

ORGANIC AGRICULTURAL PRODUCTS MARKET IN UKRAINE: CURRENT SITUATION AND FUTURE DEVELOPMENT

Liudmyla Artemenko¹, Iryna Nahorniak²

¹Ternopil Ivan Puluj National Technical University, Ukraine, Lartemen1@gmail.com

²Ternopil Ivan Puluj National Technical University, Ukraine, nahornyak@gmail.com

Abstract

Modern global science that is based on successful experience of organic operation is certain that this is the way to create conditions to ensure integrated sustainability in line with the concept of balanced development. This model is a combination of best practices in terms of environmental preservation, soils restoration, rural areas development and promoting harmony between human and nature. Ukraine has certain competitive advantages for production of organic produce such as geographic location, rich soils, human capital, proximity to potential international buyers – all these factors show importance of development of the strategy for the development of the national agro-production market.

The goal of this research is to emphasize the peculiarities of the current status of the domestic organic produce market as well as perspectives for its improvement. Problematic aspects, including major destructive elements that slow down customer demand for healthy produce have been determined. Major focus of the research is to review main approaches to how the government can support, motivate and regulate market stakeholders to ensure development of this lucrative niche of the Ukraine economy. The research analysis has shown the importance for the cooperation algorithm between state and private organization as well as community groups working in organic sector, in line with international standards, to ensure food security. As a result of transformation of the traditional farming into organic practices such area can become a real driver, create momentum for other related industries. Besides, it can provide consumers with quality and healthy food products, increase competitiveness for agricultural produce and improve image of the country on international stage.

Keywords: organic agricultural production; government regulation; motivation.

INTRODUCTION

Economic efficiency, ecological safety and social justice have been recognized as the criteria of the newest civilization concept implementation. Namely the model of organic products manufacture coordinates its three components: the economic component (increasing the competitiveness of products, reducing manufacturing expenditures because of the chemicals use refusal), ecological (improving soil structure, reducing pollution of water sources and atmospheric air) and social aspect (creating an eco-image of the enterprise, increasing the viability of rural communities, the level and quality of life of the population). Scientists of O. O. Bogomolets National Medical University have certified that the health of a child in Ukraine is 50% dependent on nutrition, 10% - on treatment, and 20% - on genetics and living conditions [1]. Organic products manufacture opens a new niche for Ukrainian farmers, which is of particular topicality. Market of agro organics is a functional unit that provides food safety of the country. Therefore, there is a need to characterize current trends and achievements, identify the problematic aspects of the organic market. This substantiates the topicality of this study.

What explains the great attention and the increased interest in consuming organic products? In our opinion, the dynamic process is caused by:

- first of all, the availability of a resource base. In European countries, 23% of all
 - organic world agricultural lands is centered. Ukraine is ranked 20th in the world and 11th in Europe in the total area of lands certified as organic; 7th place in the world among the countries-manufacturers of organic cereals, 5th – for oilseeds, 7th – for legumes and fruits [2];
 - secondly, the need to harmonize the processes of providing the population with safe and qualitative products while preserving the environment;
 - thirdly, in economically developed countries, the concept of a healthy diet is being promoted, and there is an increasing concern of governments that is aimed at improving the health of the nation and extending life expectancy. Financially viable consumers are becoming more demanding to ensure the guarantees of their products cleanliness. As a result, such nutrition has taken the form of a peculiar “philosophy of life”;
 - fourthly, the manufacturers are provided with a diversified state financial support. Organic agriculture programs, and therefore some support of ecology, are not subject to budgetary financing constraints in accordance with WTO principles.

RESEARCH RESULTS AND DISCUSSION

Let us outline the obtained results of the studied area. The agrarian sector is a traditional branch of Ukraine's specialization and has always been regarded as one of the locomotives of the national economy development. Therefore, the transition to organic standards is positioned as one of the future vectors for improving the state's competitiveness. The main competitive advantages of the domestic manufacturers of agricultural products are: fertile soils, proximity to international markets, transport network, labour potential, high level of land resources provision.

