

Название: The influence of European integration on changing the focus of agrarian policy of Ukraine: increasing the competitiveness (Вплив євроінтеграції на зміну фокуса аграрної політики України: підвищення її конкурентоспроможності)

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Ключевые слова: Agrarian Policy, Common Agrarian Policy of European Union, "Green Box", "Yellow box", European Integration (аграрна політика, Спільна аграрна політика Європейського Союзу, "зелена скринька", "жовта скринька", європейська інтеграція)

Дата публикации:

Краткий обзор (реферат): In this articles base factors of development of agrarian policy of Ukraine in connection of its membership in WTO and European integration are studied. Bases of Common Agrarian Policy of European Union and possibility of their application in the agrarian policy of Ukraine are analyzed there. Problems of budget financing as a component of a state adjusting of agrarian sector of Ukraine are examined. Measures to optimize the structure of state support for agriculture as a factor that will increase the competitiveness of the state have been proposed in this article.

(Розглянуто базові чинники розбудови аграрної політики України в умовах її членства в СОТ та європейської інтеграції. Проаналізовано засади Спільної аграрної політики Європейського Союзу та можливості її впровадження в аграрній політиці України. Розглянуто проблеми бюджетного фінансування в системі державного регулювання аграрного сектору. Запропоновано заходи щодо оптимізації структури державної підтримки сільського господарства як чинник, що забезпечить підвищення конкурентоспроможності держави).

Описание: Єдина Європа: Погляд у майбутнє [Текст]: моногр. = United Europe: Future prospects: monograph / ДВНЗ "Національний гірничий університет", Дніпропетровськ; Вища банківська школа, Вроцлав; за ред. О.І. Амоші. - Д.: Національний гірничий університет, 2013. - 286 с. - Текст англ. - Бібліогр. в кінці розділів.

URI:

Располагается в коллекциях:

THE INFLUENCE OF EUROPEAN INTEGRATION ON CHANGING THE FOCUS OF AGRARIAN POLICY OF UKRAINE: INCREASING THE COMPETITIVENESS

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In this articles base factors of development of agrarian policy of Ukraine in connection of its membership in WTO and European integration are studied. Bases of Common Agrarian Policy of European Union and possibility of their application in the agrarian policy of Ukraine are analyzed there. Problems of budget financing as a component of a state adjusting of agrarian sector of Ukraine are examined. Measures to optimize the structure of state support for agriculture as a factor that will increase the competitiveness of the state have been proposed in this article.

Keywords: Agrarian Policy, Common Agrarian Policy of European Union, "Green Box", "Yellow box", European Integration.

INTRODUCTION

Agriculture is one of the priority sectors of the national economy of Ukraine. Development of the agricultural sector contributes to the financial well-being, strengthen economic and food security, increase its export capacity and competitiveness among other countries.

The agrarian sector (agriculture, food and processing industry) provides food safety and food independence of country; forms 8% gross domestic product (for 2009) and about 60% of population consumption fund. In addition, an agrarian sector is one of major budget-making sectors of national economy, which takes in the consolidated budget of Ukraine in the last few years presents 8 - 9%, and it is the second largest economic sectors in the commodity structure of exports.

