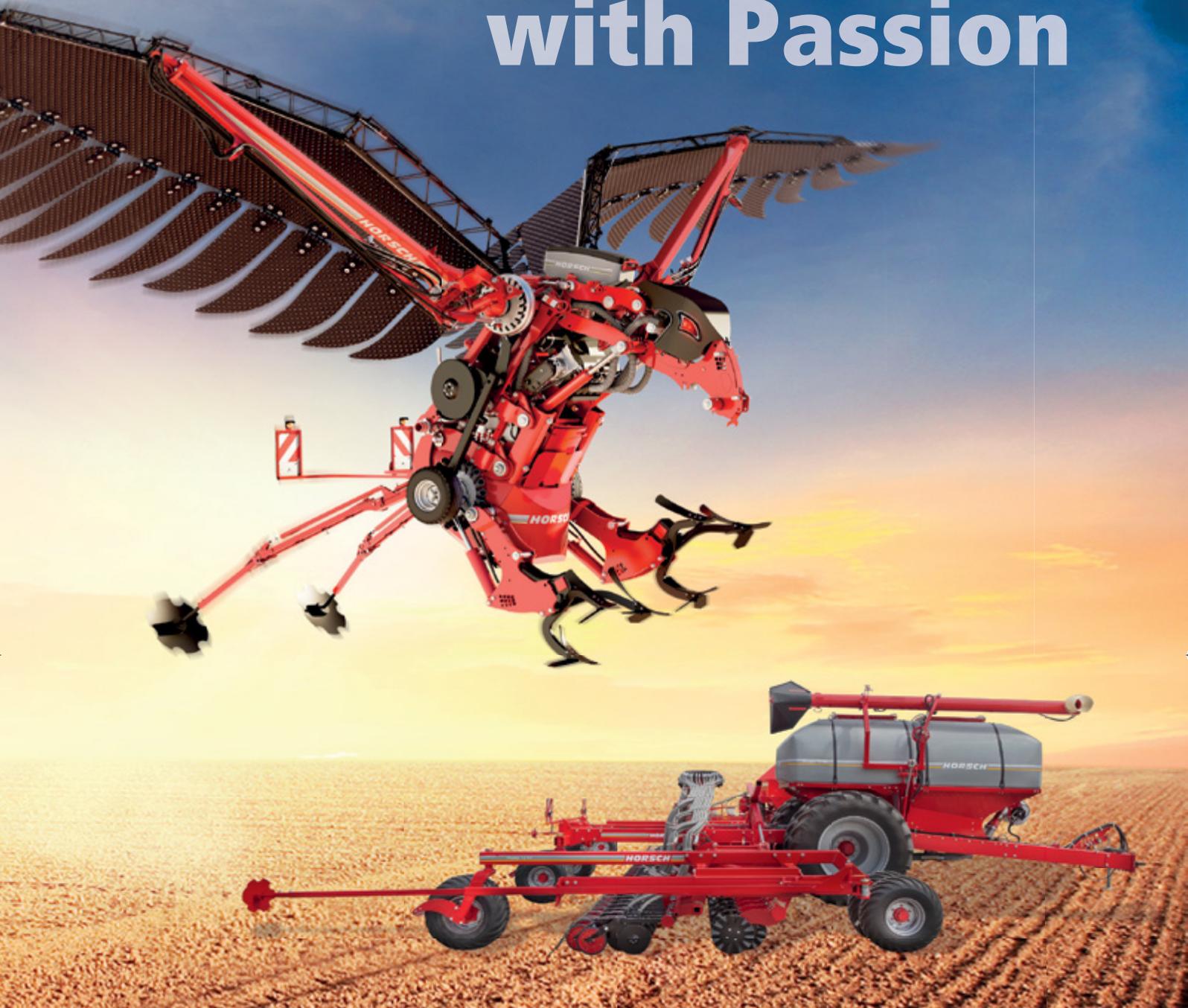
Source: AgriSurvey

Besides, there is also increase of cultivated areas under hybrid rye which is taking over the place of usual local rye. According to market operators, cultivation areas under hybrid rye in 2013 make up over 20 thousand ha.

Despite positive trends towards further development of the seed market, there are still certain problems. In particular, counterfeit seed was found, market turnover of genetically modified seed requires attention, and regulation of the seed market shall be put in line with standards of OECD.



# Farming with Passion



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When choosing a slogan most befitting the firm Horsch the one «Farming with passion» received our unanimous approval. Because each machine bears obvious marks of admiration of every Horsch employee for the work he performs. Everyone, from the company CEO to its rank and file employees, is fascinated with the idea to make a product, simple in the use, unique, with innovative properties and the top quality. “We have always been farmers interested, above all, in ecologically friendly and long-term use of soils”, say Michael and Philip Horsch. “Crop farming has the future, and that is why there is interest to work in this sphere for both farmers and farm machinery producers. And when a farmer operating a tractor sees in the mirror rearview a red machine, he can be certain that he made a choice of top quality” [www.horsch.com](http://www.horsch.com)

# **HORSCH**

*Farming with passion*



# MARKETS OF AGRICULTURAL PRODUCTS

## CEREALS AND OIL CROPS

### Forecast 2013/2014

Marketing year 2012/2013 was very unique in comparison to the past several years for the Ukrainian agricultural market, and when looking back, several years from now it is one that should be viewed as a turning point towards the next stage of Ukraine as a more dominant player in the global grain and oilseed trade.

First frost reduced the size of winter crop and then strong drought through the summer months also the spring crop. Production of wheat was the lowest in the past six years, at 15.3 million MT, corn production was also lower at 19.75 million MT. Expansion of sunseed acres to a record level did not yield a record crop.

Despite these issues, the current export total is roughly 21 million MT of grain, and despite poor harvests in Russia, the ministry has recently announced resumption of wheat exports. This will likely allow Ukraine to achieve nearly 24 million MT of grain exports this season. The importance of this is that despite a smaller crop and the situation in neighboring Russia, grain exports remained strong. Exports are unquestionably the economic lifeblood of the Ukrainian agriculture industry. Thus ensuring strong and continuous exports will increase both domestic and foreign direct capital investment in the sector, which will be crucial to supporting its continued development and growth.

The 2013/2014 season is shaping up to be a near record year for exports. Excellent soil moisture levels, combined with adequate snowfall, providing not only protection from winter temperatures but also moisture in the spring, have given optimism for a winter grain crop that should exceed 19,000,000 MT. The picture for spring grains and the planting campaign has changed somewhat during the final weeks of March, when large amounts of snow covered many parts of Ukraine. As such, this delayed planting to the slowest level in the past six years. More recently weather has allowed the pace to recover, however, we believe that this will effectively further increase the area planted to sunseeds and soybeans at the expense of a slightly smaller than anticipated corn crop. Therefore we see the new crop production figures for corn, soybeans and sunseeds at 21,375,000 MT, 2,950,000 MT, and 9,380,000 MT respectively.

We should see another year of attractive export prices as well, provided that exporters and producers of new crop corn can take advantage of what we currently see as attractive prices. With a larger anticipated global supply of corn this year, we expect that global cash prices will begin to fall, especially if we progress through the pollination period in the U.S. (last week in July-first week in August) without any major weather issues. Though the global situation will not be as critical as last year for both corn and wheat we do believe there will remain a near term period (until mid-July for corn, and until late May for wheat) where global prices will remain near current levels and could even go a bit higher until U.S. corn planting

is complete and the real extent of the winter wheat production in the Northern Hemisphere is known.

The market for sunseeds should remain strong as well. Continued expansion of domestic crushing capacity, which should reach nearly 14 million MT by seasons end, should support strong demand for sunseeds. Though currently sun seed crushing margins are rather weak and even negative for some, we expect that global veg oil prices have bottomed in the near term and will be supported by stronger demand going forward in the year. In particular, expansion of US bio diesel mandates will likely reduce their soyoil exports by as much as 30% this year. Given these factors we view wheat, corn, soy and sunseed exports in the new season as 7,250,000 MT, 15,250,000 MT, 2,000,000 MT and 200,000 MT respectively.

### Futures

As much as the topic of hedging and futures markets were the focus of many conferences last year, we also see expansion of hedging for both exporters as well as crushers. Though the CME black sea wheat contract still struggles to attract liquidity, we should continue to see strengthening relationship and correlation between CME futures prices, MATIF futures prices, and the Ukrainian cash market. As such we anticipate that this will continue to push evolution of risk management as well as trading towards closer association and reference of global futures prices as a basis to the regional and local cash markets.

### Correlation of Ukraine's FOB and CME futures contracts

Season	UKR FOB MW	UKR FOB CORN	UKR FOB SUNOIL	UKR FOB SOYBEANS
2005/2006	0,55	0,61	0,72	-0,05
2006/2007	0,63	0,58	0,72	0,67
2007/2008	0,65	0,82	0,91	0,87
2008/2009	0,59	0,64	0,59	0,74
2009/2010	0,77	0,25	0,09	0,26
2010/2011	0,88	0,89	0,47	0,55
2011/2012	0,56	0,80	0,67	0,96
2012/2013	0,87	0,90	0,74	0,92

Source: INTL FCStone Inc.

We have recently seen requests by FOB Black Sea milling wheat traders for purchase and sales prices which would be executed at a price equivalent to MATIF milling wheat futures price +/- basis to adjust for the local cash market situation. This system allowing both buyer and seller to fix local basis risk and then hedge the futures price risk in the market. Though we have seen this scenario and



strategy in the corn export market for several years now, it has only recently emerged in wheat, as well as sunoil (traded basis CME soybean oil). As an increasing amount of exporters and traders begin utilizing this system, we believe that this method will move up the value chain into transactions between producers and exporters. Below is a chart indicating the average yearly correlation, measured weekly between the CME futures contracts and the relevant FOB Ukrainian spot cash market. Notably the correlations have changed over the years, and were drastically affected by the export ban in 2010, however they have stabilized in recent years and we expect that as long as export markets are not restricted by government policy we should see correlations further stabilize.

Current new crop CME futures price ratio (Dec 2013 Wheat / Corn): 1.344.

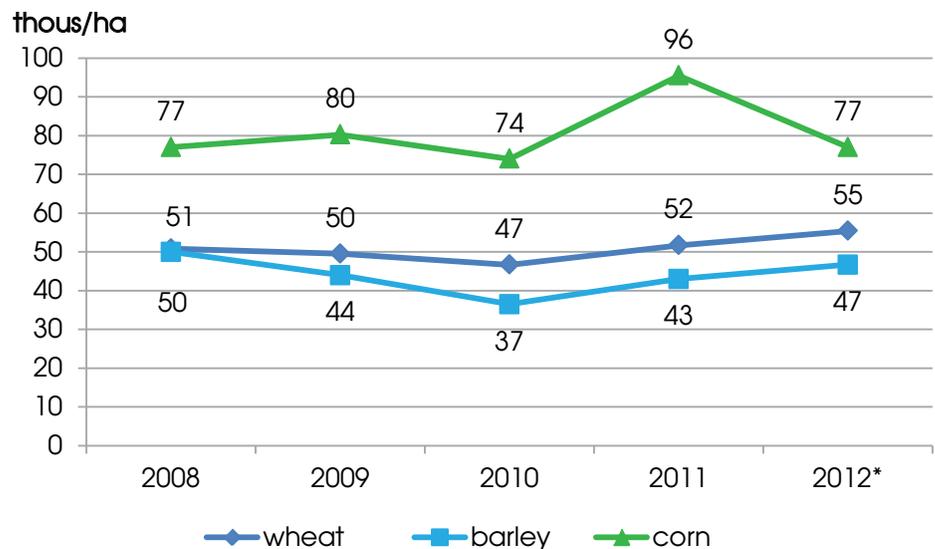
New crop CME futures price ratio 1 year ago (Dec 2012 Wheat / Corn): 1.270.

