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Organic Agriculture in Ukraine

An Opportunity to Green the Economy

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Organic agriculture in Ukraine: An opportunity for greening the economy

Activities of the agricultural sector can significantly contribute to biodiversity loss, the pollution of water bodies, greenhouse gas emissions, and the alteration of natural nitrogen cycles. Efforts to render agriculture more sustainable are therefore an indispensable component of national efforts to reverse environmental degradation, preserve natural capital, mitigate climate change, as well as ensure for inclusive economic growth and the alleviation of poverty.

Eastern Europe and the Caucasus have proven to be ideal regions for the development of sustainable, organic agriculture as a result of historically low levels of pesticide and fertilizer use, availability of agricultural labour, and close proximity to rapidly growing markets in the European Union (EU). As outlined in UNEP's comprehensive assessment of the region,[1] organic agriculture offers opportunities to revitalise its countryside and restore ecosystem functionality; develop new local businesses and agro-tourism opportunities; create new and better paid jobs (particularly in rural communities); as well as to mitigate and build resilience to climate change. The promotion of organic agriculture thereby holds tremendous potential for leveraging a broader transition to a Green Economy in these regions.

In order to realise these socio-economic benefits, UNEP is providing support to farms and businesses in Ukraine, Moldova and Armenia for expanding their organic agri-food supply chains and associated trade flows. This project is funded by the European Commission and is part of the "Greening Economies in the Eastern Neighbourhood (EaP GREEN)" partnership programme.[2]

This fact sheet analyses the trade opportunities for organic products from Ukraine to the EU market.[3]

Trade with the European Union

REGIONAL PERSPECTIVES FOR EASTERN EUROPE AND THE CAUCASUS

Opportunities

- In the EU, growing consumer preferences for products that are healthy and environmentally-friendly have ensured that the demand for raw and pre-processed organic products has grown continuously – surpassing production rates even in times of economic crises. Between 2003 and 2013, the EU's organic market grew fourfold, while the area of agricultural land under organic production had only doubled. Subsequently, the EU's dependency on organic imports provides excellent opportunities for potential producers and exporters in neighbouring countries.

- Leading organic processors in the EU tend to move away from China, India and South America as sources of organic products, seeking greater product traceability and import reliability. These circumstances provide an opportunity for Eastern Europe and the Caucasus to become major sources of EU's organic imports.

1 UNEP, 2011. *Organic Agriculture. A step towards the Green Economy in the Eastern Europe, Caucasus and Central Asia region. Case studies from Armenia, Moldova and Ukraine.*
2 For more information on EaP-GREEN, please go to: www.green-economies-eap.org
3 The following paragraphs presents the findings of a market assessment study for Armenia, Moldova and Ukraine, prepared for UNEP by Organic Services

▸ Several trade partners in the EU that formerly imported only conventional agricultural products from Eastern Europe and the Caucasus are broadening their product ranges and establishing new organic product lines. This means that organic products do not necessarily require new trade partners and that existing trade flows can greatly facilitate the establishment and/or expansion of organic value chains.

▸ Organic exports to the EU offer higher price premiums and a stable source of income for organic producers.

Challenges

▸ Export bans in Eastern Europe are major barriers to the development of organic value chains, which typically require long-term engagement and reliability of supply. In the past, export bans have proven detrimental to international trade relations and the economic viability of the region's organic sector.

▸ Organic importers in the EU have highly stringent product quality and life-cycle requirements. Small-scale organic producers who are seeking to establish trade links with these clients are therefore faced with the challenges of adhering to strict production and/or handling criteria as well as providing evidence to confirm the eligibility of their products for the EU marketplace.

Ukraine

Opportunities and challenges for the promotion of organic agriculture

- With favourable climatic conditions, fertile soils and an efficient agricultural sector, Ukraine's agricultural output exceeds the demand of the domestic market. Given this surplus, Ukraine can be a competitive producer and exporter of organic goods.