The first certified farms in Ukraine were created on the initiative of foreign companies, which incurred such expenditures and exported the grown products abroad in the form of raw materials. Back in 1997, the first agreement between the governments of Ukraine and Switzerland on technical and financial cooperation in the development of organic projects was signed. The first organic products of Ukrainian manufacture appeared on the supermarket shelves only in 2007; and in 2009 they were for the first time presented at the International Exhibition in Nuremberg (Germany). Only since 2015 the organic market has been integrated into a Single Integrated Strategy of the agriculture and rural territories development for 2015-2020. The Law «On manufacture and turnover of organic agricultural products and raw materials» was subsequently adopted. The positive point of such legislative documents is that the formation of a regulatory framework in this area has begun. There are joint projects with Switzerland, Germany, Austria, Canada, and Poland. There is a system of organic products certification, which is carried out by a specialized body «Organic Standard». It was created within the framework of the Ukrainian-Swiss project according to the international standards. Some state support to farms as interest-free loans up to 500 thousand UAH for 5 years is envisaged. As a result of decentralization, some regions have begun to lay money in local budgets to partially offset the cost of organic certification.

In August 2019 the Law of Ukraine «On basic principles and requirements for organic manufacture, circulation and labeling of organic products» entered into force. Our country has become the 93rd country in the world, where such a law is applied. It envisages the introduction of a single state logo, which consists of a graphic representation of two intersecting circles, forming a figure in the form of a leaf of a plant with the inscription «organic product». This means a content of at least 95% of organic ingredients; the manufacturers will be added to the new State Register of Operators. The use of this term will only apply to certified manufacture activities at all stages of the technological process (collection, processing and operations related to changes in products status). The prerogative of organic products is the refusal of pesticides, preservatives, artificial colours, genetically modified organisms (GMOs) use. That is, the law sets out the basic requirements for organic agriculture, the responsibility for the deception of the consumer by the manufacturers and the guarantee of his/her rights protection. The products with such markers as: «eco», «bio», «natural» will be withdrawn from sale.

An important step in the expansion of new initiative ideas is the creation of a sufficiently extensive system of public organizations engaged in the promotion of safe products. Among them: the Federation of Organic Movement of Ukraine, the Association "BioLan Ukraine", the «Naturproduct» Union of Organic Farmers, the «Ukrainian Organic Cluster» Public Association. The «Organic Basket» project, which started in late 2015, opens new opportunities for expanding consumption of safe products, where Ternopil region is represented by such companies as Lysonia Bio (dairy) and Living Land Potutory (herbal teas, spicy herbs and spices). Organic apiaries, truffle harvesting, cultivation of watermelons, sea buckthorn, manufacture of sulguni and brynza can serve as modern achievements.

According to the «Organic Standard» data, as of March 2019, there are 617 organic operators in Ukraine, most of which are certified in the crop sector. Beekeeping is the leader in livestock section, with 167 operators in the export direction [3], which is driven by the growing demand for organic traders. In total, more than 400 organic products are manufactured in Ukraine. The oldest one is the Ukrainian-Swiss company «EthnoProduct», which was founded in 2008. It is engaged in a complete processing cycle and supplies a finished certified product, such as cheese and milk, sour cream, kefir, yogurt, butter, honey, meat, sausages, vegetables, as well as cereals and legumes. Also on the domestic market is another Ukrainian-Swiss project – the «GALEX-AGRO» company, which has a vertical structure (from agriculture to dairy and meat products manufacture). It owns a dairy plant with a capacity of 30 tons per day, and also cultivates 8.5 ha of green lands. TM «Ekorod» is an enterprise, which for several years has been one of the top eco-manufacturers with high achievements not only in Ukraine but also in Poland. Confirmation of this fact was the recognition of cold pressed sunflower oil as the best organic product of Eastern Europe in 2013. Let us present in Table 1 the largest manufacturers of organic products.

