

**Working Party on the
Accession of Ukraine**

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ACCESSION OF UKRAINE

Status of Reforms of Property Relations and Development of Legislation in Agriculture

The Governmental Commission on Ukraine's accession to the WTO has submitted the following information with the request that it be circulated to members of the Working Party.

Reforms in the agrarian sector of Ukrainian economy in 2000

The crucial step in extending the structural reforms in Ukrainian economy in 2000 was the implementation of agrarian reform on the basis of private property. The Government carried out a number of organizational measures to create a favorable economic environment for the functioning and development of the reformed agricultural enterprises, forming a civilized agrarian market. Owing to this, certain positive changes are taking place now in villages. For the first time since Ukraine became an independent state, an increase of agricultural production is observed. In 2000 agricultural production output increased by 9.2 per cent, food industry output – by 26.1 per cent, losses of agricultural enterprises decreased by more than ten times.

The basis for regulating and stimulating further reforms in agriculture - in order to ensure implementation of the state agrarian policy, accelerating reforms and development of the agrarian sector of economy – is the Order of the President of Ukraine No. 1529/99 dated 3 December 1999 "On Urgent Measures on Acceleration of Reforming the Agrarian Sector of Economy".

Presently, there are 14.7 thousand new agricultural formations registered in the regions. By 1 January 2001, 6.5 million citizens had received the certificates of the right for a land share, another 407,000 individuals received the state acts of the private ownership for land; by the end of March 2001, the number reached 1.12 thousand individuals. 5.6 million peasants leased their land to others, property lease agreements are made with 4 million citizens – owners of land shares.

The Order was based on the provisions of the Ukrainian Constitution and Ukrainian Laws, and brought together everything progressive and necessary from the existing dispersed agrarian legislation, and generally stimulated the creation of effective market mechanisms in villages on the basis of private property for land and capital.

The main goal of the mentioned Order was a logical completion of the earlier initiated process of land and property sharing of collective agricultural enterprises. It set a legal and economic basis of regulating land and property relationships in the process of their restructuring, created preconditions for further advancement and extension of agrarian reforms and for the transition of agriculture to the market economy.

To implement the Order No. 62 of the President of Ukraine "On Measures to Ensure Protection of Property Rights of Peasants in the Process of Reforming the Agrarian Sector of Economy" dated 29 January 2001, the Cabinet of Ministers of Ukraine by means of normative and legislative acts during 2001 will ensure the solution of organizational and practical problems of reformed enterprises (former collectives) and assignment of peasants' rights for property shares; acceleration of the issuing of state acts of the right for private ownership for land and property certificates: including land and property shares in economic turnover; creation of conditions for their purchase and sale; creation of a proper infrastructure; organization of corresponding auctions; ensuring a system of registration of the right of ownership for land and property; development of lease of land and of property shares; guaranteeing their withdrawal for own use; and protection of long-term interests of peasants against illegal alienation or unpaid use of their property. The Decree No. 177 of the Cabinet of Ministers of Ukraine dated 28 February 2001 "On Regulating Problems Related to Ensuring Protection of Property Rights of Peasants in the Process of Reforming the Agrarian Sector of Economy" approved the methods of specification of composition and value of property share funds of the members of collective agricultural enterprises, including reorganized enterprises.

To complete reforming relationships between property and economic activity in the country, the Supreme Rada of Ukraine has to pass the Land Code and the laws "On State Registration of Real Estate", "On Private Ancillary Farms", "On Evaluation of Property and Evaluation Activity".

The logical continuation and enforcement of the first positive results in the process of reforming agriculture was the Decree of the President of Ukraine No. 767 dated 6 June 2000 "On Measures to Ensure Forming and Functioning of the Agrarian Market". Creation of infrastructure of the agrarian market, making this market more transparent, facilitating the access of subjects of economic activity to market information by means of providing information on prices and market opportunities are determined by this Decree are considered to be areas of top priority.