**Dan HOFSTAD, Commodity Risk Management Consultant/Broker Eastern Europe (Energy, Agricultural, Currencies), INTL FCStone Inc. [www.intlfcstone.com/Pages/default.aspx](http://www.intlfcstone.com/Pages/default.aspx)**

Project "Practice of crop production in Ukraine": optimal yields of cereals

In order to estimate optimal yields of cereals two instruments were used. First, optimal productivity was calculated using a linear trend on the basis of statistical data on productivity (standard weight) and production cost of respective crops at agricultural enterprises in 2008-2011. Then results were compared with the actual levels of productivity reported by the best enterprises in 2012 and compiled by experts of UCAB and AgriSurvey Agency in the new publication "Practice of Crop Production 2012".

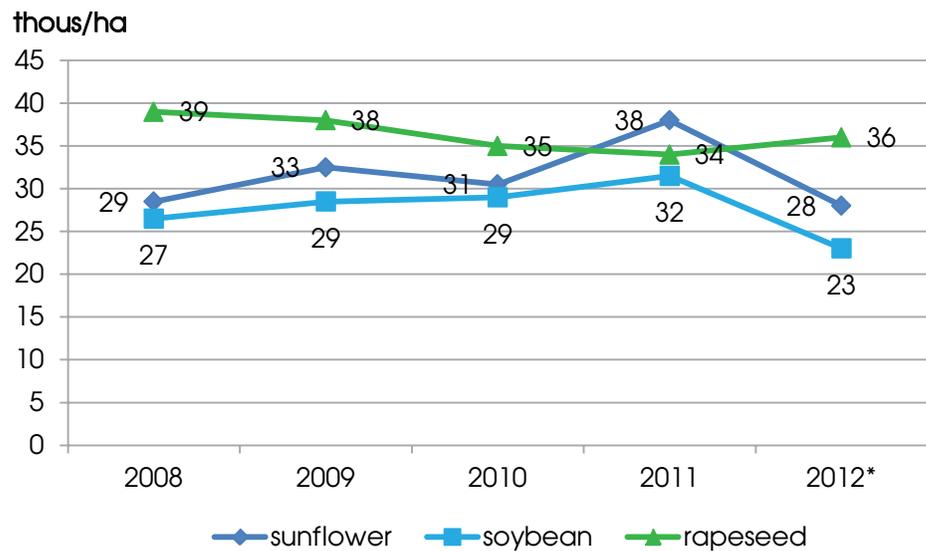
Optimal yields of cereals from the point of view of cost and practice of cultivation



\*Indicators according to the results of the survey "Practice of Crop Production 2012"

Results in respect of common cereals revealed dependencies of productivity on technologies as well as external factors beyond human control, like weather conditions. This conclusion is supported by facts of increases and decreases of productivity during the period (2008-2012). Barley proved to be the most sensitive to weather conditions, and therefore its optimal productivity varies significantly from year to year. Despite the strong dependency on external factors, cereals show trends towards improvement of the level of optimal productivity in the said period, and that proves the positive influence of newly introduced advanced technologies.

### Optimal yields of oil crops from the cost and practice of cultivation perspective



\*Indicators according to the results of the survey "Practice of Crop Production 2012"

Source: UCAB calculations on the basis of the data of State Statistics Service of Ukraine

Analysis of the levels of optimal productivity of oil crops shows different trends for every oil crop in Ukraine.

Oil crops in the last year were a good example for the inability of producers to deal with extreme weather conditions without improvements in technologies. That was clear in respect of sunflower and soya; their optimal levels of productivity were constantly increasing during 2008-2011 and dropped remarkably in 2012 due to drought in main cultivated regions of the crops. Nevertheless, the trend towards improvement of productivity of sunflower and soya is positive. For rape seed, the principal risk is associated with winterkill. Where winter goes smoothly, optimal productivity keeps a high and practically stable level.



## SUGAR

The current marketing year for sugar is again marked by internal overproduction, falling prices and absence of cane sugar imports. Favorable weather conditions in 2012, despite 15% reduction of sown areas under sugar beetroot (as compared to 2011), ensured production of 2.2 million t of sugar. Given that internal consumption in Ukraine does not exceed 1.75-1.9 million t, the second fruitful year in a row caused further deterioration of prices. Also, in the current year a factor which used to restrain price decreases, namely financial interventions on the part of Agrarian Fund and State Reserve, is absent. These two organizations together “withdrew” from the market in 2011/12 MY about 190 thousand t of sugar and cooled down negative price expectations. However, state funds are limited in Ukraine, and it is most likely that there is not much hope for state interventions in 2013.

## Sugar market in Ukraine, 2009-2013

	2009/10 MY	2010/11 MY	2011/12 MY	2012/13 MY*
Production, thousand t	1 510	1 830	2 330	2 200
Including beetroot, thousand t	1 270	1 550	2 330	2 200
Including cane, thousand t	240	280	0	0
Domestic consumption, thousand t	1 750	1 800	1 850	1 880
Export of white sugar, thousand t	1.2	0.6	163	100
Import of white sugar, thousand t	87.2	49.1	9.2	1

\* forecast

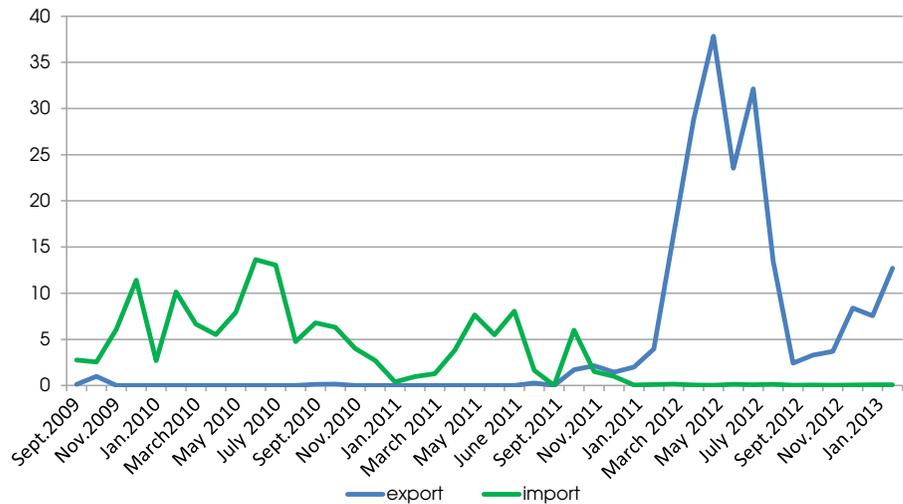
Source: UCAB calculations on the basis of the data of State Statistics Service of Ukraine

Positive news for the sugar market in 2013 was the almost complete absence of sugar imports. Also, along with that a gradual improvement of sugar export is taking place. In this respect 2011/2012 looks revolutionary. The main risk threatening Ukrainian sugar export is the fact that principal consumers of Ukrainian sugar are countries of Central Asia, in particular Kazakhstan, where Russian and Belorussian sugar (at very competitive cost) is widely present. In any case, Ukrainian producers shall work on opening up new markets if they want to increase their output. Other positive news was that the mandatory import of 267 thousand t of raw cane sugar according to WTO rules was exposed as a myth. The marketing year 2011/12 proved that nobody is obliged to import cane sugar if there is no economic interest in importing raw cane sugar on the side of producers.

In general, the short-term perspective sees further reduction of sugar production in Ukraine due to limited domestic demand and “cloudy” prospects of export. This reduction will take place mostly through a decrease of cultivation areas under sugar beetroot. The trend towards improvement of sugar beetroot productivity will maintain as soon as the market is formed exclusively by vertical-

ly-integrated structures that grow sugar beetroot only in the most suitable climatic conditions and with application of high-tech cultivation techniques.

### Dynamics of foreign trade in white sugar in Ukraine

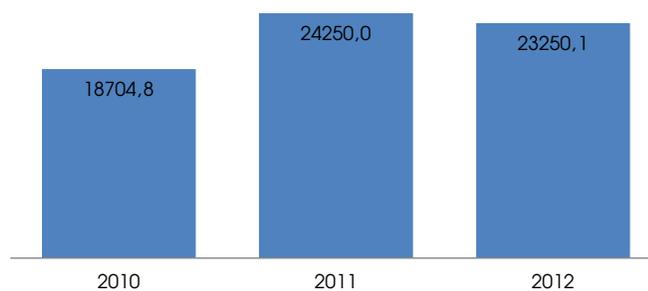


Source: State Statistics Service of Ukraine

## VEGETABLES AND FRUITS

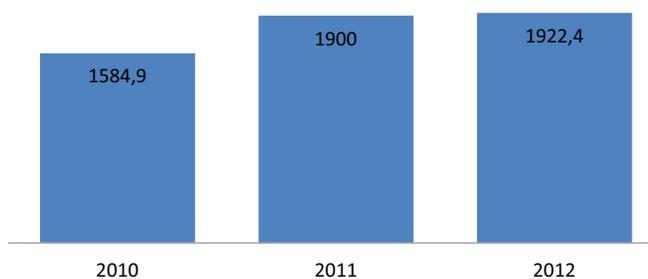
The fruit and vegetable sector of Ukraine has been featuring significant overproduction in recent years as well as seasonal nature of production and, respectively, sensitivity to influences of foreign markets. The season of 2011/2012 made no exception although it brought about some changes, the effects of which will be felt already in 2012/2013.

### Potato production in Ukraine, thousand t



Source: State Statistics Service of Ukraine

### Cabbage production in Ukraine, thousand t

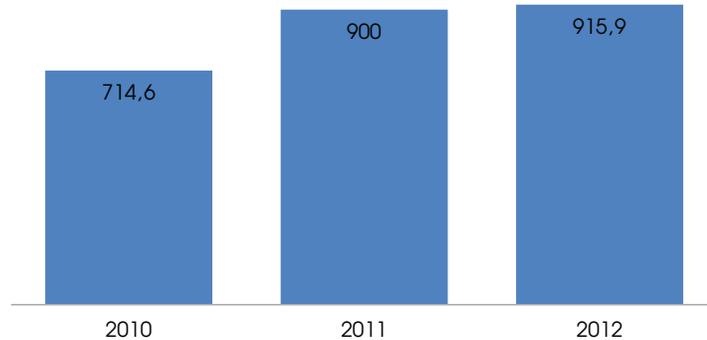


Source: State Statistics Service of Ukraine

Overproduction of fruits and vegetables in the EU and Russia in 2011/2012 made any prospects for improving export to these countries unreal; consequently, export shipments of potato dropped two-fold and shipments of cabbage by more than seven times.