- The EU is an excellent export destination for many of Ukraine's organic products, including cereals, oilseeds, dried pulses, fruits, berries, nuts, herbs and honey.

- In 2014, Ukraine signed the "Deep and Comprehensive Free Trade Agreements (DCFTAs)" with the EU, which will facilitate the export of agricultural produce by lowering tariffs and EU import duties. The agreements also aim to (inter alia) promote trade and foreign investment into eco-labelled/ environmental products, services and technologies – thereby promoting overall modernisation and improvement of labour conditions in Ukraine's organic agriculture sector.

- Ukraine is nonetheless faced with tackling internal corruption and building its reputation in international supply chains. Repeated frauds in the organic grain commodity business have significantly damaged the image of the country's organic sector and alarmed many EU importers. In order to maintain reliable supply chains, Ukrainian producers must ensure full traceability of their products – from the field to the trader.

- During periods of wheat shortage, Ukraine has also initiated export bans on wheat – thereby undermining its international reputation as a stable agricultural supplier.

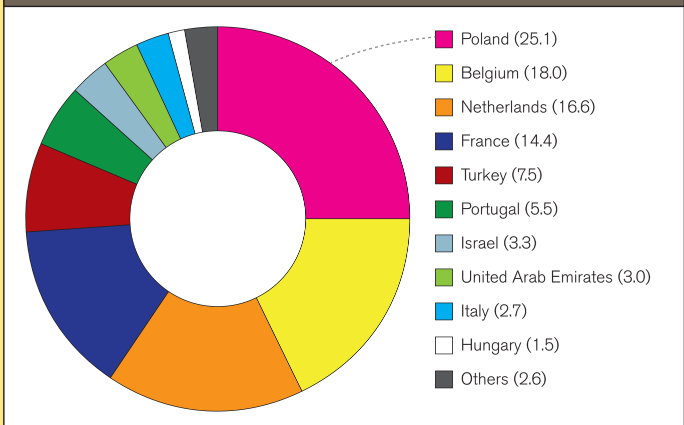
Organic export products from Ukraine

OILSEEDS, CEREALS AND DRIED PULSES

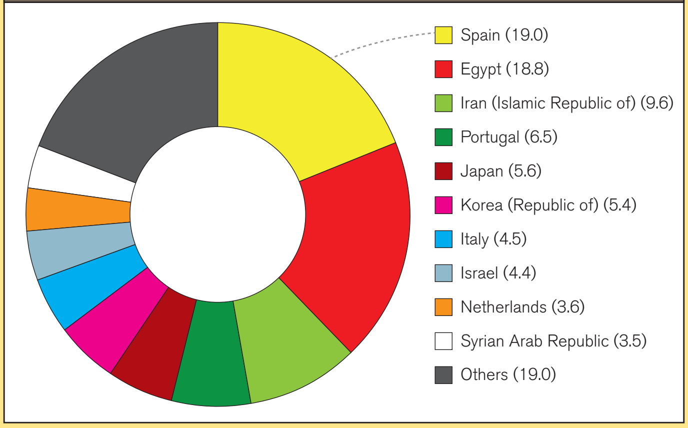
- Ukraine is ranked sixth in global acreage of organic oilseeds and eighth in global acreage of organic wheat. This means that it has the necessary capacity and expertise to further develop as an organic producer.

- Rapeseed is Ukraine's main exported oilseed, followed by soybeans and sunflower seeds. The EU is a key export destination for these products, receiving 85 per cent of Ukraine's total rapeseed exports. Corn is Ukraine's leading export cereal and some 40 per cent of its total corn exports are currently being directed to the EU. Given these well-established supply chains, it is envisaged that additional exports of organic oilseeds and corn can be easily initiated.

Rapeseed: Export destinations from Ukraine as % of total exports (organic and non-organic)



Corn: Export destinations from Ukraine as % of total exports (organic and non-organic)



- Ukraine also has significant potential to export organic soybeans to the EU. However it needs to ensure a reliable supply, competitive price levels, as well as full eligibility with the EU's GMO criteria.

