

## 2017 Top Markets Report Agricultural Equipment Country Case Study

### Ukraine

A high-risk market with high-potential, Ukraine's productive soil and temperate climate are well-suited for a diverse range of crops, but the country's agricultural economy needs significant reform and investment to realize that potential. Despite the on-going conflict with Russia and its sanctions against Ukrainian agricultural products, Ukrainian agriculture is rebounding. The country has a strong track record as a market for U.S. agricultural equipment exports, ranking seventh as recently as 2012. Despite the opportunities, Ukraine is a very difficult place to do business.

Overall Rank

7

#### Opportunities

- **Grain, Oilseed, and Other Commodity Crop Equipment** – Ukraine is a major “Black Sea Region” supplier of wheat and other grains. Producing at low cost and in large volume, Ukraine also has easy access to global sea lanes to ship its crops. The country needs significant capital investment to maintain and improve its standing as a major grain producer and exporter.
- **Precision Agriculture** – Across all major OEM categories, not only for application on individual machines but for networking with the rest of the value chain.
- **Equipment for Produce and High-Value Crops** – This sub-sector showed strong growth in 2016, reflecting southern Ukraine's mild climate and rich soil. This growth also indicates increasing investment in higher-value agricultural products.
- **Grain Storage & Handling** – Ukraine has an acute need for grain storage and other infrastructure to prevent post-harvest loss of stored agricultural products.
- **Equipment for Raising Livestock** – U.S. exporters have virtually no market share in this segment, suggesting that there may be room to compete against the German and other European suppliers that currently dominate Ukrainian imports.

#### **Data and Discussion**

Ukraine grew rapidly as a market for U.S. agricultural equipment from the mid-2000s through 2012. Beginning in 2013, falling commodity prices, the country's economic crisis, and conflict with Russia all combined to suppress investment in agriculture. As a result, U.S. exports plunged to \$61.6 million in 2015 from a peak of \$381.6 million in 2012.<sup>i</sup>

#### **Ukraine:**

**2016 U.S. Exports = \$171.8 million**

**2012-15 Trend = -45.6%**

**2016 Change = 179.0%**

**U.S. Share of Import Market (2015) = 21.0%**

## Ukraine: U.S. Exports at a Glance

<b>Equipment Types</b>	<b>2016 Exports U.S.\$ Millions</b>	<b>Percent of Ag Equipment Exports</b>	<b>Change 2012-15</b>	<b>Change 2015-2016</b>
For Grain, Oilseed, & other Commodity Crops ---	\$148.1	86.3%	-48.3%	251.8%
Mowers & Power Equipment ---	11.3	6.6%	-23.9%	44.9%
For Produce & High-Value Crops -----	8.2	4.8%	-31.5%	14.0%
Sprayers ---	2.2	1.3%	-65.5%	95.1%
Other ---	0.9	0.5%	27.2%	1.1%
Tractor Parts, Engines & Engine Pts. ---	0.7	0.4%	-5.1%	-64.9%
For Raising Livestock ---	0.3	0.2%	-56.7%	-39.3%
Low- & Medium-HP Tractors	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>	<u>N/A</u>
<b>TOTAL</b>	<b>\$171.8</b>	<b>100.0%</b>	<b>-45.6%</b>	<b>179.0%</b>

The downward trend in U.S. exports to Ukraine reversed dramatically in 2016. Greater political stability, an improving economy, and a somewhat stronger *hryvnia* (the country's currency) enabled Ukrainian farmers to resume badly needed capital investment, including agricultural equipment.

Leading the way in 2016 in terms of both U.S. export volume and growth was equipment for producing grain, oilseeds, and other commodity crops. Exports of these products accounted for 86.3 percent of U.S. exports in the first half of the year, an increase of 251.8 percent from 2015. Other OE products worth noting are equipment for cultivating fresh produce and other high-value crops—4.8 percent of exports, 14.0 percent above the previous year—and agricultural sprayers, up 95.1 percent.<sup>ii</sup>

Growth in the produce/high-value crop sector, if sustained, indicates that Ukrainian farmers are beginning to invest in a broader range of agricultural production than previously. The 2016 volume and growth in exports of Mowers and Power Equipment were virtually all parts. "Other" equipment exports to the Ukrainian market are almost entirely used tractors.<sup>iii</sup>

### Technology

Ukraine's need for capital investment in agriculture—including agricultural equipment—remains critical and extensive. The country's agricultural economy is still recovering from decades of underinvestment and mismanagement during Soviet rule. U.S. exports reflect this need: strong and growing sales of equipment for grain, oilseed and commodity crops; and small but growing sales of equipment for fresh

produce and high value crops. Machinery and equipment to support Ukraine's agricultural infrastructure are also in demand, especially for grain storage and handling.