Commodity exchanges' activities became more dynamic in 2000. For the time, during which the Decree of the President of Ukraine No. 767 dated 6 June 2000 "On Measures to Ensure Forming and Functioning of the Agrarian Market" (June-December) was in effect, the total sales volume of agricultural products was UAH 1131.8 million, which is 15 times as more as for the same period in 1999.

To improve the availability to agricultural producers of material and technical resources and services, the Program of establishment and development of agricultural servicing cooperatives as non-profit organizations was developed.

The work on establishing agrotrade houses in regions became more active. 92 agrotrade houses were active in 1999. By 6 September 2000 this number had reached 291, including 243 houses on the regional level. The Council of agrotrade houses was set up. The work on their accreditation as brokerage houses of commodity exchanges is underway.

The number of wholesale food and wholesale fruit and vegetable markets increased in number. There were 115 markets in June 2000, and 302 by the beginning of September.

The Ministry of Agrarian Policy of Ukraine initiated creation of agricultural reform centers on the district level. Informational and analytical centers, established on the regional level for quick responding to requests and proposals of peasants are continuing their activities.

Providing consulting services and training agricultural producers is considered to be an important link in the further development of agricultural production in the new economic conditions. Advisory services, a network of which is being established on the state and regional levels are designated to resolve these questions. A draft of the State Program "On Advisory Service in Ukraine",

targeting the successful development of agricultural advisory service, is recommended for submission to the Government.

Political, social and economic reforms initiated in Ukraine created social and economic grounds for revival of cooperative movement in Ukraine. Cooperation is a logical stage of further development of reforms that becomes possible owing to establishment of a considerable number of independent private producers-owners, who have common economic interests in conducting market activity.

In order to facilitate establishment and development of agricultural servicing cooperatives in Ukraine, establishment of legal, organizational and social and economic conditions related to their development, the Ministry of Agrarian Policy of Ukraine has approved the Program of establishment and development of agricultural servicing cooperatives as non-profit organizations, aimed at concentration and mobilization of efforts of all interested sides in development of agricultural servicing cooperatives through defining main directions and priorities of work regarding support and development of cooperative movement in the agroindustrial complex of Ukraine based on a well-grounded, consistent and effective system of organizational measures.

In the beginning of 2000 the Ukrainian Government made another step towards forming new principles of the agrarian policy of the country: refusal to provide agricultural enterprises with material and technical resources, as stipulated in the Resolution of the Cabinet of Ministers of Ukraine "On New Approaches to Providing Agricultural Producers with Material and Technical Resources" dd. January 17, 2000; decrease of product crediting and barter payments. The Resolution also allows partial compensation of interest costs on credits of commercial banks to entities in the agroindustrial complex. According to the Resolution of the Cabinet of Ministers of Ukraine No. 398 dated 25 February 2000 "On Additional Measures on Crediting of Complex of Agricultural Works" the amount of UAH 175 million was designated for partial compensation by the budget of the State in 2000. This gave an opportunity to make the activity of banks on the agricultural market more dynamic; in the year 2000, enterprises of the agroindustrial complex received the amount of UAH 1.9 billion in credit, including agricultural producers (over UAH 984 million), UAH 818.5 of which is on preferential terms.

The above-mentioned reforms, enforced by the corresponding legislative base, assisted decentralization of ownership relationships in the agroindustrial complex.

The State of Reforms in the Property Relations in Agriculture and Government Procurement of Ukraine

By 1 December 2000, almost all of the 10,833 collective agricultural enterprises were reorganized, and 14,741 new agricultural enterprises were established according to the current legislation. Among them the following are registered: 1,254 (8 per cent) farms, 2,901 (20 per cent) private (private-leased) enterprises, 6,761 (46 per cent) economic partnerships, 3,325 (23 per cent) agricultural cooperatives. The given enterprises are created on the basis of private ownership and land and property rentals.

During the period of implementation of the Presidential Decree No. 1529/99 dated 3 December 1999 "On Urgent Measures on Acceleration of Reforming the Agrarian Sector of Economy", a part of economic partnerships in the structure of agricultural enterprises grew from 14 to 46, agricultural cooperatives – from two to 23 per cent.