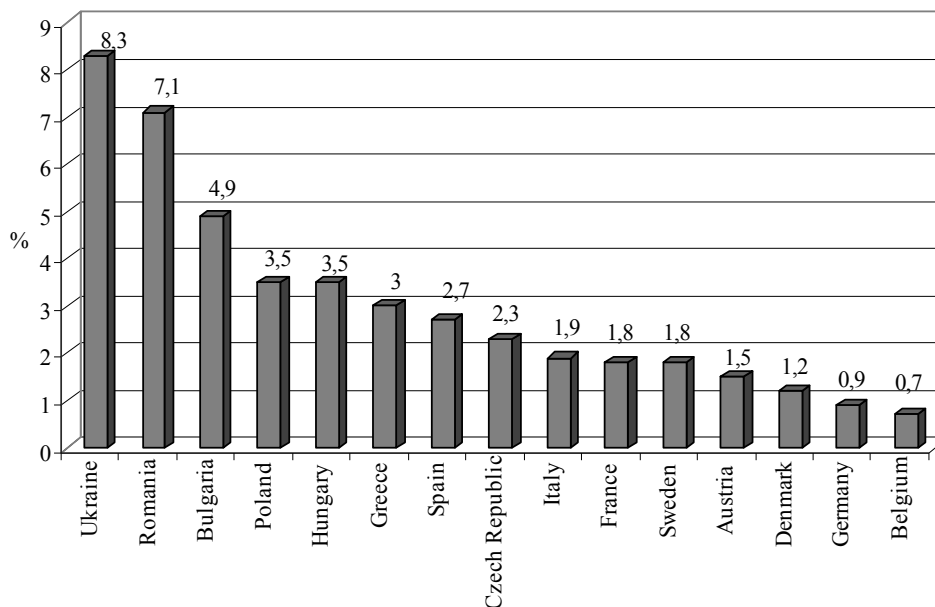


Fig. 1 - A contribution of agriculture in general GDP of Ukraine and European Union countries in 2011 year.

Source: The Official site of the World bank (www.worldbank.org)

As shown in Figure 1, the contribution of agriculture in the GDP of Ukraine in comparison with some European Union countries is rather high. This special role of agriculture in the socio-

economic life caused by a unique combination of favorable climatic conditions, geostrategic location and Ukraine's ability to occupy an important place in the international food market [1].

About 11% of agricultural enterprises are unprofitable at the present stage of development of Ukraine (Fig. 2).

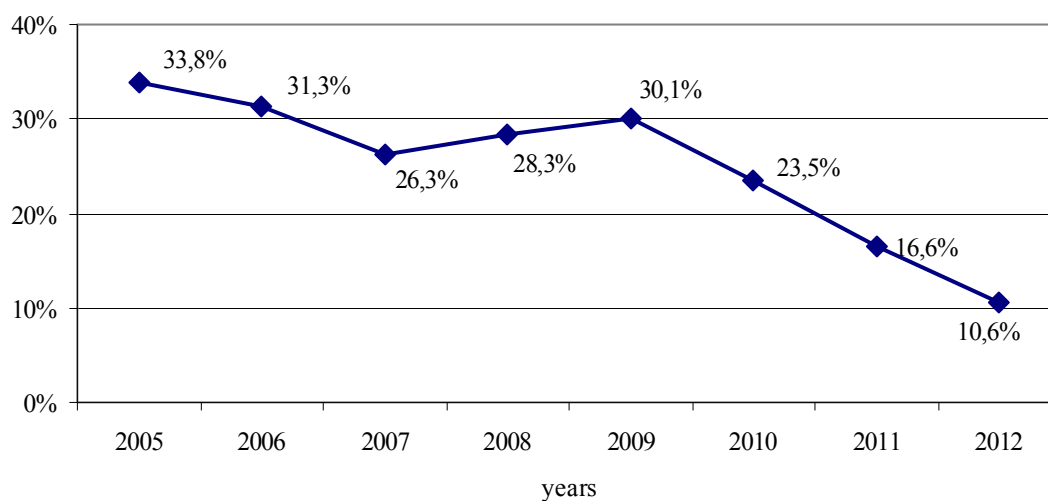


Fig.2 - The dynamics of unprofitableness of agricultural enterprises of Ukraine in 2005-2012 years

Source: Statistical annual of Ukraine for 2012 (www.ukrstat.gov.ua)

Figure 2 shows that the reduction in share of unprofitable enterprises started in 2010, which, in our opinion, is the result of Ukraine's accession to the WTO and the start of implementation of the New Agricultural Policy.

Based on these data, we can conclude that Ukraine needs to implement New Agricultural Policy, which must be export- and integrative-oriented. It has to be adapted to the Common Agrarian Policy of European Union (hereinafter - the CAP EU), which is the special system of state support and regulation of agriculture, which determines the character of development of this sector. Introducing of such system in Ukraine is a prerequisite for ensuring the competitiveness of domestic agricultural sector in the European market, and to ensure an appropriate level of competitiveness of Ukraine as a whole.

The aim of this research is to determine the influence of European integration on changing the focus of Agrarian Policy of Ukraine and identify measures to optimize the structure of state support for agriculture as a factor that would increase the country's competitiveness.