Technology that will boost productivity, yields, and quality will also find a market in Ukraine. Agricultural yields overall are quite low; Ukraine's average wheat yield, for example, is less than half that of Germany.<sup>iv</sup> Raising product quality has taken on new importance since Ukraine gained access to EU markets for agricultural products in 2016, with establishment of the Ukraine-EU "Deep and Comprehensive Free Trade Area."<sup>v</sup>

### **Ag Economy Fundamentals**

Ukraine has long been a major regional and global agricultural producer. The country's natural advantages include as much as one-third of the world's black earth soil, a relatively mild climate suitable for many different crops, ports open year-round, and a geographic location with proximity to the European Union (EU), the Middle East, and Africa.<sup>vi</sup> The newly-established Ukraine-EU free trade area only enhances these advantages.

Crop production currently dominates Ukrainian agricultural output. Leading crops include sunflower, potatoes, wheat, and corn. Also produced in significant quantities are soybeans, rapeseed, sugar beets, walnuts, and a variety of fruits and vegetables.<sup>vii</sup>

Nearly half of Ukraine's agricultural output is generated by large corporate farming businesses referred to by the Ukrainian Government as "agricultural enterprises." These enterprises generally are the privatized successors of Soviet-era state farms. More than 14,000 such businesses farmed parcels that in some cases encompass tens of thousands of hectares. Increasingly, these entities are being transformed into vertically-integrated agribusiness firms commonly referred to in Ukraine as "agri-holdings." Agri-holdings reportedly accounted for 21 percent of Ukraine's total agricultural output in 2014, including 19 percent of crop production.<sup>viii</sup>

Also important are some 40,000 "farming enterprises," operated for the most part by individual farmers. Although smaller than "agricultural enterprises" and agri-holdings, producers in this category may cultivate as many as 3,000 hectares. Together, the corporate farming sector and the smaller individual farms produce nearly all of Ukraine's export crops, including grains, sunflower, rapeseed, and sugar beets.<sup>ix</sup>

In contrast to commodity crops, production of fruits and vegetables is largely in the hands of small household producers. Numbering more than 4 million, farming on an average of 2.8 hectares each, households nevertheless produced more than three-quarters of Ukraine's raw milk, beef and veal in 2014, and accounted for 49 percent of pork production and 16 percent of poultry.<sup>x</sup> Agri-holdings are beginning to invest in greenhouses and livestock production, as indicated by significant increases in U.S. exports for these sub-sectors in 2016.<sup>xi</sup>

The market for agricultural equipment in Ukraine is inhibited by the poor overall investment climate. Nevertheless, the country's agribusiness sector has been able to attract domestic and international investment in production, processing, and infrastructure. U.S. agribusiness companies with major investments in Ukraine include Cargill, Bunge, and Archer Daniels Midland as well as private investors such as the SygmaBleyzer Investment Group.<sup>xii</sup>

Agribusiness firms from other countries are investing in Ukrainian agribusiness infrastructure, as well. Louis-Dreyfus Commodities of the Netherlands operates a grain terminal in Odessa, which it is developing

with financing from the European Bank for Reconstruction & Development.<sup>xiii</sup> The China National Cereals, Oils, and Foodstuffs Corporation operates a sunflower mill in Mariupol and a grain terminal in Mykolaiv.<sup>xiv</sup>

## Challenges and Obstacles

Despite its potential, the Ukrainian agricultural equipment market poses daunting challenges. Customers' access to finance—in particular, specialized financial services for agribusiness—is very limited. Self-financing from retained earnings and personal savings is quite common. As recently as 2011, half of all Ukrainian agricultural producers sold 80-100 percent of their crop immediately after the harvest to raise working capital.<sup>xv</sup>