2,163.6 thousand people are employed at the newly constructed enterprises, which constitutes 44 per cent of the total number of employees engaged in agriculture, including private ancillary farms.

Privatization of state property – objects of the agroindustrial complex – is carried out according to the State Program of privatization and according to the Law of Ukraine "On Peculiarities of Privatization of Property in the Agroindustrial Complex" and the normative and legal base, developed for implementation of these laws.

Along with reforming of ownership of agricultural enterprises, reforming of ownership of processing, agroservice and construction enterprises in the agroindustrial complex is taking place.

Out of 8,964 state agricultural enterprises (state farms, processing, agroservicing and construction enterprises) by 1 November 2000:

- 90 are being planned for privatization;
- statutory documents for 362 enterprises are being registered, as well as their shares and information on the issue of shares;
- 7,821 enterprise began to sell shares (have completed sales agreements or transported the property free of charge); and
- 7,596 enterprises were privatized with 70 per cent of shares or more.

By 1 November 2000, 2,602 state farms and other state agricultural enterprises, which were subject to privatization, were prepared for reform. This exceeds 95 per cent of the total.

At the beginning of October 2000, the farms in Ukraine numbered 37.6 thousand legal persons (since 1 October 1999 grew up at almost 2 thousand enterprises). Growth in the number of farms is conditioned by the process of reforming the collective agricultural enterprises, so as until 1999 there was a certain tendency towards the reduction of the number of farms.

Almost doubled the land share, which is used by farmers: farms occupy 4.7 per cent of all agricultural land resources, compared to 2.7 per cent of the previous year. In general, 1,982.8 thousand hectares of agricultural lands are being used by the farmers, 1,840.5 hectares out of them are cultivated. The farms are being consolidating. On the average, 53 and 50 hectares belong now to an enterprise, compared to 39 and 36 of the previous year.

Thus, three main types of enterprises are being formed:

- small personal and farming enterprises;
- medium, mainly private enterprises, LTD's and farms expanded at the cost of rent of land shares; and
- big agricultural enterprises, mainly of corporate type, which widely lease the land and property.

Approximately 300 thousand citizens attached their own land shares to their ancillary farms without establishing a legal entity. The personal ancillary farms occupy the area of 4.3 million hectares, which is 12.3 per cent of all agricultural resources, including 3.5 million hectares of cultivated land, including the infield plots. In the future, at the cost of this category of citizens, the number of farms will grow significantly.

After adoption of the Resolution of the Cabinet of Ministers of Ukraine No. 1218 of 5 November 1997 "On Speeding up the Process of Privatization of Bread Collecting and Bread Storing Enterprises, a considerable progress was observed in the privatization of bread collecting and bread storing enterprises, which were previously Incorporated into the State Stock Company "Khlib Ukrainy".

The goal set forth by the Governmental resolution is on the whole achieved. Out of 557 enterprises of bakery system, only 100 enterprises are incorporated into the stock company "Khlib Ukrainy". And 443 bread collecting enterprises and bread storing enterprises that are not included into the statutory fund of the state stock company "Khlib Ukrainy", are in the process of privatization.

By 22 March 2001, the sale of shares of 443 enterprises was launched. The stage of completion of privatization approaches. Thus, according to the data of the State Property Fund of Ukraine, by 1 May 2000, 401 enterprises were privatized with 70 per cent and more shares. On 22 March 2001 this figure is already 424. As of 1 May 2001, 146 bread collecting and bread storing enterprises were privatized with 100 per cent shares. On 22 March 2001 this figure is 298.

According to the Law of Ukraine of 10 July 1996 "On Peculiarities of Privatization of Property in the Agroindustrial Complex", 51 per cent of shares of a privatized object shall be transferred free of charge to the agricultural producers, who have direct contractual arrangements with it. Some shares are obtained by the employees of the enterprises. The remaining shares are sold on a competitive basis.