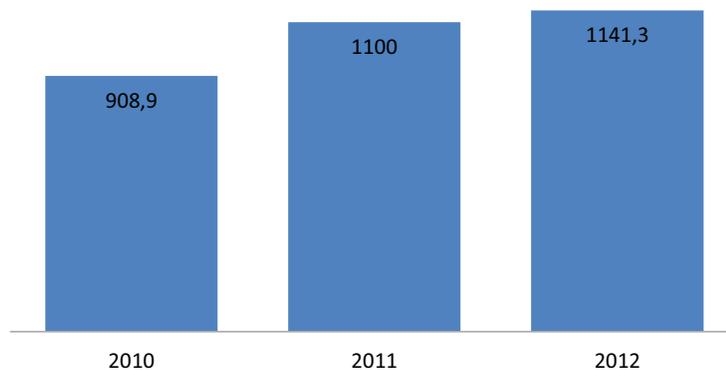
At the same time Ukraine is a European leader in the production of carrot and ranked the second in cultivation of onion.

#### Carrot production in Ukraine, thousand t



Source: State Statistics Service of Ukraine

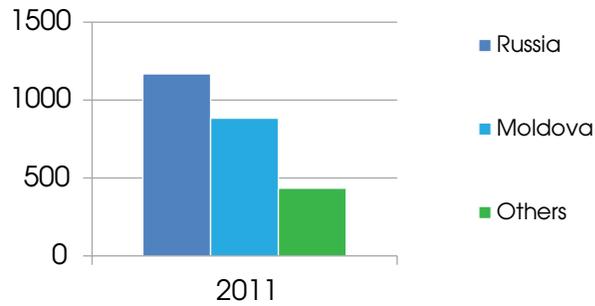
#### Onion production in Ukraine, thousand t



Source: State Statistics Service of Ukraine

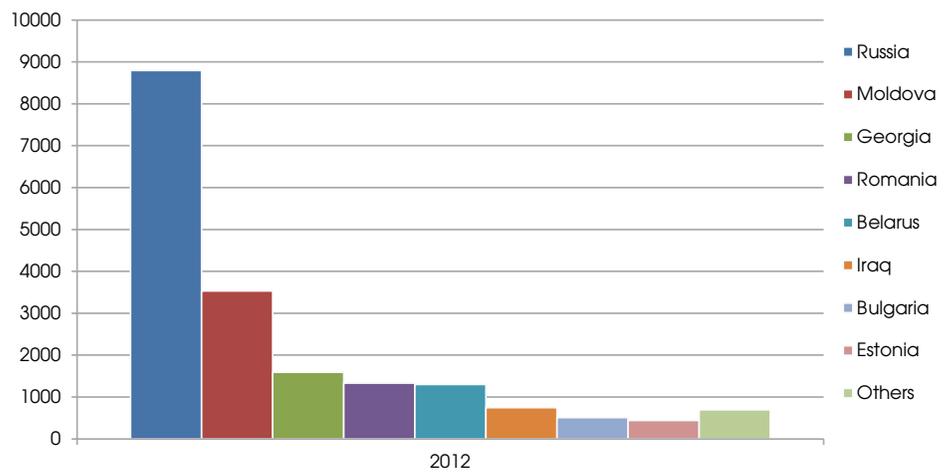
Because of large production volumes in Ukraine it was possible to increase export of carrot and onion in 2012/2013 MY remarkably. For example, between October 2012 and January 2013 the export shipments of carrot exceeded the last year indicator by 36 times and made up 1.7 thousand t. During the same period the export of onion grew by 9 times up to 19.4 thousand t as compared to 2011/2012; half of this volume (9.4 thousand t) was shipped in January 2013. Along with the increases of export shipments, the geography of export has also diversified. In December 2012 Ukrainian onion was exported to Moldova and further re-exported to Romania and Bulgaria; in January Ukrainian exporters have already managed to organize direct shipments to these EU countries. Besides, there was a record export to Georgia, and Ukrainian onion export to Russia in the beginning of 2013 brought Ukraine among the top three suppliers of onion to the Russian Federation.

## Onion export geography, 2011, †



Source: State Statistics Service of Ukraine

## Onion export geography, 2012, †



Source: State Statistics Service of Ukraine

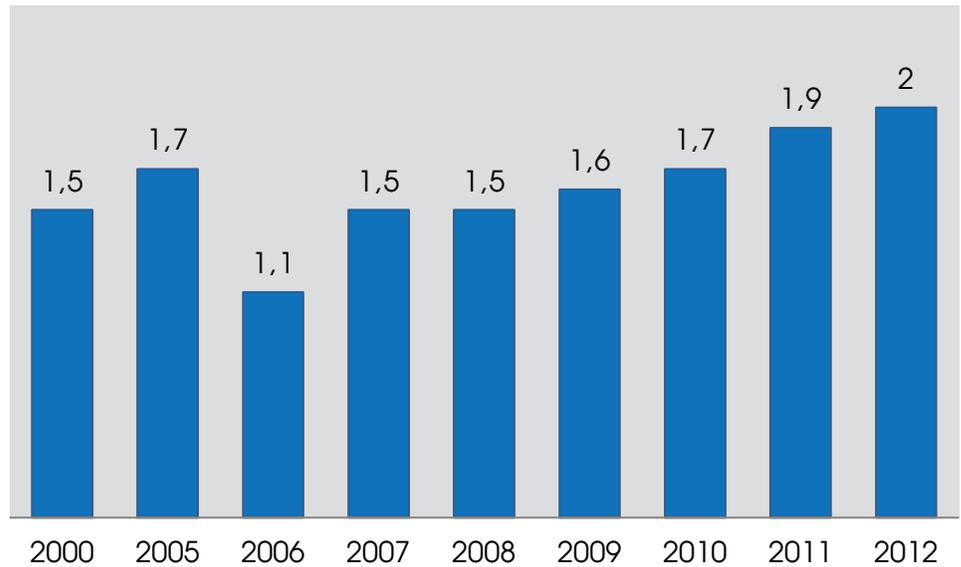
Nevertheless, already in the beginning of 2012/2013 season, a considerable reduction of demand for seed of cabbage and onion being the least profitable crops was observed. Therefore, areas under these crops in 2012 will decrease by 15-20% as compared to 2012. On the other hand, the demand for carrot seed was growing. Producers "felt" the profitability of this crop; spring carrot promises high prices, and the drop of prices during the harvest season will be offset by price hikes (as significant as twofold comparing to last year) during dispatch for storing. Areas under potato will increase only at professional potato growers (up to 5%) while households will report modest reduction. In any case all forecasts speak of a good potato harvest, and that makes the profitability of potato cultivation in the current year dubious. In view of reduction of production (except for potato) and improving export opportunities (EU and CIS, with special interest in the region of the Central Asia) we may expect overall increase of prices for vegetables by 2-3 times in 2013.

The production of fruit and berry in 2012 grew by 100 thousand t as compared to 2011 and made up 2 million t.

Against this background, the harvest of grape decreased by 13% down to 456 thousand t. In 2011 Ukraine was among the top 10 producers of grape and wine in Europe, but in 2012 production

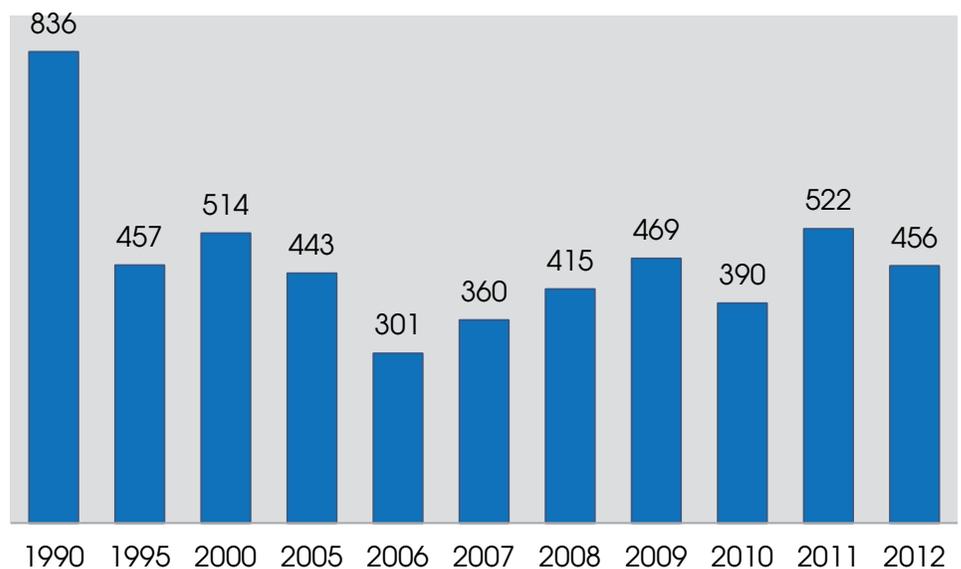
of grape dropped by 8% as compared to 2011, which may be explained by a small reduction of areas under vineyards and yield damage caused by frost. According to official statistics, processing volumes of grape in 2012 amounted to 329.6 thousand t or 7% below the level of 2011.

#### Production of fruits and berries in Ukraine, million t



Source: State Statistics Service of Ukraine

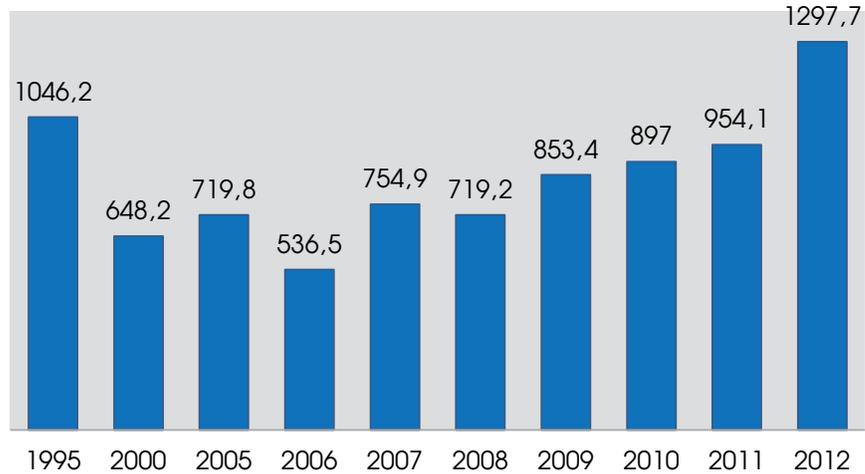
#### Grape production in Ukraine, thousand t



Source: State Statistics Service of Ukraine

At the same time Ukraine is still a net-importer of grape. At relatively small volumes of export (mostly to Moldova and Russia), import of grape in 2012 made up 63.1 thousand t. Grape was mostly supplied from Turkey (23.4 thousand t), Iran (13.5 thousand t) and Italy (10.1 thousand t).