Bank lending has been sharply curtailed in recent years, as well. Devaluation of the hryvnia and the poor standing of Ukrainian sovereign debt have largely excluded Ukraine from international capital markets.<sup>xvi</sup> Interest rates have declined since the 2008 financial crisis but remain high. The National Bank of Ukraine lowered its discount rate to 14 percent in October 2016, but monetary policy is likely to remain cautious in 2017 in order to keep inflation in check.<sup>xvii</sup>

Crop insurance is available in Ukraine, although less than two percent of the country's 41.3 million hectares of agricultural land was covered in 2016. Most of the insured acreage was planted in winter wheat, with other grains, oilseeds, and sugar beets accounting for most of the rest. The International Finance Corporation identified 47 crop insurance providers in Ukraine in a recent study.<sup>xviii</sup>

Contributing to the weak agricultural finance infrastructure in Ukraine is the fact that agricultural land can only be leased, but not sold, by private persons or businesses. As a result, growers cannot borrow against land to finance investments or operations. There is also concern, for as long as this situation continues, that investors will work the land they cultivate to maximize output for the term of the lease, rather than managing and conserving soil and other resources for the long term.<sup>xix</sup>

More broadly, economic growth in agribusiness and the larger economy is constrained by numerous systemic obstacles, the most significant of which is corruption. Other major challenges in Ukraine include:

- Inefficient, short-term land management as a result of the current moratorium on land sales, and weak land governance, which together prevent the sale and taxation of land, impede capital investment, and encourage corruption;
- A lack of transparency within tax and customs institutions and harassment by tax and customs officials;
- A dysfunctional administrative court system, which is unable to fairly adjudicate business disputes;
- An undercapitalized and unstable banking system;
- Limited export financing resources;
- High tax rates;
- Opaque and costly regulatory environment;
- Poor protection of intellectual property rights.<sup>xx</sup>

Despite some recent improvements, U.S. exporters will continue to encounter a slow-moving bureaucracy and extensive paperwork requirements from Ukraine's State Customs Service. An American exporter or shipper usually does not deal with Ukrainian Customs directly unless registered as a company in Ukraine. For the most part, customs clearance is handled by a locally registered Ukrainian customs broker and/or the representative of a Ukrainian customer. For a list of licensed customs brokers contact the [Association of Customs Brokers of Ukraine](#).<sup>xxi</sup>

U.S. businesses have raised concerns that a 2015 Cabinet of Ministers Resolution on the use of customs value benchmarks instructs the Ukrainian State Fiscal Service (SFS), which assesses customs valuation—and duty rates—to base customs valuation on historic prices registered by the SFS, rather than on the contract price, as set out in the WTO Agreement on Customs Valuation and Ukraine’s Customs Code. A variety of other arbitrary and non-transparent customs valuation practices have been reported, as well.<sup>xxii</sup>

Ukraine is a major regional center for copyright piracy, especially digital piracy, by exporting infringing content to European Union markets, other countries in Eastern Europe, and beyond. For agricultural equipment manufacturers whose products rely on and generate large volumes of proprietary data, Ukraine’s failure to implement an effective and transparent system to combat online piracy poses a significant risk. The U.S. Trade representative listed Ukraine as a Priority Watch List country in its 2015 Special 301 Report.<sup>xxiii</sup>

For more information, see the:

- **Country Commercial Guide for Ukraine:** <https://www.export.gov/ccg>
- **The 2016 National Trade Estimate Report:** <https://ustr.gov/sites/default/files/2016-NTE-Report-FINAL.pdf>
- **Ukrainian Agrarian Confederation**  
<http://agroconf.org/en>
- **U.S. Ukraine Business Council**  
<http://www.usubc.org/>

## **Trade Events**

### ***Agro Complex 2017***

Description: A major agricultural trade show and conference featuring technological solutions from agricultural equipment and other agricultural inputs to management and financial services. The co-located Academy of Agrarian Success conference will present technological solutions.

Location: Kiev, Ukraine

Dates: October 30 - November 2, 2017

Website: <http://www.agrocomplex.kiev.ua/en>

### ***Agritechnica 2017***

Description: The world’s largest agricultural equipment exhibition, Agritechnica features machinery, equipment, and related goods and services for use in raising in crops.

