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Organic Agriculture in Ukraine

An Opportunity for Greening the Economy

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Organic Agriculture in Ukraine: An Opportunity for Greening the Economy

Activities of the agricultural sector can have significant impacts on biodiversity loss, the pollution of water bodies, the emission of greenhouse gases, 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 has proven to be an ideal region 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 the rapidly growing EU markets. 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 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 Eastern Europe and the Caucasus.

In order to realise the multitude of socio-economic benefits offered by organic agriculture and establish it as a model sector for a broader transition to a Green Economy in Eastern Europe and the Caucasus, 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]

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

Trade with the European Union

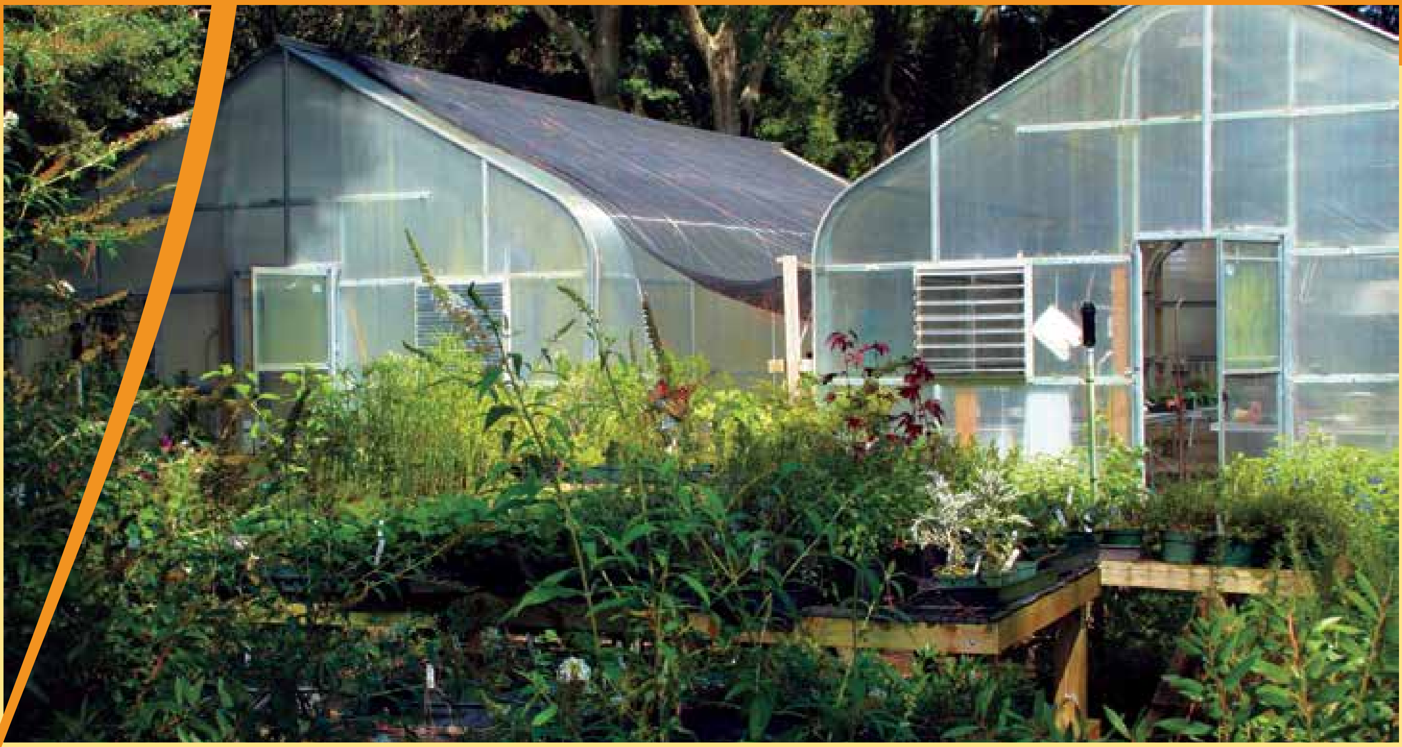
REGIONAL PERSPECTIVES FOR EASTERN EUROPE AND THE CAUCASUS

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 and has surpassed 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. The subsequently high degree of dependency on organic imports from outside the EU provides excellent opportunities for potential producers and exporters in neighbouring East European 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 reliability of imports from European countries. These circumstances provide an opportunity for Eastern Europe to become a major, stable source of the 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 have broadened their product ranges and established 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 additional income for rural, organic producers.

Challenges

- Export bans in Eastern Europe are a particular threat for organic value chains, which require long-term engagement and reliability of supply. In the past, export bans have proven detrimental to trade relations and the overall development of the organic sector in the region.

- While they offer stable trade relations, the EU's organic clients have highly stringent product quality and life cycle requirements. Small scale organic producers are faced with the challenge of not only adhering to these criteria but also of providing evidence to confirm the eligibility of their products for the EU marketplace.