- The EU's organic sector is in short supply of high protein organic crops for use as animal feed. This represents an opportunity for Ukraine to establish additional organic supply chains.

- Current prices for organic oilseeds, dried pulses and cereals are offering premiums that can fully compensate for the on-farm cost of converting to organic production.

FRUITS, BERRIES AND NUTS

Regional perspective – Eastern Europe

- As a result of EU consumers' preferences for brands that they recognize and trust, it is currently difficult to export processed fruits to EU's organic retailers in the form of finished products with brand labels from the country of origin. For this reason, the region's organic business has a prevailing tendency to carry out final processing stages in the country of consumption. It is therefore envisaged that in the short, medium and long term, Eastern Europe and the Caucasus will remain suppliers of raw and semi-processed products to the EU marketplace.

- Despite the above, there are considerable opportunities to export finished consumer products to new and emerging organic markets, such as those in countries that have only recently joined, or are expected to join the EU.

- Establishing new EU trade relations is comparatively easier in the dried fruit and nuts segment compared to the fresh fruit market. In addition, the handling and transportation of dried products is less complex and costly than that of other processed goods (e.g. juices).

- The demand for dried organic fruit is high among the major EU importers and the potential for further developing this market is very significant. The majority of Eastern European dried fruit is currently exported to the Russian Federation, with the EU making up only 17 per cent of the export share.

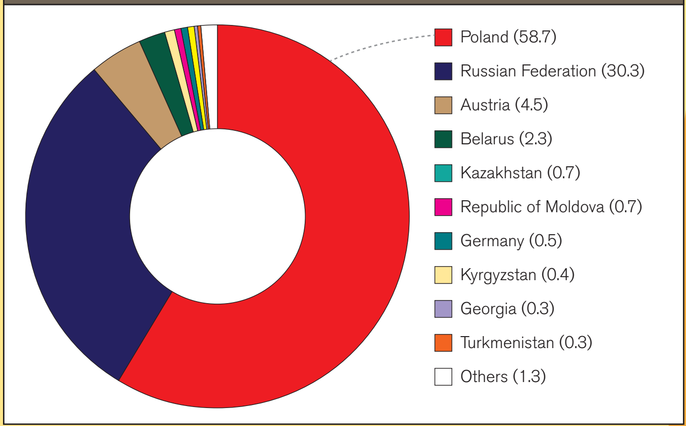
- Conventionally produced dried apricots, prunes, apples and cherries are the main items currently exported to the EU from Eastern Europe and the Caucasus. All of these products are well suited for organic production. Some additional fruits and nuts (pears, quinces, citrus, kiwis, almonds and hazelnuts) could further broaden the range of traded organic products.

National perspective

- The EU market for processed organic fruits from Ukraine (for use as ingredients in finished consumer products) shows good potential. There are also fewer risks and lower handling costs associated with exporting processed organic fruits and berries, as opposed to exporting fresh produce.

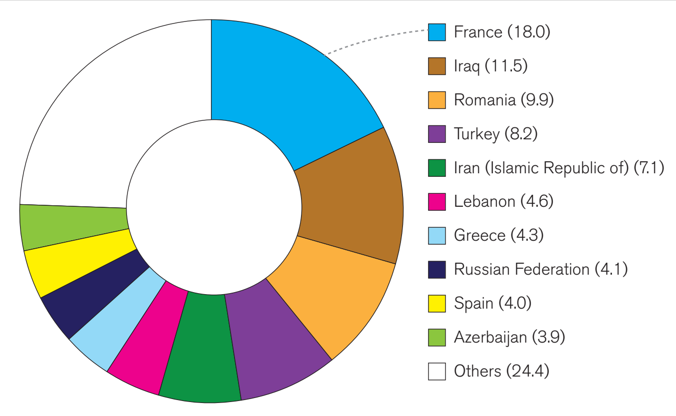
- Fruit juices are the main processed fruit export from Ukraine. The well-established Ukrainian juice industry already sends a considerable amount of its products to the EU (64 per cent of the country's total juice exports in 2013), but there is potential to further broaden the range of traded fruit juice varieties.