Table 1. Ten Ukrainian organic manufacturers

No	Trade mark	Specialization
1.	World Bio («Lybid-K»)	Eggs, goat's milk, vegetables
2.	«Golden Parmen»	Direct squeeze juices
3.	«Kasper»	Sunflower, flaxseed, rapeseed cold pressed oil
4.	«Ecorod»	Flour, oatmeal, buckwheat, millet, semolina, beans, watermelons, oil
5.	«LiQberry»	Organic berry paste
6.	«Organic Milk», «Organic Meat»	Milk, honey, meat
7.	«Liluck»	Birch sap
8.	«Ethnoproduct»	Meat and milk
9.	«Skyvrianka»	Buckwheat, oatmeal, corn grits, flour and flakes
10.	«Molfar»	Herbal teas

Source: [4]

Despite the current progress in the development of such a segment of the agrarian sector, there is a number of factors that hinder the realization of Ukraine's large-scale potential, namely:

- incompleteness of the land reform and lack of a transparent civilized agricultural land market;
- excessive concentration of the leased lands in agro-holdings that favour intensive technologies and have a powerful lobby in the executive power;
- low level of infrastructure development, including storage of organic products, certified sites of raw materials processing, transportation and sale;
- lack of effective control of the executive power;
- lack of an effective cross-sectoral link between crop and animal husbandry, primarily from the position of an organic fertilizer supplier;
- low technological culture of agricultural manufacture.

The specificity of the formation of the organic agri-food market of Ukraine is the dominance of export orientation (more than 90% of the manufactured products). The demand for such products is emerging in countries that have reached a certain level of economic development. In addition, there is a stratum of population that not only believes in the value of such a diet for the human body, but can afford to pay a higher price for ecological cleanliness. In Ukraine consumption of organic products per capita is only 0.5 euro; for example, in Switzerland – 274 euros, and in EU countries - 40 euros. Consumer priorities of Ukrainian citizens lie in the low standard of living, so internal consumption remains at a rather low level. Potential domestic consumers of organic products are about 5% of the population of large and about 1-2% of the average cities of Ukraine. The largest share is in the city of Kyiv (about 25%), about 10% - in the regional centers [5], the rural population focuses on their land plots.

So, it is concluded that the insignificant volumes of healthy products purchase is explained by the fact that:

- the domestic information space, on the contrary, actively advertises and persuades the population to consume useless and "unhealthy" products such as chips, crunches, burgers, sweets, sausages, sweet sparkling water;

- since organic products imply an increase in the price premium by 40-60%, therefore, only if the level of remuneration is increased, a motivational mechanism of internal demand is formed;

- the development of the organic sector requires a considerable financial support from investors and public institutions.

According to foreign experience, there is a close correlation between the level of organic manufacture development and the amount of state support. Such business requires high initial investments that is primarily a limiting factor in Ukraine (according to «Organic Business School» calculations, a greenhouse of 10 ares can yield a profitability of 50% and pay off in 1.5-2 years, although the cost of its construction reaches about 1 million US dollars per 1 hectare) [6]. One of the prerequisites for establishing the conformity of products manufacture with the requirements of the organic manufacture legislation is the certification procedure, the cost of which is quite high. In Ukraine in 2018, it amounted from 30 to 120 thousand UAH. In this regard, it is necessary for the state to assume the role of a moderator in giving preferences to economic entities. The key measures to be implemented at a state level in Ukraine can be considered: budget subsidies (including for conversion and certification), reduction of interest rates on investment loans, tax benefits, grant financing for young entrepreneurs for innovative projects. Organic manufacture is not only much more expensive, but also more technologically complex than a traditional manufacture. Therefore, it requires a strong consulting support. Other available instruments and levers of state influence should also be used, such as: to use a mechanism of land monitoring, to standardize the norms of assessment of the natural resources quality, to ensure effective control over compliance with phytosanitary standards. In addition, it is important to systematically and promptly monitor the emergence of problems of such agricultural sector formation.