Ukraine

Opportunities and Challenges in Promoting Organic Agriculture

- With favourable climatic conditions, fertile soils, and an efficient agricultural sector, Ukraine's agricultural production exceeds the demand of the domestic market. Given the surplus available for export, Ukraine is in a strong position for competitive organic production.

- The EU represents a good potential export market for many organic products from Ukraine, 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 create opportunities for Ukrainian agricultural exporters by lowering tariffs and EU import duties. By addressing the related non-tariff barriers, the agreement aims to (inter alia) facilitate and promote trade and foreign direct investment in eco-labelled goods and environmental products, services and technologies. The DCFTAs is thereby also expected to stimulate the modernization of agriculture and improve labour conditions – all of which will be favourable to the development of the Ukrainian organic sector.

- Repeated frauds in the organic grain commodity business have significantly damaged the image of Ukraine's organic sector, and alarmed many EU importers. A producer's ability to ensure full traceability of products – from the trader to the field – is an essential criterion for a reliable supply chain.

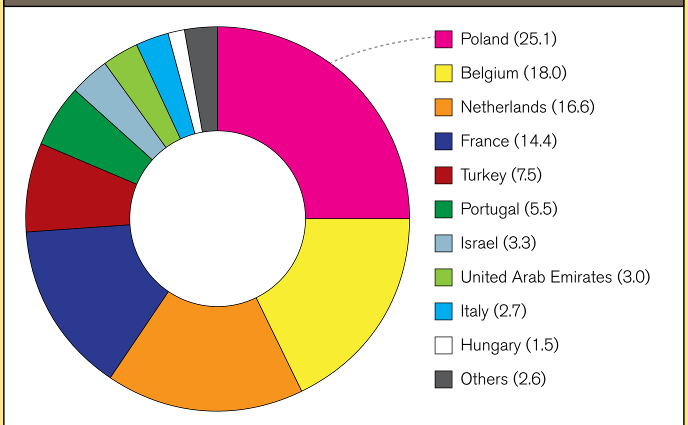
- During periods of wheat shortage, Ukraine has initiated export bans on wheat – thereby undermining its international reputation as a stable supplier.

OILSEEDS, CEREALS AND DRIED PULSES

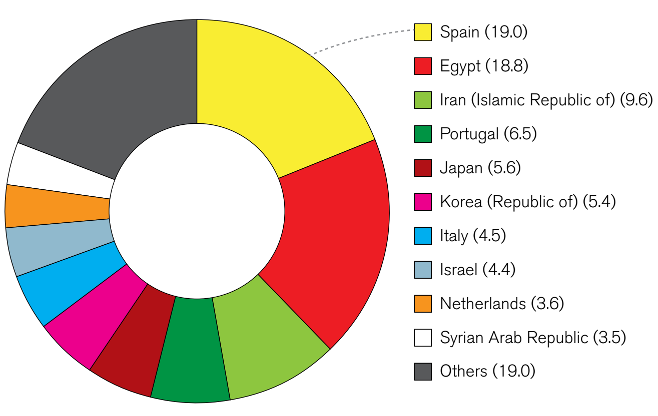
- Ukraine already has solid experience in organic production: it is ranked sixth in global acreage of organic oilseeds and eighth in global acreage of organic wheat.

- Exports of organic oilseeds and corn are particularly easy to develop since these are already widely exported from Ukraine as conventional products. Rapeseed is the leading export oilseed from Ukraine, followed by soybeans and sunflower seeds. The EU is the main export destination for rapeseed, receiving 85 per cent of total exports from Ukraine. Corn is the leading export cereal from Ukraine followed by wheat. Ukraine directs 40 per cent of its total corn exports to the EU.

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)



- A large portion of organic soybean imports to the EU can be sourced from Eastern European countries, such as Ukraine, if reliable supply is provided at competitive price levels. However, organic soybeans from Ukraine have to date not always met the EU's GMO criteria.

- The organic sector in the EU needs a supply with high protein organic crops for use as animal feed. This represents an opportunity for Ukraine, which could build a nearby and reliable supply chain of organic protein sources.

- Current price levels for organic oilseeds, dried pulses and cereals are offering a price premium that can pay off the cost of the conversion to organic production.

FRUITS, BERRIES AND NUTS

Regional perspective – Eastern Europe

- As a result of EU consumer preferences for brands that they recognize and trust, it is currently difficult to export processed fruits to EU organic markets in the form of finished products that carry brand labels from the country of origin. For this reason, the organic business has a prevailing tendency to carry out the final processing in the country of consumption. It is envisaged that in the short, medium and long term, the Eastern European and Caucasus region will remain a supplier of raw and semi-processed materials. However, 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 requires less investment in comparison to other processed goods (e.g. juices).