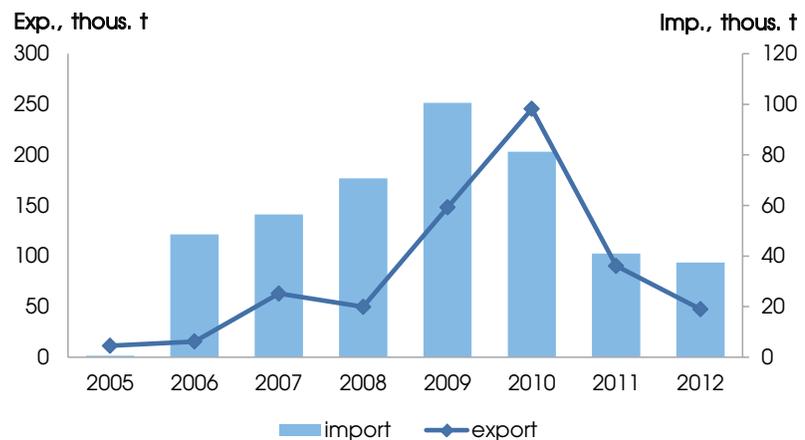
## Apple production in Ukraine, thousand t



Source: State Statistics Service of Ukraine

The last year achieved a record in terms of apple production, and Ukraine became one of the eight largest producers of apple in the world. Thanks to planting of new productive varieties and employing of modern technologies of cultivation in intensive gardens, it was possible to reach high productivity (over the last five years the average yield of apple grew by 50%), and that allowed for meeting the internal demand and successful export. The biggest volume of Ukrainian apple every year goes to Russia; in 2012 export shipments to this country amounted to 17.5 thousand t (or 92% of the total export). At the same time Poland retains its positions as a major supplier of apple to Ukraine; in 2012 it delivered 88.7 thousand t (95% of import). But in general recent years have witnessed a decline in import as well as export of apple. Import is diminishing because of improvement of domestic production, and export is restrained by the presence of another large apple exporter on the global market — Poland.

## Dynamics of exports and imports of apple, 2005-2012



Source: State Statistics Service of Ukraine

One of the specific features of Ukraine's apple market in recent years is a positive dynamic of apple consumption by Ukrainian retail.

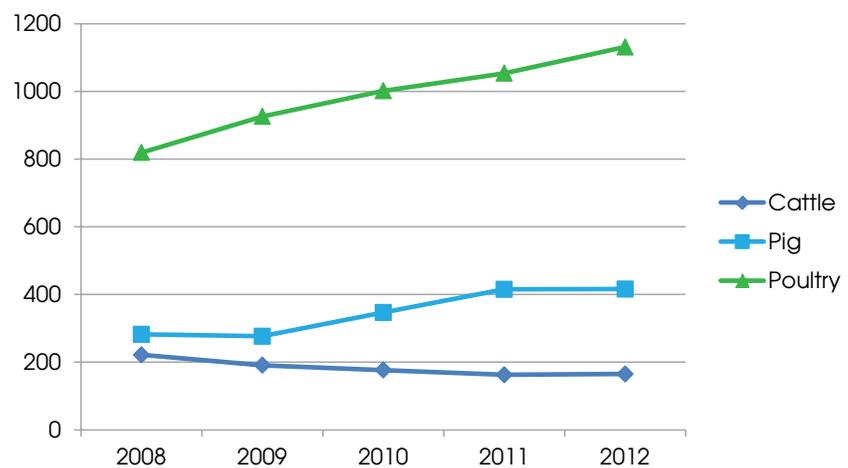
## MEAT

The meat market in 2012 grew slightly in volumes: the population of livestock increased as well as meat production and average meat consumption per capita.

Production of meat in the last year increased by 3.4% up to 3,136 thousand t live weight. A growth of population of livestock and poultry was observed. As of the beginning of 2013, cattle stock in Ukraine amounted to 4.5 million heads or 1.8% above the figure of the last year. Pig population gained 1.9% and reached the level of 7.5 million heads. The largest change fell on poultry stock, which added 6.5%.

Increases of meat production were reported only by agricultural enterprises. Households reduced their meat production because of high cost associated with animal fattening and low profitability thereof.

Sales of livestock and poultry for slaughtering by agricultural enterprises, live weight, thousand t



Source: State Statistics Service of Ukraine

Most dynamic changes in the last year were reported in respect of poultry production at agricultural enterprises; in slaughter weight, volume of production made up about 837 thousand t or 7.4% above the level of 2011.

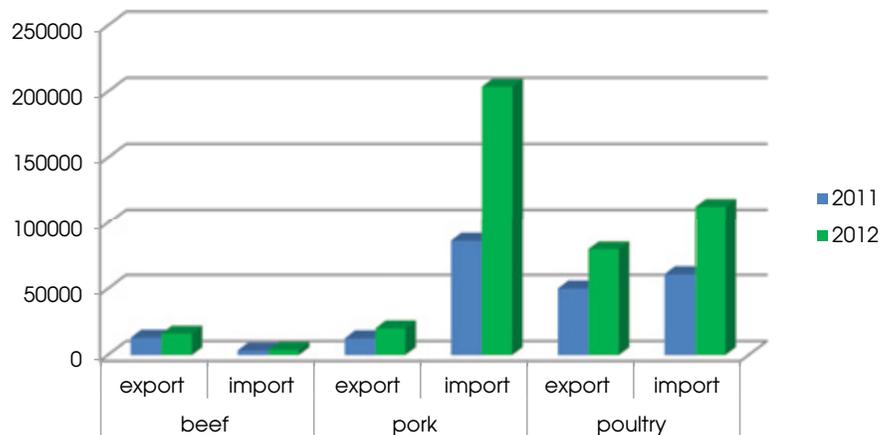
Annual average meat consumption per capita grew from 46.6 kg in 2011 up to 54.4 kg in 2012. It is expected that further improvement of meat production in 2013 will entail increase of meat consumption which may reach the level of 55.3 kg per capita.

In 2012 Ukraine considerably increased its meat export, up to 117.2 thousand t or nearly 1.5 times more than in 2011. This growth was mostly accounted for by pork and poultry while export of beef showed only a slight increase.

Along with the rapid growth of meat export there was also observed an ever more significant increase of meat import which in 2012 made up 395.1 thousand t or 2.5 times above the level of 2011.

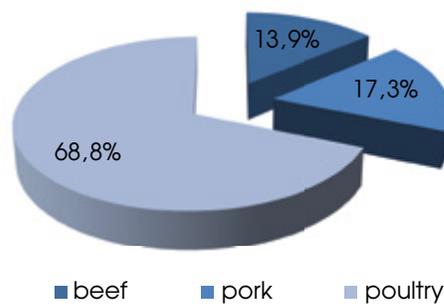
A quite liberal control of safety of imported meat and its price competitiveness were the main drivers of such remarkable growth of meat import shipments.

## Foreign meat trade in 2011-2012, thousand t

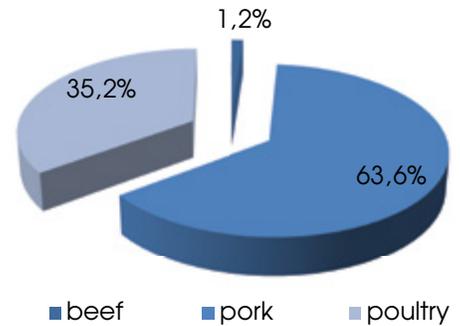


Source: State Statistics Service of Ukraine

## Meat export structure, 2012



## Meat import structure, 2012



Source: State Statistics Service of Ukraine

The largest volume of fresh and chilled beef in 2012 Ukraine exported to Russia (93%). Major markets for Ukrainian frozen beef were also Russia (76%) and Kazakhstan (18%). Brazil was the principal supplier of frozen beef to Ukraine.

In the last year Russia was also the main market for Ukrainian pork (19.8 thousand t or 93% in the structure of export). This kind of meat was imported to Ukraine from Brazil (59%), Germany (20%) and Poland (9%).

Ukraine exported poultry to the Russian Federation (38%), Kazakhstan (26%) and Moldova (9%). Poultry was supplied to Ukraine from the USA (32%), Germany (24%) and Hungary (12%).

Forecasts for 2013 predict:

- Increase of meat production, first of all of poultry and pork;
- Significant reduction of meat import;
- Further improvement of poultry export as long as this sector is intensively developing. Besides, in January 2013 Ukraine was granted a permit for supply of poultry and shell egg to the EU; this brings about good chances for opening up new markets, though tariff barriers in the EU will restrain and impede this process;
- Further investments into pig breeding. Many enterprises are already investing into construction of pig breeding complexes;



that is why production of pork in the next one to two years will increase. This trend is also supported by tightening of state control over the quality of imported pork that gives additional advantages to domestic producers;

- Increase of meat consumption per capita up to 53.3 kg a year.

Further development of the meat market in Ukraine will be influenced by forage prices, taxation regime for agricultural producers while the role of direct state support is rapidly declining because of limited financial capability.



**Darlo Marchetti,**  
General Manager,  
Danone Ukraine

*As an international business operating in Ukraine, with our solid knowledge base, 100-year experience in dairy and cutting edge production technologies — not to mention the biggest market share — Danone Ukraine has the responsibility of leading the industry by its own example.*

*To us this means having sustainable business processes for every stage of production: 1) making high-quality ingredients, both raw milk and fruit, available at a stable, reasonable price; 2) producing good, safe and healthy products, and 3) raising domestic consumption to the levels recommended by health experts.*

*I was glad to see the 14% growth in raw milk output, demonstrated in 2012 for the first time in a decade. However, modern dairy companies do not simply need more milk from Ukrainian villagers, they need more high-quality milk, produced and transported in accordance with stringent hygienic standards. While we actively work with industrial suppliers, supporting the micro-farmer is essential for sustainable development of the dairy sector. That is why Danone Ukraine has launched the EUR 2 million Milk Communities project, enabling over 3,000 rural families to increase their income and raise professional knowledge and efficiency. How can we do this while maintaining village and individual livelihoods? Jointly with the Danone Ecosystem Fund we've expanded the initiative and invested EUR 200,000 to create Ukraine's first Strawberry Cooperative in the village of Losyatyn, Ternopil region. Starting with a 10 hectare plot, we will create jobs for local population and supply fresh strawberries for Danone fruit-flavored yogurts and deserts.*

*By implementing new technologies at our own plants, and by adopting standards that are higher than those required by Ukrainian law, we move the market ahead in terms of standards and drive the industry forward. Each of our three plants in Ukraine — in Kherson, Kyiv, and Kremenchug — is new or currently being modernized in accordance with ISO 2000 and HACCP requirements. Over the last three years we have invested over UAH 300 million into our production facilities to create additional safety guarantees for consumers. We also encourage adoption of European food standards for dairy products by the Ukrainian government and further control of implementing those standards by the Ministry of Agricultural Policy and Food as well as by consumer protection organizations.*

*Finally, the revival of Ukraine's dairy industry can truly grow only with a rise in per capita consumption, which in Ukraine is the lowest in Europe: 1.5 times less than in Russia and three times less than in Western Europe. Addressing the issue, Danone formed a strong coalition with other dairy producers and launched the educational campaign 3 DAIRY A DAY. Together with the Ministry of Health, NGOs, think tanks, TV channels, publishing houses and media placement companies we are educating 45 million Ukrainians about health benefits of dairy products. I encourage all of you to consume three portions of dairy products every day: by making this easy change, you will bring goodness to your body and your mind and help grow Ukraine's dairy industry as a whole.*

I have it  
three times  
a day

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## MILK

Milk is one of the main products of Ukrainian livestock industry and accounts for approximately 11% of the gross output of agriculture. At the same time cow population is steadily decreasing. At the beginning of 2013 there were 2.56 million cows or 0.8% less than in the last previous year. Despite this reduction, production of milk in 2012 grew by 2.7% up to 11.4 million t; that means that productivity of cows is improving.

