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CURRENT STATE AND PROSPECTS OF UKRAINE-EU COOPERATION IN AGRICULTURAL SECTOR

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Ukraine has a considerable, physical agricultural potential. It combines a large area (33.3 mill. ha. of cropland and 7.5 mill. ha. of permanent pasture) with fertile soils (roughly 40% of the world's black soils), year-round ice-free ports and proximity to key import markets in the Middle East, Northern Africa and the EU.

To date, Ukraine is one of the active players on the global food market. Since Ukraine became an immediate neighbor of the European Union, the EU has been the largest market for Ukrainian goods and a source for growth and widening of the Ukrainian import. In so doing, the reduction of the average weighted tariff and introduction of the unified system of trade rules and administrative procedures due to the EU expansion played a positive role for most Ukrainian exporters.

The Ukrainian agricultural sector has significant advantages due to favorable natural conditions. Ukraine is a key player in the global agrarian market, in particular, the grains market. Ukraine is one of eight major grains exporters in the world. The EU member states import Ukrainian wheat (Italy, Spain, and the Great Britain being largest importers). On the whole, Ukraine provides four per cent of the soft wheat and 16% of the maize imported by the EU (Spain, Portugal, the Netherlands, Italy, and the Great Britain being largest importers).

The EU remains Ukraine's main trading partner, accounting for a quarter of Ukrainian exports and a third of its imports. Trade turnover between the European bloc and Ukraine peaked at \$40 billion in 2010. Ukraine's main exports to the EU are agricultural products, energy, chemicals, iron, and steel. EU exports to Ukraine are mostly machinery, transport equipment, chemicals, textiles and clothing, as well as agricultural products.

Negotiation process on creation of Ukraine-EU free trade zone is very active. In the future the Agreement on Free Trade Area between EU and Ukraine, the conclusion of which was envisaged by the Partnership and Cooperation Agreement, will serve as a means for addressing many problems. The negotiation on the creation of the free trade area has been underway for several years, and most provisions of this agreement have been already agreed upon. The Agreement on Free Trade Area is expected to be signed by the end of 2011 once all terms and conditions have been agreed. One should keep in mind that the Agreement on Free Trade Area is part of the Association Agreement between EU and Ukraine.

Once the Free Trade Area Agreement has been signed, import duties and limiting trade rules will be eliminated for a large number of goods. As far as the agriculture produce is concerned, the EU is ready to set zero tariffs for about 80% of agriculture products. The process of agreeing on the terms and conditions continues. It concerns mainly the use of geographical names in production and distribution of Ukrainian agriculture products.

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The Ministry of Agrarian Policy and Food considers the major objective in concluding the FTA with the EU to be access facilitation for Ukrainian goods to the European market. Improvement of Ukrainian position on trading conditions for agricultural products is reflected in tariff proposals of both parties. A Memo was drafted and signed between the Ministry of Economy of Ukraine, the Ministry of Agrarian Policy of Ukraine and «Ukrwinprom», Ukrainian corporation on viniculture and winemaking industry, re understanding of the position of Ukrainian delegation during negotiations on free trade zone creation within the Ukraine-EU Association Agreement. Provisions of the Memo are taken into account during negotiations.

Such cooperation and creating of Free Trade Area is very desirable for Ukraine. Such deep and comprehensive FTA will offer Ukraine improved access to an EU population of 500 million. Ukrainian agricultural goods and foodstuffs will have to comply with international standards and Ukraine itself will have to adopt and adhere to those standards. Export markets will gain further confidence in the Ukrainian produce and Ukrainian consumers themselves will benefit from the implementation of standards on the domestic market.

Active cooperation is maintained with the EU under the Memorandum of Understanding between the Ministry of Agrarian Policy and Food of Ukraine and General Directorate of European Commission entitled "Agriculture and Rural Locality Development". In the framework of Memorandum the Ukraine-EU Dialog on agrarian issues and the Working Group meetings are held twice a year, as well as the meetings at political level between the Minister of Agrarian Policy and Food and the European Commissioner for Agriculture and Rural Development.

Ukraine-EU cooperation is effected in the framework of TAIEX institutional development instrument and TWINNING projects. TAIEX institutional development instrument provides for short-term technical assistance to approximate the national legislation to EU regulations and standards and its further fruitful implementation. Priority objective of TWINNING projects is to assist in introduction of EU laws and regulations required for integration into the EU internal common market and formation of the active competitive market agro-economy.

Ukraine establishes active cooperation in agricultural area with the Central European Initiative, the Black Sea Economic Cooperation (BSEC) Organization, the International Epizootic Bureau, the International Plant Protection Convention and the others.

Since 2003 Ukraine is a fully fledged membership of the UN Food and Agriculture Organization (FAO). The FAO membership makes possible for Ukraine to get the FAO technical assistance, take part in the development of international standards and join the international quality and safety standards of agricultural and food products, accede the FAO informational network, together with FAO commence pre-investment study of the respective agri-industrial sectors, introduce monitoring systems, utilize FAO capacities to attract financing from the leading international organizations to implement priority projects, etc.

The Free Trade Agreement is only the beginning of a closer collaboration with the European Union. On offer from the EU side is an Association Agreement for Ukraine which will support deeper economic and social development. Ukrainian agriculture and rural areas stand to benefit from this closer collaboration. By adapting EU models for supporting rural development and stimulating and organizing agricultural production among the mass of medium and small scale farmers, there will be real opportunities for Ukraine to receive financial support from the EU for this process. Not only will this be in the form of increased EU technical assistance, but the potential is there for direct budget support from the EU side. To realize this support in the agricultural and rural sector, Ukraine needs to demonstrate that it is prepared to tackle these development issues by adopting robust sector strategies and introducing medium term budgeting to manage the process.

Nevertheless agriculture (including food products) is of particular interest for Ukraine. However, in FTAs involving the EU, agriculture is always given special treatment and subject to less and slower liberalization than other sectors. The only FTAs involving the EU that had a major agricultural component were the Europe Agreements with the countries of Central and Eastern Europe. But these were tailored towards EU accession from the very beginning, so they cannot serve as blueprints for possible negotiation outcomes involving Ukraine. For agriculture, the EU is unlikely to offer Ukraine more than it has already offered in the course of the ongoing Doha Round negotiations. A partner country's agricultural exports to the EU can increase as a consequence of an FTA, if the country succeeds in filling the quotas it receives. This highlights the importance of food safety and quality standards and certification systems.

In this sphere Ukraine still has a lot to do. For example, Ukraine should explore the possibility of securing assistance from the EU along the lines of the SAPARD program for EU accession candidates, which provided valuable technical support for the restructuring of the agri food industries and improving the institutional framework for agriculture. And even after it there is no guarantee for unqualified success of Ukrainian agro-industrial companies in the European market without further restructuring and improvement for all elements of this system.

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