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

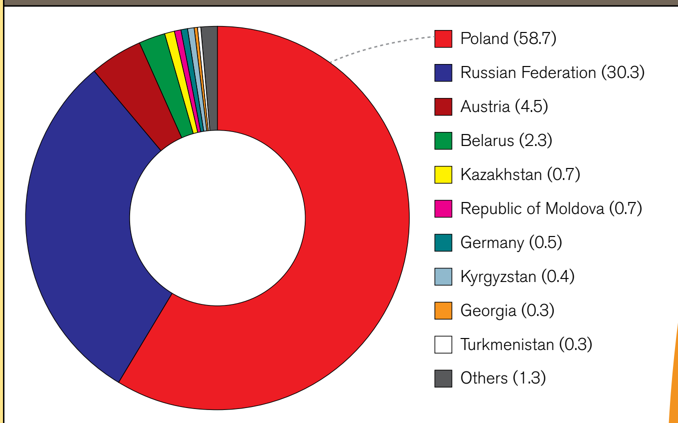
- Conventionally produced dried apricots, prunes, apples and cherries are the main items currently exported to the EU from the Eastern European and Caucasus region, and all of these products are also well suited for organic production. Some additional fruits and nuts (pears, quinces, citrus, kiwis, almonds 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 fewer risks involved in exporting processed organic fruits and berries compared to exporting fresh fruits.

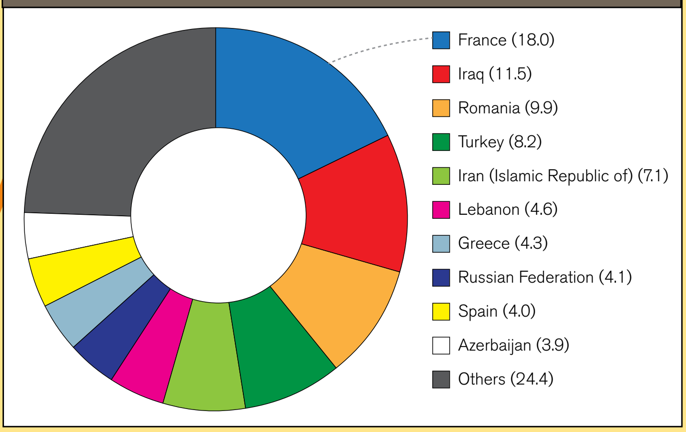
- Fruit juices are the leading processed fruit category from Ukraine. The well-established Ukrainian juice industry already sends a high share of exports to the EU (64 per cent of total juice exports in 2013). There is an opportunity to broaden the range of fruit juices exports to include more varieties of organic juices.

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



Walnuts are widely cultivated in Ukraine and are suitable for conversion to organic farming. Walnuts are the most economically viable nut cultivated in Eastern Europe and have good market opportunities in the EU. The export share of shelled walnuts to the EU was 53 per cent in 2013. It can be assumed that in organic trade, walnuts could have a similar position.

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 includes an organic sector. Further expansion is a viable option.

HERBS AND HONEY

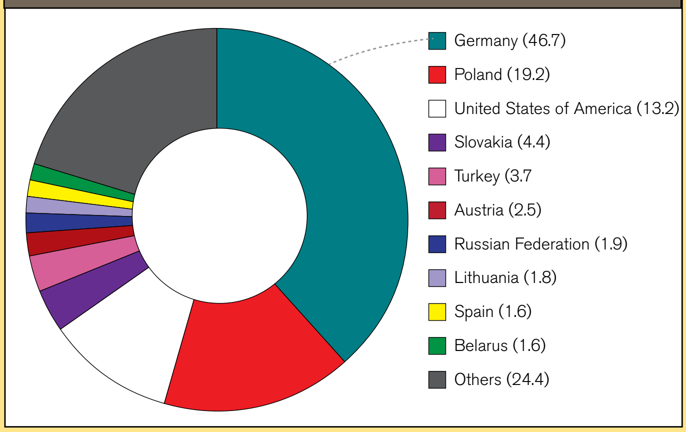
Regional perspective – Eastern Europe

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

National perspective

The EU is already the main destination for Ukrainian medicinal herbs, aromatic plants and honey exports. Honey exports are particularly significant in Ukraine and almost 80 per cent go to the EU. Countries with a 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 for Expanding Organic Trade

Regional perspective – Eastern Europe

- The organic sector in Eastern European countries needs market-oriented support structures, such as agricultural cooperative structures, to efficiently organize organic producers and exporters. A strong and professional market organization for the organic sector can facilitate the support and optimization of local logistics and facilities, namely for drying, storing, sorting, pre-processing and final processing.

- Private organic certification schemes (e.g. Naturland, BioSuisse) offer good opportunities for stable and long-term trade relations directly with EU organic processors.

- Governments from the target region, and particularly from Ukraine, should exclude organic products from export bans.

National perspective

- Conversion of grain commodities towards an organic production is assessed to have the biggest economic and environmental benefits. However, organic value chains of processed fruits, nuts, herbs and honey (e.g. shelled walnuts, dried prunes, and juices) could also potentially generate positive socio-economic impacts and rural development, given that these value chains are labour-intensive.

- The organic sector should take action to prevent fraud in order to improve Ukraine's image as an organic exporter.