There is also a trend towards increased production of milk at agricultural enterprises. Along with that the quality of milk is improving. In 2012 the share of agricultural enterprises in supplies of milk for processing made up 48%. In the first quarter of 2013 the same reached already the level of 57%. We are expecting that industrialization of milk production in Ukraine will continue.

## Major indicators of milk production in Ukraine

Indicator	2008	2009	2010	2011	2012	2012 to 2011, %
Milk production, million t	11.76	11.61	11.25	11.09	11.39	102.7
including agricultural enterprises, million t	2.09	2.24	2.22	2.25	2.54	112.9
including households and other economic structures, million t	9.67	9.37	9.04	8.84	8.85	100.1
Milk supplied for processing, million t	5.40	4.67	4.74	4.61	4.71	102.2
including households, million t	3.68	2.80	2.85	2.51	2.41	96.0
including agricultural enterprises, million t	1.72	1.86	1.89	2.03	2.28	112.3

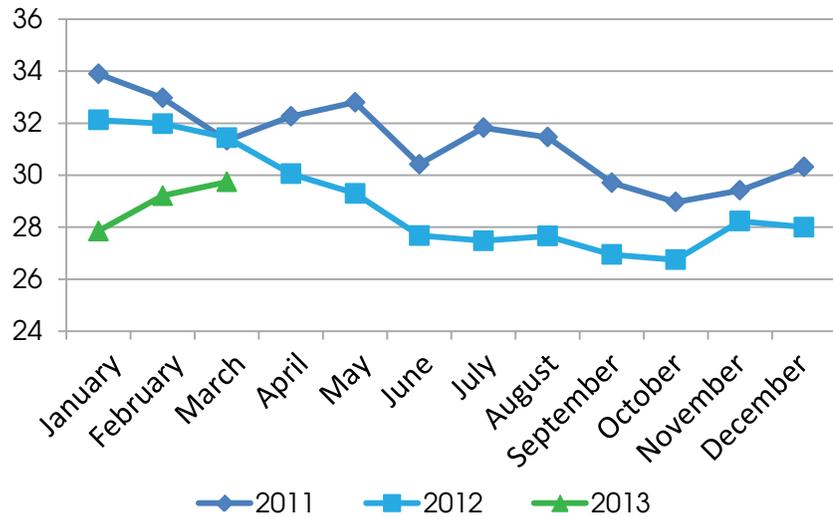
Source: State Statistics Service of Ukraine

In 2012 Ukraine exported 0.8 million t in milk equivalent; in 2011 this indicator was at the level of 1 million t. Import of finished dairy products in the last year grew from 0.3 million t (2011) up to 0.4 million t. The main reason behind reduction of export supplies was a ban on import of Ukrainian cheese imposed by Russia. The trend towards deterioration of dairy export and strengthening of dairy import is persisting in 2013.

Ukraine as a country-exporter of milk products is depending on global prices. In 2012 the world production of milk grew, and prices in most countries dropped below the level of the previous year. Because of that, and also due to seasonal nature of milk production, purchasing prices for milk in Ukraine, starting from April, also receded considerably. At the end of 2012 and in the beginning of 2013 milk prices in Ukraine and in the world started climbing up. In Ukraine this process was instigated by the seasonal reduction of milk production. Global prices were driven up by the reduction of milk supply from the main exporting countries against the background of traditionally high demand. In January of 2013 because of low profitability and high feed prices in the USA a record number of dairy cows were slaughtered, and that will lead to noticeable reduction of milk production in the country. Even the increase of

prices for milk observed starting from October 2012 did not improve the situation in the milk sector. Drought in New Zealand led to a decrease in milk production in the country starting from February 2013. Modest supplies of milk in the EU as well as high demand are supporting further increase of milk prices.

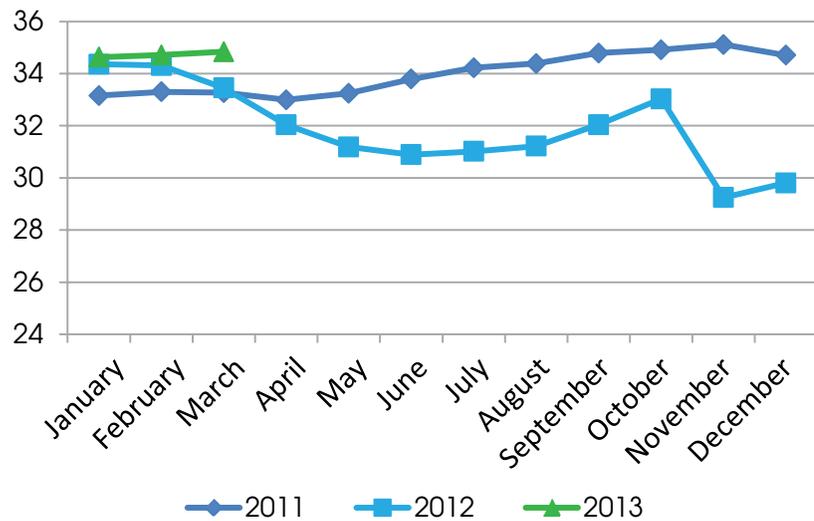
Milk purchase prices in New Zealand, €/kg\*



\*4,7% fat, 3,35% protein

Source: CLAL.it

Milk purchase prices in the EU, €/kg\*



\*4,2% fat, 3,4% protein

Source: EU Commission

Global trends will have their influence on milk prices in Ukraine as well. During season production of milk in the country will grow significantly and prices will be shaped accordingly to the supply and demand, but high prices on foreign markets will suspend reduction of prices on Ukraine's domestic market.



**Taras Gagalyuk,**  
Director,  
AgriSurvey

It is commonplace that it is practically impossible to stimulate consumers' behavior on saturated markets. However Western marketing experts managed to refute this opinion when they found out what drives human behavior. It turns out that decisive factors are personal values, like family wellbeing, personal health, public recognition and acceptance etc. Any actions are driven by the system of personal values, and the purchase of food is no exception.

The problem, however, is related to the fact that it is impossible to find out those personal values by simply interviewing people. And it is furthermore hard to reflect on this issue in the context of food purchases.

In 2013 market research agency "AgriSurvey" through the request from TM DOBRYANA made a survey under the title: "Portrait of Ukrainian consumer: Why I am buying cheese". The purpose of the survey was to define value orientation of consumers of hard cheese in order to improve marketing policies.

By applying a special methodology with proven efficiency for this kind of surveys values driving and motivating consumers of hard cheese were revealed. Besides, the survey detected the way those values correlate with the benefit expected by consumers as well as with attributes of a product. Results of the survey were collected for four cities of Ukraine and compared. Conclusions made on the basis of the comparison are very interesting. In general, outcomes of such surveys have a huge practical significance as far as they allow for the development of an effective marketing strategy, segmentation of the market and improvement of communication policies.





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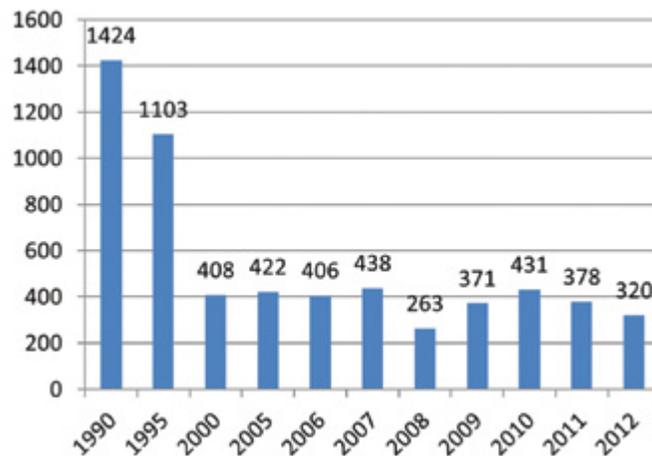
## NICHE MARKET

Leguminous Crops

2012 for Ukrainian agribusiness was marked by an interest of investors — foreign as well as national — in so-called niche markets. Among such niches it is necessary to mention markets of leguminous crops and malt barley in crop production and the goat milk market in the livestock sector.

Leguminous crops (grain legume crops according to Ukrainian classification) account for a relatively small share of cultivation areas. In total, harvest areas under leguminous crops in 2009-2011 were varying from 336 to 391 thousand ha while areas under cereals and legume crops amounted to over 15 million ha and under oil crops over 6.5 million ha. The total cultivated area made up about 27 million ha. Therefore, the share of leguminous crops in the structure of sown areas under cereals and legume crops does not exceed 2.5% and accounts in the overall structure of cultivated areas only for about 1.3%.

Dynamics of sown areas under leguminous crops, thousand ha



Source: State Statistics Service of Ukraine

The structure of cultivated areas of legume crops is dominated by pea, bean, vetch and lupine are also quite common. Some crops, in particular chick-pea, are not presented in the official statistics and listed under the heading "other grain and legume crops".

Official statistical surveys show that production of over 80-90% of main legume crops is done by agricultural enterprises, with bean making an exception: historically households are producing large quantities of this crop for own consumption.

It is necessary to underline that the role of grain and legume crops in Ukraine has remarkably diminished over time. While in 1990-1995 sown areas under these crops exceeded 1 million ha, in the 2000s they hardly made up 500 thousand ha. Then, in 2009-2011 the trend to reduction of areas under legume crops slowed down.

The share of pea in the structure of cultivated areas is also decreasing; this process took part mostly in the 90s of the last century and was explained by curtailing the corporate sector's share and enlargement

of households' share; the latter being traditionally orientated toward cultivation of bean.

According to the data of the State System of Protection of Plant Variety Rights which operates under the auspices of the Ukrainian Institute for Plant Variety Expertise and is responsible for the protection of intellectual property rights of plant varieties, there are over 170 varieties of grain and legume crops (pea, chick-pea, lentil and bean) which are registered and admitted to distribution and cultivation in Ukraine.

Taking into account insignificant volumes of production of most leguminous crops, a detailed balance may be developed only in respect of pea. For other crops it is only possible to make a rough evaluation for potential uses of the harvest.