Location: Hanover, Germany

Dates: November 12-18, 2017.

Website: <https://www.agritechnica.com/en/>

### ***EuroTier 2018***

Description: A leading global exhibition for machinery, equipment, and related goods and services for use in cultivating livestock, milling animal feed, and bio-mass energy production.

Location: Hanover, Germany

Dates: November 13-16, 2018

Website: <https://www.eurotier.com/en/>

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- <sup>i</sup> United States Department of Commerce, Bureau of the Census, Foreign Trade Division, TPIS Database: USHS EXPORTS, Revised Statistics for 1989-2014, Unrevised for 2015-2016.
- <sup>ii</sup> Ibid.
- <sup>iii</sup> Ibid.
- <sup>iv</sup> Ministry of Agrarian Policy and Food of Ukraine, *Strategy for Agriculture and Rural Development in Ukraine 2015-2020*; citing FAOSTAT, p.10. October 26, 2015, Kiev, Ukraine.
- <sup>v</sup> European Commission, *Benefits of the EU-Ukraine DCFTA – factsheet*. December 30, 2015; Brussels, Belgium. URL: <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1426>
- <sup>vi</sup> U.N. Food and Agriculture Organization, *Seed Policy and Programmes for the Central and Eastern European Countries, Commonwealth of Independent States and Other Countries in Transition*, Appendix 6: Country Profiles, Ukraine. 2001; Rome. Bloomberg, Port descriptions from Bloomberg Maps; retrieved April 13, 2017.
- <sup>vii</sup> FAOSTAT; U.N. Food and Agriculture Organization.
- <sup>viii</sup> Ministry of Agrarian Policy and Food of Ukraine, op.cit; Pp. 12-13.
- <sup>ix</sup> Ibid.
- <sup>x</sup> Ibid., P. 12.
- <sup>xi</sup> Ośrodek Studiów Wschodnich im. Marka Karpi (Marek Karpa Center for Eastern Studies), *The transformation of agriculture in Ukraine: From collective farms to agroholdings*; Pp. 9. July 7, 2014, Warsaw, Poland.
- <sup>xii</sup> Alan Bjerga, Volodymyr Verbyany, “That Boom You Hear is Ukraine’s Agriculture,” Bloomberg. October 13, 2016.
- <sup>xiii</sup> Ukrainian Agrarian Confederation; “Louis Dreyfus Commodities Acquires 5-Hectare Land Plot in Odessa,” October 21, 2015. Anton Usov, “EBRD Finances modern grain terminal in Odessa,” European Bank for Reconstruction & Development. July 29, 2014, London.
- <sup>xiv</sup> Olena Mykal, “Why China is Interested in Ukraine,” *The Diplomat*; March 10, 2016, Washington, DC.
- <sup>xv</sup> Ministry of Agrarian Policy and Food of Ukraine, op.cit; Pp. 15-16.
- <sup>xvi</sup> Business Monitor Online; “Ukraine Country Risk Report; November 25, 2016.
- <sup>xvii</sup> Economist Intelligence Unit; “Ukraine: Monetary Policy Outlook;” March 10, 2017.
- <sup>xviii</sup> Europe to Central Asia Agri-Finance Project, International Finance Corporation, *Agri-Insurance Market in Ukraine in 2016 Underwriting Year: Analytical Study*; Pp. 9, 16, 22-23. October 2016, Kyiv, Ukraine. U.N. Food and Agriculture Organization, *Country Profiles: Ukraine*. 2017, Rome, Italy. URL: <http://www.fao.org/countryprofiles/index/en/?iso3=UKR>
- <sup>xix</sup> Ośrodek Studiów Wschodnich im. Marka Karpi, op. cit.; Pp. 5, 9.
- <sup>xx</sup> U.S. Department of Commerce, U.S. Department of State: **Country Commercial Guide** for Ukraine; July 7, 2016.
- <sup>xxi</sup> Ibid.
- <sup>xxii</sup> Office of the U.S. Trade Representative, **2016 National Trade Estimate Report**, P. 433; Washington, DC, April 2016.
- <sup>xxiii</sup> Ibid., P. 434.