1. COMMON AGRARIAN POLICY OF THE EUROPEAN UNION AS A SPECIAL SYSTEM OF STATE SUPPORT AND REGULATION OF AGRICULTURE

The system of state support and regulation in Ukraine is still very undeveloped compared to European standards. An interconnection between the aims of policy and expenses of budget is absent. Formally, the budget is based on the medium-term prognoses of socio-economic development and it is represented in directions of budget policy. Therefore, determination of sum of agrarian sector budget expenses is not quite transparent, that requires the further improvement of structure of expenses in accordance with international standards. In addition, support to agriculture in Ukraine is provided by direct budget subsidies, tax deductions and high import quotas. Such government support is still remains unsatisfactory. A modern agribusiness needs stable, consistent and sustained policy to be able to make right management and investments decisions. Unstable

political environment also reinforces uncertainty and reduces the efficiency of the agricultural economy sector.

Two priority directions of a new agrarian policy are obvious in the nearest future:

- ◆ improvement of budget support of the agricultural;
- ◆ improvement of the price policy which would restore price parity and provide positive support of agricultural manufacturers.

In both areas, the system of agriculture state support must be improved in direction of bringing it into compliance with WTO and new EU Common agrarian policy standards. At the present stage of development, Ukraine copied so-called "old" CAP EU model, whose essence is in the formal support of producer. This model of agrarian policy of the EU was aimed at supporting prices and production, but it did not stimulate the business struggle between manufacturers and destabilize fiscal standards of EU which led to intergovernmental trade conflicts. In addition, it is known that "old" common Agrarian Policy of the European Union was extremely ineffective, harmed to the environment, resulted in trade conflicts.

However, by entering to WTO (May 2008), Ukraine had achieved a unique chance to understand the new direction, in which is developing the CAP of EU and agrarian policies in other countries, and to work out a new effective agrarian policy, which will be aimed at improving the welfare of the rural population and stimulating private investments and budgetary subsidies in agriculture, improving the competitiveness of agricultural products.

During its approval (since the Rome Agreement in 1956) Common Agrarian Policy of the European Union reformed gradually, according to changes in economics within and outside of the Union, but it was always focused on development of competitive agriculture in countries, whose main task was the gradual strengthening of requirements to her safety for a man and defense of natural environment.

Each stage of the CAP inherent disadvantages which in time pushed the need for reform.

The first phase of CAP reform was implemented in the period from 1983 to 1991 and basics of the reform were the following principles:

- ◆ establishment of limit of production for particular products to each farmer. If the farmer exaggerated this quota, he could not sell this surplus for a guaranteed price;
- ◆ products with large reserves purchased at lower prices than before;
- ◆ reduction of import of agrarian products from the third countries.

The second phase of CAP reform (1991-1999 years) was aimed at increasing the competitiveness of farmers, the balance between demand and supply, supporting those farmers who really need it, and protecting the environment.

The main elements of the reform of this phase were: a further price-cutting of basic agricultural products, leading out farmers from the agricultural production of croplands, the transition from the system of supporting prices into supporting the incomes of farmers.

The third stage of CAP reform started in 1999 and lasted until 2003. According to the basic provisions of the reform at this stage, Union went across from indirect support of standard of prices through support of incomes of farmers to direct payments on the hectare of particular crop. Directing efforts to solve the problems of environmental protection and improvement of food safety and agricultural raw materials was a major change that occurred in this period. But the analysis of this phase of the first three years showed that the new approaches to reforming the CAP are needed. Therefore in 2003 began the fourth stage of reform of agricultural policy, which operates today. At this stage the primary purposes of the Common Agrarian Policy of the European Union are:

- ◆ efficiency of agriculture on the basis of technical progress and rational organization of production;

- ◆ eliminate the gap in earnings of rural and urban population with equitable income farmers;
- ◆ stabilizing the domestic market of agricultural products by supplying food at reasonable prices;
- ◆ self-sustaining population of EU by the products of agriculture of own production.

Thus, the CAP EU, which postulates were first formulated more than 50 years ago, is constantly evolving. At the same time its main objectives is to ensure that agricultural production in the necessary volumes, enabling agricultural producers to function independently in the EU markets and the world, and ensure them a decent standard of living, remain actual at all times.