### Pea balance in Ukraine, thousand tons

	2004/05 MY	2005/06 MY	2006/07 MY	2007/08 MY	2008/09 MY	2009/10 MY	2010/11 MY	2011/12 MY	2012/13 MY
Initial stocks	13	18	29	15	6	13	22	34	24
Harvested areas, thousand ha	250	280	327	247	201	273	279	244	210
Productivity, t / ha	2.40	2.20	2.00	1.09	2.26	1.81	1.62	1.49	1.77
Production	600	616	653	269	455	494	452	364	372
Import	1	1	1	1	1	1	2	2	2
Total supply	613	634	682	284	461	508	475	400	397
Export	201	210	270	47	148	246	192	136	135
Feed use	180	180	180	80	105	90	95	80	80
Food processing	80	80	80	40	70	60	60	70	70
Industrial consumption	0	0	0	0	0	0	0	0	0
Seed	110	115	115	100	100	72	75	75	75
Loss	25	21	23	12	26	18	19	15	15
Internal distribution	394	395	397	231	300	240	249	240	243
Closing stocks	1	29	15	6	13	22	34	24	22

Source: UCAB calculation on the basis of data of State Statistics Service of Ukraine

It was already noted that reduction of areas under pea has been taking place since the 90s of the last century. In the 2000s gross yields of this crop were declining, though that time on account of decreasing productivity. This trend is hard to explain in terms of weather conditions because yields of pea were comparatively low — no more than 2 t/ha — even in the most productive years. It is obvious that pea is commercially not the most attractive crop in Ukraine and, respectively, farmers cultivate pea mostly to obey the requirements of crop rotation and as a good forerunner for other

crops. Accordingly, the technology for cultivating pea is in many cases underfinanced.

Information about foreign trade of pea as well as other legume crops is presented in the table below. For pea it is typical that the import structure is dominated by seeding material (partly packaged seed, partly seed for packaging in Ukraine to support demand on the part of households) while the export structure is dominated by marketable produce. We may assume that the export market is the driver behind cultivation of pea in Ukraine. Main importers of Ukrainian pea are India, Pakistan and Turkey.

### Export structure of legume crops in 2011/2012 MY

Commodity item	2011/12 (August-July)			
	export		import	
	†	USD thous.	†	USD thous.
Fresh pea	3 806	1 180	0.57	1
Fresh bean	99	61	0.03	0.02
Pea seed	0.3	0.5	942	1 331
Dried pea	136 177	48 694	814	231
Dried chick-pea	2 359	2 317	270	177
Dried bean	3 056	1 734	166	291
Bean seed	-	-	31	129
Lentils	5	4.6	358	836
Forage bean	511	133	0.2	0.4

Source: State Statistics Service of Ukraine

Information on consumption of pea for feeding and food purposes is estimation only. Pea is often used for feeding purposes by enterprises cultivating this crop. In such cases pea is not presented in the statistics of compound feedstuffs production and is not subject to recording and reporting. Even in case of industrial production of compound feedstuffs, formulas may vary depending on availability of and prices for pea. Volumes of industrial processing of pea may also omit processing at small factories which submit very brief statistical reports.

### Estimated volumes of industrial production of products from leguminous crops at large industrial enterprises

Product	Volume, thous. †
Canned pea	15-20
Canned bean	6-8
Shelled pea	18-34
Leguminous meal	1.3-2

Source: AgriSurvey

## Malt Barley

Production of malt barley in Ukraine is nearly 100% directed to the domestic market dominated by three companies: Soufflet Group, Malteurop and Obolon Corporation. These companies account for processing of 90% of barley to malt.

Since the EURO Cup finals 2012 are over, and there is no boom of beer consumption to be expected in the nearest future, this year is hardly going to bring about any tangible changes in production of malt barley in Ukraine. Nevertheless, the current year will have certain specifics.

This year sown areas under malt barley will most likely follow the downward trend of the previous years and recede below 200 thousand ha. This trend is additionally supported by spring weather conditions which have significantly reduced the sowing period for the crop. Adverse weather conditions may also have influence on productivity of the crop and consequent reduction of the gross yield.

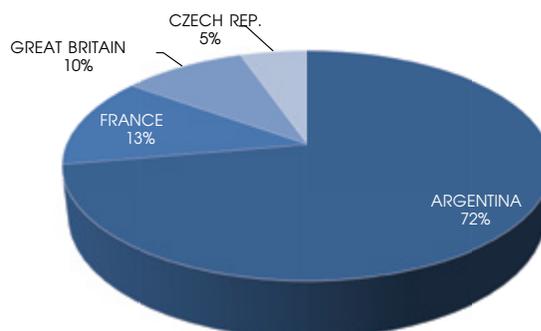
## Harvested areas, yield and gross harvest of malt barley in Ukraine

Indicator	2010	2011	2012
Harvested area, thousand ha	225	210	200
Productivity, dt / ha	23,5	29,0	37,5
Gross harvest, thousand ha	530	610	750

Source: AgriSurvey

In 2013/14 we do not anticipate that reduction of sown areas will bring about any significant imbalances on the malt barley market. At the very least inventories of the last year will be able to compensate for the shortage. Besides, there is also an opportunity to import malt barley from Europe or Argentina, of which the latter in 2012 remarkably strengthened its position in the rating of global exporters of the crop. It was Argentinean barley that dominated import shipments of the crop to Ukraine in 2012.

## Malt barley import structure, 2012



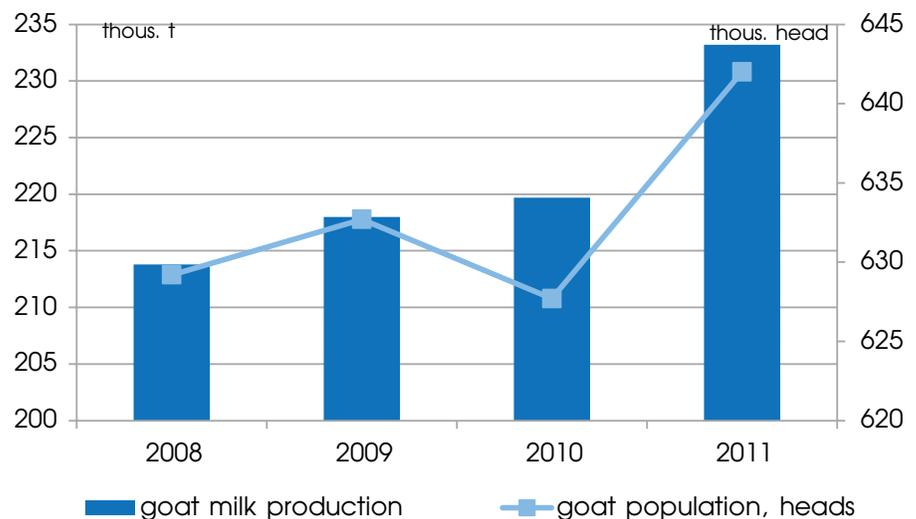
Source: State Statistics Service of Ukraine

In general, Ukrainian cultivation of malt barley will in the mid-term perspective focus on domestic consumers in terms of volumes as well as in terms of quality of barley for production of malt.

## Goat Milk

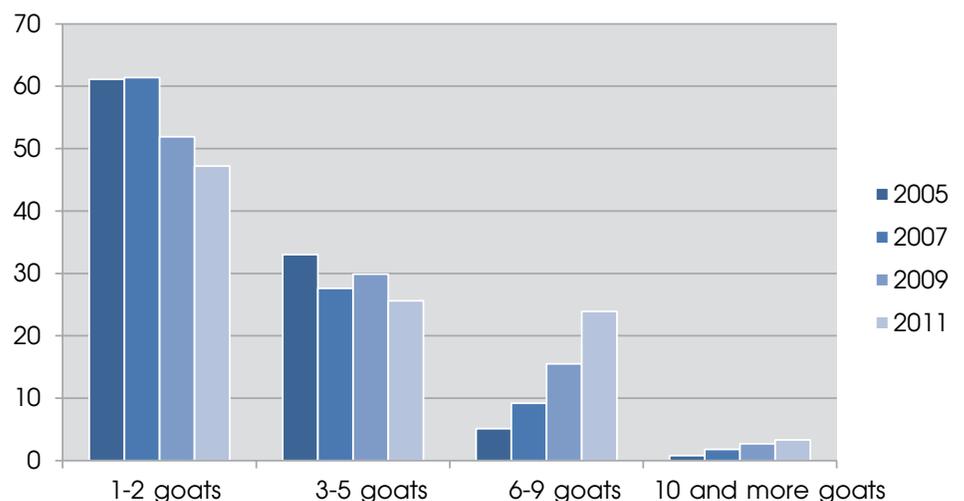
Against the background of stagnation of the market for products made of cow milk (despite improvement of milk production at agricultural enterprises in 2012, processors are still suffering from a large deficit of good quality milk) there are alternative directions of dairy farming emerging in Ukraine. For example, in the period 2008-2012 production of goat milk in Ukraine increased by 20 thousand t, and in 2012 it amounted to 234 thousand t. This upward trend is explained by the overall increase of goat population from 629 thousand to 643 thousand heads. Nowadays there are family farms specializing in goat milk production and having a goat herd of over 100 heads which may legitimately be attributed to commodity producers. They are not only producing goat milk but also performing its initial processing to products popular among consumers, first of all Bryndza cheese and soft cheeses.

## Goat milk production and goat population in Ukraine, 2008-2011



Source: AgriSurvey

## Goat population by groups of households keeping goats, 2005-2011, %



Source: AgriSurvey

Currently the share of agricultural enterprises and family farms which may be qualified as professional producers of goat milk makes up only 1%, in terms of output as well as in terms of goat population. A leading part is played by households. Moreover, this segment is undergoing significant structural transformations. It is in particular important to look at the fact that goat herds have grown in those households which own six and more heads, from 45 thousand in 2005 up to 175 thousand in 2011. Therefore a commodity segment in production of goat milk by households is being formed.

The major share of households involved in goat milk production (being the main group of producers) is found in the Eastern regions of Ukraine and also in Odessa Oblast. This fact is explained by, first of all, unpretentiousness of goats (compared with cows) in terms of feeding base (the latter being much "poorer" in the South and East of Ukraine than in the Center or up North); secondly, traditions of producing cow milk in the South and North are largely lost.

Beside modest needs in terms of management of goat, another incentive is a lack of professional processors of goat milk in the chain of goat milk supply which allows producers skimming the cream off this segment in the form of high profit margin. For example, at the end of 2012 profitability of goat milk production amounted to 180%, of Bryndza cheese 120%, feta cheese 100%, and cottage cheese 80%. These figures are exceeding even super profitable indicators observed in the USA and EU. For example, profitability of goat milk production in the US makes up about 43%, in the EU 63%.

On the other hand, there are serious barriers to the development of highly professional and technological production and processing of goat milk in Ukraine. The major obstacle is the end-consumer whose trust and confidence recently have been demonstrating a shift from industrial food products to "home-made", "healthy" and "organic" food. At that consumers often do not distinguish "home-made", "healthy" and "organic", and they are looking for such products mostly in farmers' shops or at marketplaces. So, of the total volume of products derived from goat milk only 8% are traded through the organized retail (supermarkets, hypermarkets and HoReCa). At that a large share of those products is falling on imported hard cheeses, while specific weight of whole-milk products is truly insignificant.

Thus an investor willing to start up and develop goat milk production shall think through the following issues: 1) whether it is feasible to invest into establishment of processing facilities which, on one hand, are capable of ironing out seasonal fluctuations of raw milk production and, on the other hand, may be left underutilized due to decline of consumers' trust in industrial products; 2) whether he is ready to invest not only in promotion of products made of goat milk, but also into an umbrella brand "goat", as long as sales through organized retail are still negligible; 3) whether he is prepared to accept the reduction of marginal profit in the mid-term perspective (price for raw goat milk in the USA is equal to UAH 8.8/l, in the EU UAH 7.42/l) under conditions of an externally unsaturated market against the background of a growing market share of households which, as it is well-known, seldom calculate their production costs.

