



## Vienna Roundtables „Ukraine in Europe: Peace and Development“

2<sup>nd</sup> Roundtable November 3<sup>rd</sup>, 2014

### Agricultural sector of Ukraine as a driver for economic development and regional and international cooperation

#### Memorandum

A stable and modernized Ukrainian economy will be the basis for social and political welfare of the country. Economic development together with the strengthening of regional and international cooperation provides not only new opportunities for business, but will improve the lives of millions of people and contribute to political and economic stabilization in Europe. Moreover, by unfolding their enormous agricultural potential and rising agricultural production in a sustainable way Ukraine could play a decisive role in European and global food security.

Representatives of Ukrainian and European businesses, leading economists and experts have discussed the prospects of Common Economic Space from Lisbon to Vladivostok as well as issues of economic growth in the region based on the agricultural industry. The Second Roundtable in Vienna identified the following key elements for reform of the Ukrainian economy with a main focus on the agricultural sector aiming to contribute to economic cooperation in Europe:

1. **Sustainable advancement of Ukraine's economy and the achievement of a lasting peace in the region is only possible to the extent that the mutual free movement of goods, services, capitals and labour within the region is ensured.** The mutual access to markets, which are historically inter-related and determine the fate of millions of jobs across the region, has to be maintained and fostered.
2. **The formation of the Common Economic Space from Lisbon to Vladivostok will make it possible to create a common market counting 700 million people.** Such a market will promote the **implementation of sizeable investment projects in key economic sectors** in the countries comprising this economic formation. On top of that, such **countries will enhance their positions in foreign markets**, which is particularly important when supranational economic and political unions are being formed across the globe.
3. **The trade restrictions between the EU and Russia and between Russia and Ukraine cause economic damage to entrepreneurship and economies at large, bring about social tension and unemployment growth.** Companies in the EU, Ukraine and Russia have to operate in disadvantaged competitive environments vis-à-vis other producers which not affected by the adverse effects of external non-market barriers and restrictions. **An end to the sanctions will only be achieved through the implementation of the agreement of the Minsk Meeting;** all signing parties of the document have to contribute to this.

4. Bearing in mind the sustainable long-term demand for food, energy and renewable resources, as well as Ukraine's international competitive edges in agribusiness, **agriculture may become a launch pad for the development of Ukraine's economy at large. Agriculture may provide a stimulus for the advancement of all sectors of economy involved along the agricultural value chain.**
5. **A deeper economic integration of the EU, Ukraine's East European neighbours and Russia by strengthening existing and developing new efficient agricultural value chains will provide new opportunities for business and people's lives improvement especially in rural areas.** Innovation, investment and market access will be crucial for the development of international competitive agricultural value chains.
6. **Grain exports via seaports in aquatic areas of the Black Sea and the Sea of Azov should not be restricted.** Inadequate grain output or trade restrictions in Ukraine over the past decade have repeatedly triggered abrupt food price rises in global markets. Thus, the current political and economic crisis in Eastern Europe may bring about even greater instability of international markets and consequent political risks in countries relying on food imports.
7. It is of paramount importance that the **development of open and transparent land markets with a diversified owner structure including foreign investors** is be secured, that open land auctions be put in place, that land lease procedure be facilitated for both existing and would-be lessees. **Special financing instruments with low interest rates** have to be developed for small and medium farmers and enterprises due to their limited ability to receive financing for the purchase of land. As part of the public governance decentralization effort, **the right to use publicly-owned lands must be granted to local communities.**
8. **Ukrainian agricultural products should (re-)gain access to the EU as well as to Russia** requiring a harmonization of the respective standards. **Sanitary and phytosanitary (SPS) and consumer protection standards have to be subject of future trade negotiations between the European and the Eurasian Union.**
9. Innovations are a main driver to achieve higher productivity and efficiency in agriculture and should be facilitated by the respective access of Ukrainian farmers to modern technologies. **A business environment that encourages the development of mid-size-business will play an important trigger for innovation and efficiency as well as rural development.**
10. **State support to agricultural producers of Ukraine must be goal-specific.** In the first instance, the priority support must be provided to the agricultural subsectors generating the highest added value and creating the critical mass of jobs in rural areas. Key targets of state support should be the modernization and competitiveness of the agricultural sector and **facilitate the access to affordable financing and assurance especially for small and medium farmers and enterprises.**
11. **Ukraine must achieve long-term stability of its taxation regulation in the field of agriculture** in light of the durable investment repayment periods pertinent of this sector and the special characteristics of agricultural production (seasonality, high weather and market risks). The tax incentives to agricultural producers until 2018 envisaged by the Tax Code of Ukraine must be preserved.

12. **Strategic projects should be identified within the framework of the DCFTA between the EU and Ukraine** and, possibly, in a cooperation between the EU and the Eurasian Economic Union **including projects in agribusiness** seeking to enhance the world's food security and to promote the transportation and logistics infrastructure and transnational corridors between Europe and Asia.
13. **Promotion of rural entrepreneurship** is a powerful boost for agricultural communities' advancement. Such an effort requires introduction of mechanisms of partial reimbursement of costs to local communities associated with rural infrastructure and communications development; creation of efficient tools of SME operation financing relying among other things on preferential lending; implementation of agricultural receipts mechanism; formation of commodity exchanges making it possible to enter into futures and forward agreements; provision of preferential taxation to rural SMEs.
14. **High transactions costs** for logistic, storage, various state control measures undermine the competitiveness and therefore growth and income in the agricultural sector. Moreover, **agricultural business deregulation is a core element of anti-corruption efforts**. Controlling authorities must not have their functions overlapped; the number of scheduled and unannounced inspections must be minimized.
15. It is an important role of the government to **incentivize the development of agricultural associations and cooperatives** in order to promote small-scale commodity production by particularly providing customized services for small and medium sized farms and to stimulate employment in rural areas based on the experience of Germany, Poland and other countries.
16. **Education and qualification of agricultural specialists and management on all tiers have to meet the requirements of modern agribusiness and food industry**. Germany's "**dual education system**", as well as inter-corporate and inter-college collaboration must materialize in an **agricultural education and training reformation plan**. Ukrainian universities must foster students exchange programs, involve internationally acclaimed and skilful scholars, maintain international R&D cooperation of universities and form joint master courses with Germany and other European countries.
17. Reliable agricultural statistics and market information facilitate successful business decisions and investments of all players along the agricultural value chains. **Therefore, official agricultural statistics and market information should be improved in cooperation with agribusiness associations**.

*Prof. Dr. Rainer Lindner, Chairman of the German-Ukrainian Forum, Director of the Committee on Eastern European Economic Relations*

*Gerlinde Sauer, Director of the German Agribusiness Alliance/ Committee on Eastern European Economic Relations*

*Karl-Georg Wellmann, MP, Chairman of the German-Ukrainian Parliamentary Group of the German Bundestag*