2. IMPROVEMENT BUDGET EXPENSES FOR AGRICULTURE

After joining the WTO agricultural policy support in Ukraine should be focused on effectiveness of budget support programs, clear definition of impact indicators of each budget program. Government decisions in the agrarian sector must take into account the requirements, which presented to Members of WTO because the organization imposes certain obligations on its members. Agreement on Agriculture, the GATT Uruguay Round, which is the main agreement of WTO, which regulates the obligation to its members on domestic support for agriculture, implements the classification of public policy [2]. Thus, in accordance with Annex 2 to this Agreement, all measures of state support for agriculture conventionally divided into three groups, or colored boxes: "green", "blue" and "yellow"(or "Amber").

"Yellow box" includes fiscal transfers, which stimulate production, affecting trade and suggest means of redistribution from consumers to producers. Such events are subject to reduction commitments after joining the WTO.

According to the agreement with WTO, the rate of aggregate measure of support (hereinafter - the AMS), which accumulates some programs of the "yellow box" for the agriculture of Ukraine shall not exceed 3,43 billion grn. Additional services could be spent on these programs up to 5% of annual monetary value of gross agricultural output [3].

At present time amount of "yellow box" support of Ukraine's state budget is much lower than the allowed amount of support. Thus, that the problem of limited support of agriculture according to the WTO "yellow box" programs is not actual for Ukraine because of very limited budget support for agriculture.

Ukrainian farmers are concerned about the WTO requirements to reduce the supporting the agriculture using "yellow box" programs. Their concerns is exonerated, because almost all state support to Ukrainian agriculture, due to which industry has evolved over the past ten years, belongs to "yellow box" programs, which must be reduced.

By the way, one of the results of negotiations between Ukraine and WTO is that certain time Ukraine is not obliged to reduce domestic support provided through the "yellow box". So after joining the WTO state support of agricultural through the "yellow box" programs won't be less than the support that was given to agriculture in recent years.

"Green box" - a state support programs that do not affect or minimally affect the production and trade. They are not intended to support volume production and producer prices, and therefore do not violate principles of fair competition. "Green box" measures financed from the State budget in any desired amount, depending on budget needs [4]. There is no any restrictions because of WTO obligations.

Public spending within the "green box" can be implemented in the following areas:

- ◆ research, training and retraining of personnel, information and advisory services;
- ◆ veterinary and phytosanitary measures, control of food safety;

- ◆ promoting the marketing of agricultural products including harvesting, processing and dissemination of market information;
- ◆ improvement of infrastructure (construction of roads, electricity and reclamation facilities) except of operating expenses for their maintenance;
- ◆ maintenance of strategic food reserves, domestic food aid;
- ◆ providing guaranteed income farmers, improving land use, etc.;
- ◆ supporting farmers' incomes, not related to the type and volume of production;
- ◆ promote the structural transformation of agricultural production;
- ◆ Environmental Protection;
- ◆ Regional Development Program.

The main criteria of "green box" program are the absence of price support to producers. While becoming member of the WTO, Ukraine has shown strong tendency to increase the proportion of "green box" programs in the structure of state support for agriculture (Fig. 3).