## INVESTORS' VIEW ON UKRAINIAN AGRICULTURE SEGMENTS

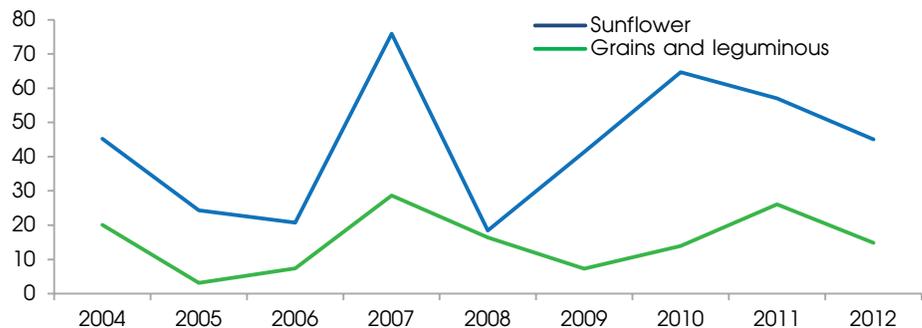
### Grains and oilseeds production

Nowadays investment opportunities in Ukraine remain attractive for international players, notwithstanding the negative performance of some earlier made investments in the sector and a currently existing risk of a non-favorable investment climate. The main reasons for that are the strategic position of Ukraine on global agricultural markets and significant growth potential of the local market.

In 2013 grains and oilseeds production remain the most attractive sphere for investments due to the following:

- High level of operating margins, which account for more than 25% on average and vary depending on type of the crop, weather conditions and efficiency of business;
- Relatively low level of required investments, between US\$ 1–2 thousand per hectare, enabling to reach average payback period of two to four years;
- Potential for further industry consolidation. As of now only 20% of arable lands in Ukraine are controlled by large holdings;
- Lower volatility compared to other segments of agriculture sector due to stable export demand.

Profitability of different crops in Ukraine, %



Source: State Statistics Service of Ukraine

We would indicate the following risks of this market segment considered by investors:

- Possible government intervention in export regulation, which may cause a downfall of local prices and complications in process of selling the agricultural products;
- Low quality of reporting and transparency of running business by Ukrainian companies. Due to recent negative issues with financial reports of some Ukrainian public companies, investors now tend to examine financial reports more carefully;
- Possibility of putting halt on fixed agricultural tax regime for Ukrainian agricultural producers, which would decrease profitability of local producers;
- Risks related to government regulation of Ukrainian land market. Despite the prolongation of the moratorium on land sale till 2016, a lack of consistency and transparency in government regulations is considered by investors as additional risk.

## Vegetable farming

When considering potential financing targets, investors tend to prefer large players, capable to continue competition for further market consolidation, thereby securing future growth of business. Own storage facilities will be an advantage, since it significantly reduces price volatility risks. Vertical integration to processing will be considered by investors as one more competitive edge ensuring higher overall profitability. Consistent growth in terms of financial and operational results in the past will also be considered as a positive factor.

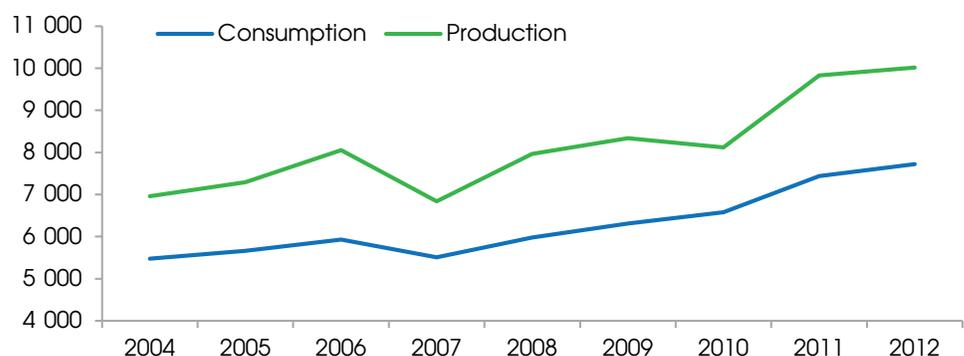
Today's investors are potentially interested in vegetable farming since their portfolios are already saturated with shares of Ukrainian companies engaged in growing grains and oilseeds. Vegetable farming might become a good alternative to grain and oilseeds farming due to:

- High fragmentation of the market, providing potential for further growth of larger players. Only app. 10% of the market are operated by large companies;
- Potential of high profit per hectare, considerably exceeding profits of grain farming. This enables creation of a large scale business based on a relatively small land bank;
- Relatively attractive payback period of four to six years;
- Lower sensitivity to weather risks if land is irrigated.

Like in any other sector, there are a number of risks associated with vegetable farming, inter alia:

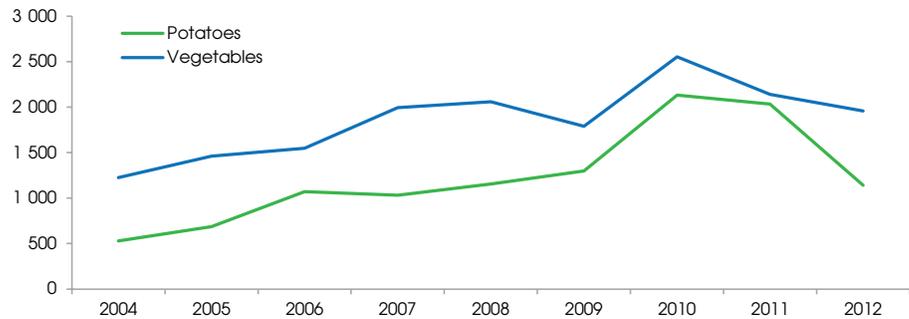
- Current size of potential targets is too small for most of the international players;
- Focus of vegetable farming on the local market, which is characterized by large spontaneity that leads to periodical crises of overproduction resulting in sharp drop of profitability and high price volatility. For example, in 2011-2012 the market faced an overproduction that forced farms to sell vegetables below their production costs;
- Government regulation aimed to restrain inflation rather than support vegetable producers.

### Production and consumption of vegetables in Ukraine (except potato), thsd tonnes



Source: State Statistics Service of Ukraine, Visum Capital calculation

### Price dynamics of main vegetable crops, UAH



Source: State Statistics Service of Ukraine

Similar to crop farming, potential investors will prefer the largest sector players, which are able to overcome crises of overproduction and ensure further growth of their market share, to smaller ones. Another important factor is own storage facilities and distribution channels, including contracts with retail chains, enabling to mitigate risks related to market price volatility. An additional advantage might be a vertical integration into vegetable processing, including washing and packaging, that enables to sell vegetables achieving higher margins.

### Livestock farming

Livestock farming including first of all poultry, pig and cattle breeding, may also become an alternative to crop farming from the viewpoint of potential investors. This is due to such factors as:

- Potential market growth thanks to increase in consumption. Today the average meat consumption per capita in Ukraine is 45 kg per year compared to 86 kg in EU;
- Possibility to have lower costs of production compared to European producers thanks to availability of cheaper feed, accounting for up to 80% of total production cost;
- Potential to create vertically integrated businesses capable to maintain higher margins.

However, similar to other segments there are certain investment risks related to livestock farming:

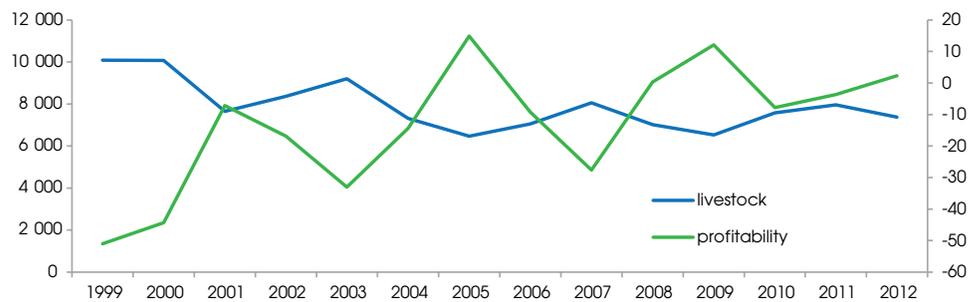
- Low purchasing power of Ukrainians restraining growth of the sector and profitability of producers. This results in processors' willingness to save on raw materials and switch to cheap and low quality import, thus decreasing local purchase prices;
- Consistently growing cost of production, that has negative impact on margins given the low selling prices limited by poor purchasing power of consumers;
- Risks related to cancelation of tax preferences for agricultural producers.

For an investor it's very important to differentiate between the companies engaged in sub-segments of livestock farming. As of now dominating sub-segments are represented by poultry (nearly 50% market share), pigs (over 30%) and cattle (up to 20%) breeding. Poultry production is highly consolidated with nearly 75% of market controlled by top-3 players. As a result investors will rarely consider

acquiring shares in small poultry producers due to risks of severe competition with market leaders.

Pig breeding is more attractive for potential investors than poultry because of substantial market fragmentation and opportunity to build up a vertically integrated company, maintaining the whole chain starting from feed crop farming and ending with slaughtering. Payback period of this segment is about five to seven years on average, provided there is a large scale production in place. In the last decade this segment observed considerable increase in number of industrial producers thanks to both local and foreign investments. Increase in their market share ensured growth of profitability despite low purchasing power of local consumers.

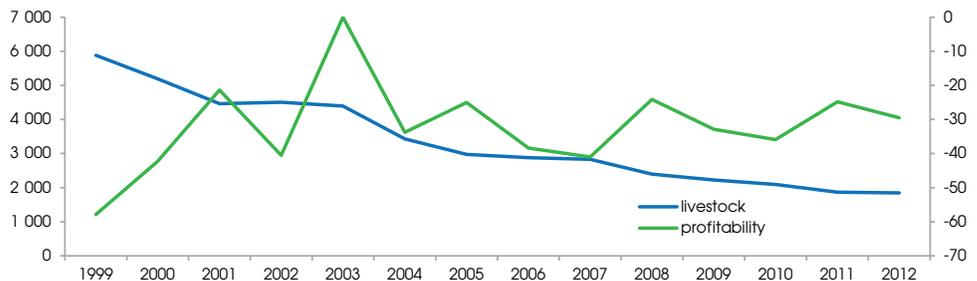
Big breeding profitability (right axis)  
compared to total livestock (left axis)



Source: State Statistics Service of Ukraine

Cattle breeding is the least attractive segment for potential investors since it provides substantially lower margins compared to poultry and pig breeding and a longer payback period, 8 to 12 years on average. Despite government subsidies, this sector might be interesting only to specialized investors who would be ready to invest under low return rates.