The Government adopted a Resolution "On Approval of the Statute of the State Stock Company "Khlib Ukrainy"" of 14 March 2001, which approves a new reading of the company's Statute. This Statute corresponds to the requirements of the legislation on the activity of stock companies and the decisions of the State Commission of the Securities and Exchange Market. The procedure for managing the shares is regulated by another Resolution of the Cabinet of Ministers of Ukraine of 15 May 2000, No. 791 "On State Corporate Rights Management".

The company is established with a view to satisfy the needs of the population, institutions and enterprises of any type of ownership in industrial and forage grain, products of its processing, non-grain raw materials, elite and high-quality grain, to provide storage services, processing and sale of agricultural products, and to receive incomes from conducting entrepreneur activity.

The State Stock Company "Khlib Ukrainy" is not included into the List of entrepreneurs that are monopolistic on the national market (as of 1 January 1999), dated 12 March 1999, No. 31-29/04-904.

Liberalization of prices for agricultural products and foodstuffs took place in Ukraine. Market players began to respond to market signals accordingly. In 2001 the State did not fix prices for agricultural products, except for sugar beet prices. The Decree of the Cabinet of Ministers No. 868 dated 2 June 2000 approved the minimal price for sugar beet, which had to be supplied for sugar production within its supply quotas on the domestic market and according to international agreements, as well as the minimal price for sugar, and quotas of its supply to the national market.

Legislative support of further reforms in the agrarian sector.

The top priority directions of further reforming of the agrarian sector are as follows:

- reorganization of structure of state administration bodies of the agroindustrial complex according to the functional grounds of their activity in the conditions of market economy;
- extension of land reform by means of issuing state acts of the right of private property for land to owners of land shares, and legislative establishment of land market infrastructure;
- extension of private ancillary farms at the cost of land shares of their owners without registration a legal entity as a core of family peasant farms, and implementation of the

social doctrine of employment of village population through development of small and medium business;

- restructuring of farms and enterprises of the agroindustrial complex and diversification of their industrial and entrepreneur activity;
- development of agricultural cooperation, including a network of machine and technological stations, with attraction of small land owners to the cooperative movement, and establishment of credit unions with participation of owners of private ancillary and peasant farms, and other agricultural enterprises;
- introduction of the system of long-term and low-per cent crediting of agricultural enterprises of all forms of ownership and economic activity;
- implementation of the price policy by means of introducing price-making mechanisms on the domestic market of agricultural products through functioning of agrarian exchanges, wholesale fruit and vegetable markets, cattle auctions, etc.;
- extension of external sales markets for agricultural products through increasing competitiveness of foodstuffs of home producers;
- attracting foreign and home investments by means of establishing joint ventures in order to carry out their technical and technological re-equipment to increase production of competitive products along with creating favorable tax and investment climate;
- reforming the system of agrarian science and education through uniting of profile scientific and educational institutions in order to improve the quality of training specialists and effectiveness of scientific research and their introduction into production activity; and
- introduction of the system of agricultural advisory service and support of regional land owner associations (Agrarian Chambers) in order to protect their social and economical interests.

In order to resolve these questions the Ministry of Agrarian Policy of Ukraine prepared a number of new draft laws, some of which are already approved by the Supreme Rada of Ukraine in the first reading, as well as other normative and legislative acts. The most important among them are: "On Mortgage", "On Pledge", "On Land Protection", "On State Registration of Rights of Ownership for Real Estate", "On Credit Unions", "On Agricultural Cooperation", etc..

According to Article 10 of the Law "On Stimulating the Development of Agriculture for the Period of 2001-2004", adopted by the Supreme Rada, a part of expenses from the State budget for financing development of agriculture should be not less than five per cent of the total expenses. According to the Law of Ukraine No. 2120-III "On State Budget of Ukraine for 2001" dated 7 December 2000, the approved amount of the State budget expenses for 2001 constitutes UAH 41,990,788.5 thousand. That is according to article 10 of the Law of Ukraine "On Stimulating Development of Agriculture" the financial support of agriculture development may constitute UAH 2,100,000,000 or US\$387,000,000. This means that the limit of support at the cost of the state budget determined by the law does not exceed the agriculture support level (AMS), and green box measures, which is the subject to discussion at the talks on accession to the WTO.