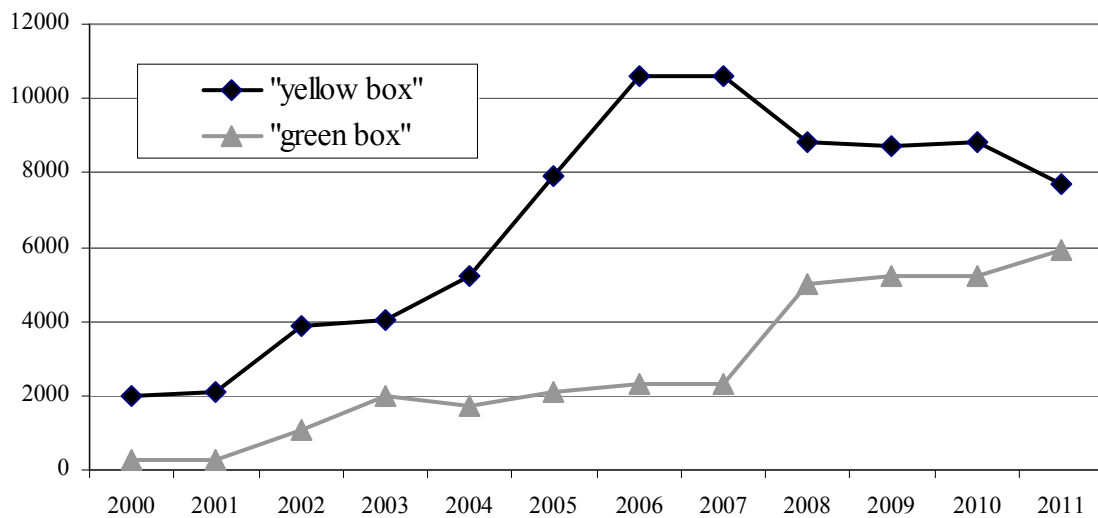


Fig.3 - Dynamics of state support level of agriculture in Ukraine (million grn.)

Source: Calculated by author based on an analysis of the literature [6, 10, 11].

The tendency of increasing support to agriculture through "green box" programs is characteristic for developed countries. In particular 2000 and 2005 the percentage of "green box" in the EU countries increased by 56%, in the U.S. - 26%, Australia - 53% [5].

Increase of contribution of "green box" in the structure of state support of agriculture of Ukraine means that gradually support will shift from budgetary support of farms into support of infrastructure development. As in Central and Eastern Europe, these trends will intensify in the course of European integration of Ukraine, for Rural Development in the EU are equally parity of agricultural policy along with support for agricultural producers.

None restrictions for direct payments from the budget included in the "blue box", since such transfers are paid to producers because of the production cuts. While joining the WTO, countries are obliged to reduce domestic agricultural support, if it meets the «de minimis» principle.

The most controversial issue in the negotiations with the WTO is an issue of poor classification indicators to divide "green / yellow box" programmes. As mentioned, these programs aimed at stimulating production and increasing profitability (lowering costs, support for product pricing, etc.) [4]. Classification of domestic spending budget does not fully meet the criteria set by countries with market economies and are reflected in the Agreement on Agriculture. Besides, the

non-transparent financing schemes makes almost impossible to evaluate the value of support. Development and implementation the "green box" new programs should become a definitive direction of government policy support. Instead, they are worst represented in the national budget. First of all, they are not yet widespread in Ukraine and, secondly, some of them are part of other budget expenses in the hidden form. For example, expenses on science and education in agriculture is presented not only under the costs of the Ministry of Agrarian Policy of Ukraine, but also in other sections of the budget.

Also, in the State Budget of Ukraine for 2010 by code 6590000 is shown financing of the Ukrainian Academy of Agrarian Sciences, while the remaining costs associated with the financing of education and science in agriculture are reflected in KPKVK 2801080, 2801180, 2801130. Using separate item in the budget expenses for comprehensive rural development, particularly in rural infrastructure (roads, utilities, reclamation facilities, etc.), services and more must be indicated. Also there is no transparently indicated costs of food safety programs, costs for promoting sales of agricultural products and providing information services . These costs are essential to the calculation of budget support according to the "green box".

Improvement of budget support for agricultural sector requires a gradual separation from supporting the production into focusing on overall development of rural areas. Benefits of budget support to rural development support of producers are:

- ◆ development of village infrastructure opens up new areas of employment of peasants: rural construction, municipal, domestic, social services, etc.;
- ◆ provides support for all farmers regardless of their ownership and management, specialization of production, market conditions;
- ◆ support high quality life of rural population in general, including agricultural workers, labor force industry to increase its skills, etc. [6].

And this concept of budget support for agriculture is already incorporated in our country. In adopted in 2005 Law of Ukraine "On fundamental principles of government agricultural policy until 2015" defined the main priorities of government agricultural policy, including:

- ◆ developing and implementing state and regional programs of integrated rural development;
- ◆ creating conditions for qualified agriculture, education, culture, health and consumer services;
- ◆ state support for the development of competitive agricultural production through cooperation and integration;
- ◆ creation of equal conditions for the different organizational forms in agriculture;
- ◆ implementation of modern mechanisms and methods of transparent market for agricultural products, foodstuffs, capital, particularly productive resources, and labor, creating favorable conditions for realization of export potential and several others.