Cattle breeding profitability (right axis) compared  
to total cattle livestock excluding dairy cattle (left axis)



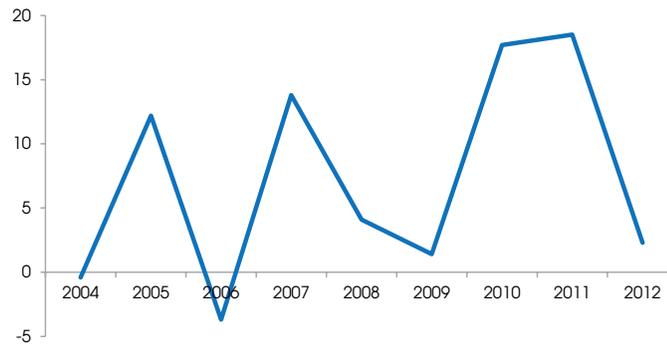
Source: State Statistics Service of Ukraine

## Dairy farms

Today milk production loses its positions in terms of investment attractiveness compared to other segments of agriculture. This is because of a lack of market stability, linked with significant volatility of milk purchase prices and increasing cost of production, two thirds of which constitute feed produced from grains and oilseeds. Besides, this segment is associated with the risk related with Russian protectionism policy (Russia is

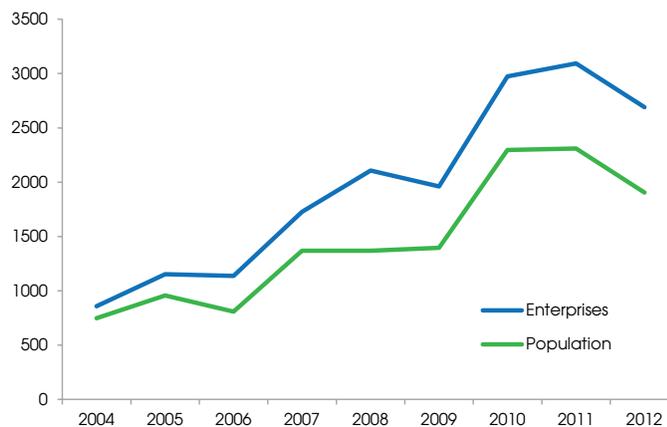
accountable for over 80% of Ukrainian cheese export). Notwithstanding the government subsidies, capital intensity of this sector is very high, which fact combined with low profitability and long payback period, nearly ten years, is transformed to a barrier for potential investors.

Historical profitability of dairy farms, %



Source: State Statistics Service of Ukraine

Milk price dynamics, UAH/t



Source: State Statistics Service of Ukraine

Among possible sources of capital for this segment there are specialized investors and international financial institutions, which strategic goal is to finance socially important fields (for example, EBRD).

### Conclusion

In conclusion we have to say that high quality Ukrainian companies operating in the agricultural sector still have an opportunity to attract foreign capital. Though successful IPO on international exchanges seems to be unlikely in 2013, there are still some other possibilities to attract capital, for example, by concluding a deal with a private equity fund, attracting equity and/or debt financing from international financial institutions represented in Ukraine (EBRD and IFC), co-operating with a strategic investor or attracting a trade credit line.

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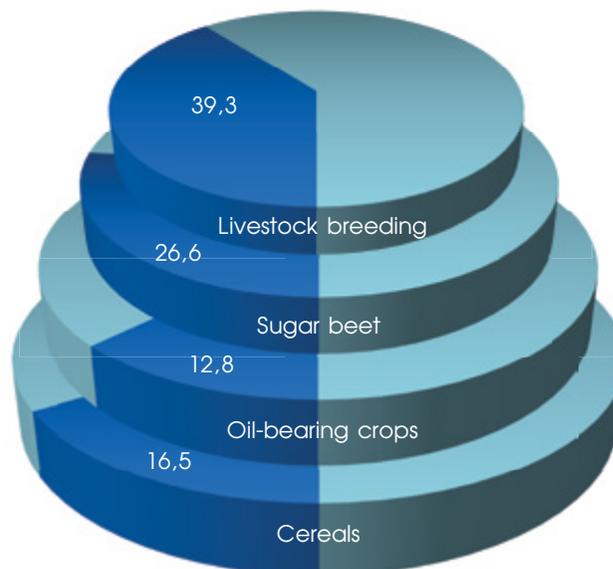
## ABOUT UCAB

Ukrainian Agribusiness Club (UCAB) is a business association which represents the interests of major companies of the Ukrainian agri-food sector. In 2012, the importance of UCAB was confirmed by the affiliation of several companies from the Ukrainian financial sector with UCAB, aimed at development of cooperation with companies of the agricultural sector.

The five-year anniversary of UCAB, which took place in 2012, was marked by membership of the majority of large companies of the agri-food sector in Ukraine, and the further strengthening of the international image of the Association.

Agricultural enterprises — members of Ukrainian Agribusiness Club and those who actively cooperate with us — cover the entire agricultural sector of Ukraine and in most cases hold leading positions in their respective direction. They cultivate more than 4.6 million hectares of farmland, making up 22% of the total lands cultivated by agricultural enterprises. Our activities cover the main sectors of the agri-food industry, including input supply, production and processing of finished food products.

Share of UCAB members and partners  
in agricultural production of Ukraine



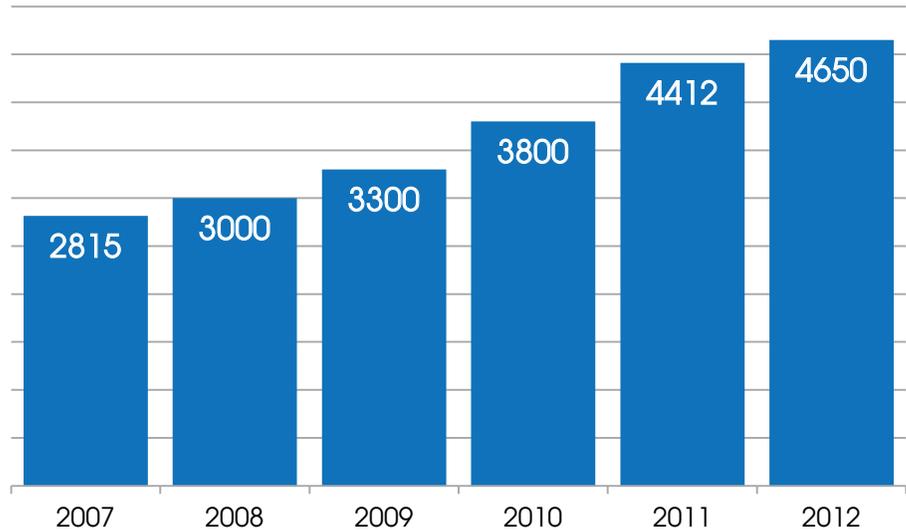
A highly qualified team and a focus on the most important issues for Ukrainian agribusiness give UCAB the opportunity not only to represent the interests of the industry efficiently, but also to provide a solid foundation for further development. New projects of the Association, such as “UCAB AgriSchool”, which started in 2012, meet the most critical needs of the industry.

The aim of our work is to promote efficient agribusiness in Ukraine and refers to all of its processes, from recruitment and search of



investment opportunities, up to practical tasks such as the increase of agricultural companies' efficiency, and the development of proposals on improvement of agricultural policy in Ukraine.

Increase in land bank of UCAB members and partners



**UCAB's strategic task** is to comprehensively assist agricultural and resource companies in their further development with the objective to realize the full potential of Ukrainian agri-food sector.

**The main priorities of UCAB are:**

- Assistance in communication with state authorities, including lobbying activities.
- Establishment of communication on the B2B level in Ukraine and abroad.
- A full range of services to companies of the agribusiness sector.

The work of UCAB includes both standardized approaches (membership, multi-client studies, conferences etc.), as well as individual ways of cooperation with partners when necessary. Membership in the association "Ukrainian Agribusiness Club" gives companies unquestionable benefits, from provision with information and knowledge to assistance in solving many practical questions.

UCAB SERVICES  
AND PROJECTS

UCAB activities aim at the improvement of social, economic and political conditions for a better functioning of the agri-food sector. They include political lobbying as well as a complete set of services, like market surveys, comparative analysis of production efficiency, search, selection and professional training of personnel, event organization etc.

**AgriLobby**

Representing interests of national agribusiness before national and local authorities, participating in preparation and promotion of national programs and projects, state standards in the field of agriculture, analysis of draft laws and draft by-laws.

**Volodymyr Lapa, UCAB Director General,  
AgriLobby Project Coordinator  
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**AgriEfficiency**

The project aims at improvement of efficiency and profitability of agricultural enterprises in Ukraine. Its latest publication is "Agricultural Practice", which comprises visualized descriptions of applied agricultural technologies (technological maps) of successful agricultural enterprises in Ukraine for production of major crops.

**Roman Slaston, Expert on Agricultural Markets,  
AgriEfficiency Project Coordinator  
slaston@agribusiness.kiev.ua**

**AgriEvent**

The event agency offers a full range of services for the organization of business, corporate and private events, including search, selection and renting of premises, transport services, catering etc.

**AgriTravel**

The agency works in the field of high-level business tourism. It organizes individual and group tours to Ukraine and abroad, including individual programs according to the client's wishes and requirements.

**Anatoliy Tsyrukun,  
AgriEvent & AgriTravel Agencies Director  
info@agrievent.com.ua**



### AgriJob

The recruiting agency provides services in the field of search and selection of personnel for all sectors of agri-food industry in Ukraine, Russia and European countries.

---

**Eleanora Evchenko,**  
**AgriJob Agency Director**  
**evchenko@agrijob.com.ua**



### AgriLink

This project focuses on building links between the agricultural communities in Ukraine and abroad. It provides information and advice to foreign companies that are going to start agribusiness in Ukraine, assists in the search for business partners or other useful contacts in politics, administration and business.

---

**Karen Fisher, Deputy Director General**  
**on International Relations, AgriLink Project Coordinator**  
**fisher@agribusiness.kiev.ua**



### AgriSchool

This project aims at raising the qualification of agricultural specialists in the main directions of agricultural production through obtainment of theoretical knowledge and improvement of practical skills.

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### AgriSurvey

The agency provides a full range of multi-client and individual marketing research for key players in agricultural and related sectors of Ukraine. The agency conducts both qualitative and quantitative marketing research, including in-depth and expert interviews, telephone and personal interviews, surveys and data analysis using different methods.

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*Bringing the world to Ukraine and Ukraine to the world!*

## OUR SERVICES

- organization of business trips in Ukraine and abroad
- individual and corporate agricultural tours
- business trips to international exhibitions and conferences
- organization of conferences, seminars, B2B meetings
- trade missions to Ukraine
- support of official delegations
- motivational trips and incentive tours
- VIP-tours
- cultural, food and village tours
- weekend tours
- flight booking
- visa support
- accommodation
- transport
- translation



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# Committed to those linked to the land

John Deere is one of the largest manufacturers of agricultural machinery in the world. The company is also a manufacturer of construction and forestry equipment, as well as manufactures equipment used in lawn, grounds, and turf care.

**Core values.** Integrity, quality, commitment and innovation it is not only the ideal which strives John Deere for, it is a part of life for John Deere.

**Success strategy.** For those who work at the land and harvests. For those who have changed and enriched the land. For those who are building on the ground. The company's activities focus on agricultural success.



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