Fruit and vegetable juices: Export destinations as % of total exports (organic and non-organic)



Walnuts are also widely cultivated in Ukraine and are suitable for conversion to organic production. Walnuts are the most economically viable nut cultivated in Eastern Europe and have good market opportunities in the EU. Ukraine's export share of conventionally produced shelled walnuts to the EU made up 53 per cent in 2013. It is envisaged that organic walnuts could be traded in comparable quantities.

Walnuts: Export destinations from Ukraine as % of total exports (organic and non-organic)



The EU is the prevailing Ukrainian export market for frozen fruit. Export of frozen berries and fruits is already a mature industry, and further expansion of its already existing organic component is a highly viable opportunity for Ukraine.

HERBS AND HONEY

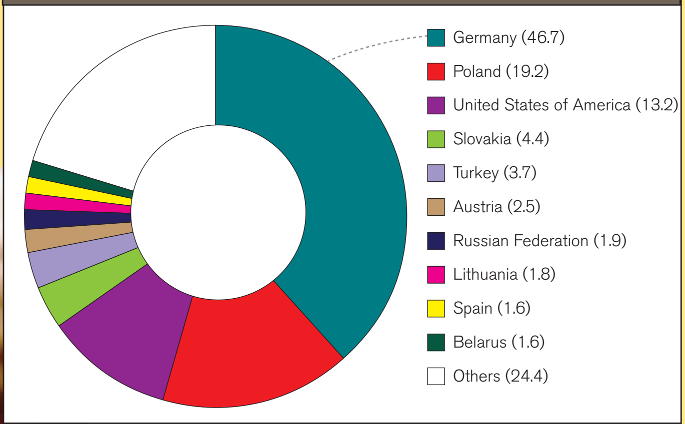
Regional perspective – Eastern Europe

The EU's current and future demand for processed organic herbs and honey from Eastern Europe and the Caucasus looks promising. The EU market for herbal products is steadily growing, and the associated organic market is expanding even faster. Certified organic herbs (as well as beeswax) are not only used in organically labelled food products and cosmetics, but also in pharmaceutical products as well as some non-organic teas.

National perspective

The EU is already a major destination for Ukrainian medicinal herbs, aromatic plants and honey exports – with almost 80 per cent of the country's honey exports being directed to the EU. Countries with a particularly high demand for organic honey include Germany, France and the United Kingdom.

Honey: Export destinations from Ukraine as % of total exports (organic and non-organic)



Recommendations to expand organic trade

Regional perspective – Eastern Europe

- The organic sector in Eastern Europe and the Caucasus requires agricultural cooperatives as well as other market-oriented support structures that will enable to efficiently organize producers and exporters. A strong, professional organic market organization can also facilitate the optimisation of logistics and handling procedures – including drying, storing, sorting and processing of produce.
- Organic certification schemes (e.g. Naturland, BioSuisse) offer good opportunities for confirming product eligibility, establishing trust and building long-term trade relations with organic processors and retailers in the EU.
- Governments from Eastern Europe and the Caucasus should exclude organic products from export bans.

National perspective

- Conversion to organic production of grains is estimated to have the biggest economic and environmental benefits for Ukraine. The highly labour-intensive value chains of processed organic fruits, nuts, herbs and honey (e.g. shelled walnuts, dried prunes, and juices) could also generate significant socio-economic benefits, particularly in rural communities.
- Actors throughout Ukraine's organic sector should take action to prevent fraud and improve the country's image on the international marketplace.

The EaP GREEN programme is funded by the European Union and other donors, and is jointly implemented by four international organizations.