To implement the Law of Ukraine "On Stimulating Development of Agriculture for the Period of 2001-2004", two draft laws of the presidential decrees were developed: "On Main Grounds of Policy of Credit Procurement of Agriculture of Ukraine" and "On Insurance of Agricultural Crops and Perennial Plants". State stimulation of credit procurement will be carried out by means of:

- legislative provision of protection of creditors' and borrowers' rights;
- development of financial market infrastructure;
- development of consulting and advisory services market; and

- non-interference of state authorities with production and financial activity of agricultural enterprises.

The following draft laws developed by the government make the reform of the agricultural sector irrevocable (the drafts will be enacted gradually in 2001-2003):

- Land Code of Ukraine (included in the agenda of the seventh session of the Supreme Rada)
- On State Registration of Real Estate
- On Private Ancillary Farms
- On the Establishment of Seasonal Export Duties for Sunflower Seeds
- On Declaring the Law on Export Duty for Live Cattle and Leather Raw Materials Ineffective
- On Evaluation of Property and Evaluation Activity
- On Mortgage (included in the agenda of the seventh session of the Supreme Rada)
- On Sales and Purchase of Land Plots
- On Peculiarities of Crediting of Agriculture
- On Land Protection
- On Credit Unions
- On Agricultural Cooperation (enacted on November 2, 2000, No.2090)
- On the Amendment of the Law On Agricultural Cooperation (included in the agenda of the seventh session of the Supreme Rada)
- On Making Changes to the Law of Ukraine "On Quality and Safety of Foodstuffs and Food Raw Materials" (processed in ministries and committees)
- On Collective Gardening
- On Making Changes to the Law of Ukraine "On State Regulation of Importing Agricultural Products" (included in the agenda of the seventh session of the Supreme Rada)
- On Making Changes to the Law of Ukraine "On Land Payment" (enacted on 8 February 2001, No. 2271-XIV)
- On Making Changes to the Law of Ukraine "On Operations with Goods Made on Commission in Foreign Economic Relations"
- On Warehouse Crops Certificates
- On Land Book
- On State Support of Gardening and Wine-Growing
- On Agrarian Chamber of Ukraine
- On Land and Other Natural Resources Ownership
- On Legal Protection of Selective Achievements in Cattle Breeding (included in the agenda of the seventh session of the Supreme Rada)
- On Wine-Growing and Wine-Making
- On Making Changes and Amendments to the Forest Code of Ukraine
- On Making Changes and Amendments to the Code of Ukraine on administrative violations (regarding responsibility for violation of legislation related to livestock breeding issues) (included in the agenda of the seventh session of the Supreme Rada)
- On Agreements Regarding Estrangement of Land Share (enacted on 18 January 2001 No. 2242-XIV)
- On Making Changes and Amendments to the Law of Ukraine "On Plant Quarantine" (included in the agenda of the seventh session of the Supreme Rada)
- On Making Changes and Amendments to the Law of Ukraine "On Seeds"(included in the agenda of the seventh session of the Supreme Rada)
- On Making Changes to the Law of Ukraine "On Protection of Rights for Plant Grades" (included in the agenda of the seventh session of the Supreme Rada)

So in 2000 the system of relations of forms of ownership in agriculture has changed substantially. In the course of the implementation of the Decree of the President of Ukraine "On Urgent Measures on Acceleration of Reforming the Agrarian Sector of Economy" No. 1529/99, of 3 December 1999, the structure of private agricultural enterprises has gone through significant changes. Whereas on 1 December 1999, the most common type of agricultural enterprises were collective farms (64 per cent), at the beginning of 2001 such type of enterprises practically does not exist.

At present agricultural producers are private and corporate entities occupying 97 per cent of agricultural land resources. The exception is a small number of state-owned "soviet farms" (sovkhozes).