One of the leading roles in the strategy of the organic agro-food market development is given to the internal infrastructure, which currently remains a weak spot, so it would be advisable to create specialized shops, proper logistic channels, dealer companies and service centers. That is, the state should create conditions for the manufacturer to have an incentive and desire to feed the population with qualitative, tasty and safe products. It is necessary to stimulate internal consumer demand by:

- conducting an educational promotional campaign aimed at forming consumer awareness and public knowledgeability of the benefits of organic products (advertising events and promotions, exhibitions, festivals, tasting fairs, round tables) with simultaneous monitoring of the realization conditions;

- promotion of such trademarks as the «Family Welfare» (organic vegetables, greens and salads), «BIOFARM ORGANIC» (organic honey based pastes, nuts and honey bars, protein supplements of hemp kernels), «Rud» (organic ice cream);

- introduction of state orders of organic products for the purpose of solving social issues (supply of eco-products to school canteens, kindergartens and establishments: medical, resort, catering).

CONCLUSION

Summing up, it can be stated that the organic manufacture method can be considered as a set of smart and innovative farming technologies, efficient food chains, which are based on the principles that support small farms and regional territories. The studied direction of economic management can be a real driver, give impetus to the development of other related industries, and Ukraine has to take positions of an important player in the world agricultural market.

However, the formation of a proper full-fledged segment of the domestic food market needs to be resolved. It is that the economy can produce the necessary amount of high quality products, but consumers are unable to meet the demand for such products. It can be eliminated only through the introduction of state compensation instruments with a simultaneous increase in the level of remuneration. Only in such conditions the vector in the direction of both demand and supply will increase. That is, the key position of the motivational process is to establish the entire communication chain – from the manufacturer to the buyer.

Ecologization of agricultural manufacture provides an integral, fair and far-sighted approach, and is a factor of integration of social, economic and ecological goals. Efficiency of organic industry broadening will trigger multiplicative effect in providing consumers with quality and eco-safe certified food products without harming environment that will finally increase level of food safety.

We share the opinion of L. Hryniv, that the greatest effective output in the long term period the agroecosystem can provide only under the conditions of organic farming, since then it functions in a closed cycle, and therefore, there is an increase in the energy budget of the Earth nature [7, p.11].

The identified problems depend on factors of different levels and directions of action. Adaptation of leading foreign experience may be appropriate in building a personal multifunctional model of state regulation aimed at motivating business entities. This will create a favorable environment for economic growth, improving the quality of the population's life while enhancing the environment at the same time.

REFERENCE

1. O. O. Bogomolets National Medical University (2017) [Online]. – Available at: <http://nmu.ua>
2. Ukraine ranks 11th in the ranking of European organic manufacturers (2018) [Online]. – Available at: <https://superagronom.com/news/5701-u-reytingu-yevropeyskih-virobnikov-organiki-ukrayina-posidaye-11-mistse>
3. O. Korol (2019). Ukraine Horticulture Business Development Project (UHBDP) [Online]. – Available at: <https://uhbdp.org.ua/news/project-news/1892-v-ukraini-vzhe-617-operatoriv-orhanichnoho-vyrobnystva-i-popyt-na-orhanichnu-produktsiiu-strimko-zrostaie>
4. O. Pyrozhok (2019). Who manufactures real organic products in Ukraine [Online]. – Available at: <https://www.epravda.com.ua/publications/2019/04/3/646613/>
5. Official website of the Ministry of Agrarian Policy and Food Ukraine (2017) [Online]. – Available at: <http://minagro.gov.ua/>
6. Ukrainian Organic Business Directory (2014). [Online]. – Available at: https://ukraine.fibl.org/fileadmin/documents-ukraine/UKRAINE_ORGANIC_BUSINESS_DIRECTORY_part1.pdf
7. Hryniv, L. S. (2016). *Physical economies: new models of consistent development*, Liga-press, Lviv, Ukraine.