Also, this law provided by 2015 the employment of rural working population not worth than that in the European Union and increasing rural incomes and average wages of workers of agriculture to a level not below average in other areas of the state economy [7].

Counteracting possible negative consequences for the rural population by facilitating access of imported goods on the domestic market of the country and possible benefits will support the financing and development of market and social infrastructure, service cooperatives, extension services and so on.

In addition to that the "yellow box" programs deforming the production, trade and consumption of agricultural products, there are other problems of government subsidies of agriculture in Ukraine:

- ◆ lack of long-term financial plan;
- ◆ under-funding of planned programs;
- ◆ a sub-optimal allocation of subsidies;

- ◆ reduction of the budget for certain programs [8].

Table 1
Government subsidies of agriculture, million grn.

	2007 year	2008 year	2009 year	2010 year	2011 year
Production subsidies (support measures of the "yellow box"), %	31,3	38,7	17,9	25,5	38,5
(1) Financial support for livestock and crop	2188,5	2368,0	369,3	2987,9	2130,0
(2) Support for horticulture, viticulture and hop	350,0	407,6	379,2	498,1	655,0
(3) Food reserve	12,6	15,2	120,9	205,4	234,4
(4) Share compensation lending rates	551,3	1021,3	373,8	621,6	531,4
(5) Financial support for farmers and cooperatives	131,6	97,1	2,6	30,0	10,0
(6) Support for construction of cattle farms	0	0	0	373,0	500,0
(7) Support for building greenhouses	0	0	0	0	50,0
Development expenditures (the support measures of the "green box"), %	56,0	54,8	71,9	66,5	57,7
(8) Rural development	27,8	50,6	44,9	23,9	16,5
(9) Research	240,9	324,1	228,5	256,9	357,1
(10) Education	1352,0	1999,8	2150,2	2651,6	2821,4
(11) Government stocks	67,6	17,6	0,9	1,1	5,0
(12) Plant quarantine	44,5	40,0	20,4	26,6	20,9
(13) Quality and food safety	861,2	1139,8	1197,5	1400,5	1513,9
(14) Extension	9,8	12,4	7,5	14,4	11,2
(15) Compensation cost of insurance premiums	47,8	60,1	12,2	40,0	10,0
(16) Land reform	5,0	7,7	0,8	1,0	525,5
TOTAL	5890,6	7561,3	4908,7	9132,0	9392,3

Source: Institute of Economic Research and Policy Consulting in Ukraine (2011 year)

From the data in Table 1 clearly seen by the fact that Ukraine has no long-term strategy of agricultural subsidies. Some budget items are unstable and from year to year ranged from zero to a hundred million. This instability prevents the farmers to make long term plans and investments. However, a large proportion of "green box" is a very positive indicator of the agricultural budget of Ukraine (Articles 8-16 in Table 1). The largest volumes of these activities are spent on training, education, science, inspection, food safety and selection program.

Overall effectiveness of the majority of "green box" is very low, so private farmers and agribusiness are not getting enough support in the form of public benefits from scientific and regulatory agencies [8].

CONCLUSIONS

State regulation can both stimulate and inhibit the development of agriculture in Ukraine. In Ukraine there is no strategic vision of the industry and of the agricultural sector and, as consequently, there is no competitive position of the state. Announced by the government support program implemented only partially or not implemented at all. Actual expenditures for the development of the field are often lower than planned in the state budget.

In the new market environment, which is caused by Ukraine's WTO membership and integration processes with the EU, the state must be coordinator, which develops and ensures

compliance with the rules by which private and state enterprises of the agricultural sector of Ukraine work.

Adaptation of the Agricultural Sector of Ukraine to the new requirements and principles of the EU Common Agricultural Policy would allow avoid mistakes in the process of reform and streamline the system of state support to producers of agricultural and food products, including modern principles of the CAP: the environment protecting, ensuring a gradual waste-free production, protecting animals health, reorientation of agriculture on high quality products and environmental protection.

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