ORGANIC PRODUCTION AS AN INNOVATIVE TREND IN EXPORT-ORIENTED DEVELOPMENT OF UKRAINE'S AGRICULTURE

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Despite the global economic slowdown, the sales of organic products on the international market continue to grow, and their production is becoming one of the most promising directions in agriculture. Given Ukraine's natural resources, export-oriented production of organic products has great potential. The purpose of this survey – to analyze the current trends on the global market for organic products, as well as the potential for organic farming in Ukraine, and to find the prospects and ways to develop exports. Using of general logical methods of induction and deduction, analyzing the trends on the global market for organic products and the potential of Ukraine's agriculture, organizational, economic, socio-cultural and regulatory conditions for the development of organic production in Ukraine are distinguished. The factors and promising directions of Ukraine's export specialization on the world market for organic products are explored, major methods of stimulating and supporting exporting producers are suggested.

Key words: export-oriented organic production, global market of organic products, organic products.

JEL codes: O13, F1.

1. Introduction

The Ukrainian economy continues to globalize with its agriculture integrating into the world economy, which pushes manufacturers to focus on innovative business areas that can ensure competitiveness on the international market. Given the potential of the national agriculture thanks to a combination of climate and natural resources along with the high and fast-growing popularity of organic products in developed countries, export-oriented production of organic products can become one of these focus areas.

There are a number of Ukrainian and foreign researchers who studied the factors contributing to the development and operation of organic farming including V. Artish (2009), A. Kozlova (2011), E. Milovanov (2010), T. Chayka (2011), F. Bante (2007), F. Changa (2006). Their works are about studies of the mechanism of formation and function of the Ukrainian and foreign markets for organic products. O. Shlapak (2004), O. Kuzmenko (2013) and M. Kobets (2004) analyzed the promising long-term organic trends and production efficiency. N. Berlach (2011) focused on the legal aspects. However, despite the relatively large number of studies, the aspects and priorities of developing organic farming exports are yet to be explored.
Hence the purpose of this survey – to analyze the current trends on the global market for organic products, as well as the potential for organic farming in Ukraine, and to find the prospects and ways to develop exports. The survey will focus on formation, operation and development of organic farming exports.

2. Methodology of the research

The methodology of this survey is based on the use of general logical methods of induction and deduction, analyzing the trends on the global market for organic products and the potential of Ukraine's agriculture in order to get an idea of the prospects of export specialization. The analysis is based on secondary data and summary of the results of earlier studies. The main sources are the official records and reports of such organizations as FIBL – Research Institute of Organic Agriculture, IFOAM - Global Organic Trade (Organic Trade Association), Organic World (International organic agriculture statistics) and data from the State Statistics Service of Ukraine.

3. Results

3.1. Trends on the Global Market for Organic Products

Organic foods are distinguished from non-organic foods by the methods used in their production and processing, rather than by observable or testable characteristics. Although there is no single international organic production regulation, all generally accepted organic rules prohibit use of synthetic fertilizers, pesticides, growth regulators, and livestock feed additives, and require long-term soil management, emphasis on animal welfare, and extensive record keeping and planning.

Demand for organic products in the world is very big, because consumers want healthy and safe food, and most of them are aware that organic farming preserves the environment. Consumers should be constantly informed about the benefits they get by eating organic produce, and that high prices of such products are, compared to a value that is obtained, are the «cheapest» buy. It must be borne in mind that the «worst» decision is the choice of consumers to purchase «wrong» products due to the fact that consumption of unsafe food threatens the health and consequently they must allocate a lot of money for the treatment of illnesses caused by this kind of food.

The European Union Commission defines organic agriculture as follows: «Organic agriculture differs from other farming systems in several ways. It pleads for the recovery of resources and recycling while restoring soil nutrients from waste products. As for livestock, meat and poultry production, it is regulated with particular concern for the welfare of animals and the use of natural ingredients. When it comes to the control of pests and diseases in crops and livestock, organic agriculture respects the environment and avoids the use of synthetic pesticides, herbicides, chemical fertilizers, growth hormones, antibiotics and gene manipulation. Instead, organic
farmers use a range of techniques that help sustain ecosystems and reduce pollution» (Tomic, 2010).

Organic farming is a concept which includes all agricultural systems that use special methods for the production of organic foods (Andreev, 2006). In the late 1960s and early 1970s, organic foods were immensely popular, and for the last 35 years, organic products have been one of the most promising areas in agriculture. Despite the slowdown in the global economy, the sales of organic products on the global market keep growing. According to FIBL and IFOAM (The World..., 2013) the market for organic foods and beverages in 2012 almost reached 80 billion U.S. dollars. The market grew by 170% compared to 2004. Major consumers are the developed countries of North America and Europe, which account for 90% of global sales (Fig. 1). Production of organic foods in other countries, especially in Asia, Latin America and Africa, is mostly export-oriented.

According to Global Organic Trade (Europe..., 2012), today the world has fully formed markets for organic products in such segments as fruits and vegetables, milk and dairy products, baby food, eggs, meat, cereals and more.

![Fig. 1. The market for organic products in the USA and EU, 2004–2012](image-url)

Source: based on the data from Organic Agriculture (2012).

If we consider the international market as a whole, we will see that consumers of organic products place importance on a number of factors including healthy and environmentally friendly food, excellent taste, preservation of the natural environment in the production process, absence of genetically modified organisms. One of the major trends in consumer behavior is also paying attention to the ethics of production (Kozlova, 2011). These motivating factors make some consumers willing to pay a premium for organic products which today are in ever-growing demand.

### 3.2. Prospects of Export-Oriented Organic Farming in Ukraine

With the current globalization and integration into the world economy, Ukraine has developed the economic, social, institutional and legal conditions for entering the
market for organic products and securing its own niche there. In 2014, the Law of Ukraine No. 425 – VII "On the Production and Circulation of Organic Agricultural Products and Raw Materials" came into force. Another document that focuses on the organic sector is the Development Strategy of the Economy's Agricultural Sector for the Period up to 2020 approved by the Cabinet of Ministers of Ukraine under the number № 806-r. One of the Strategy's strategic objectives is ensuring the national food security by promoting organic farming. In addition, the National Special Program of Rural Development for the Period up to 2015 aims to bring the share of organic products in the gross agricultural output to 10% (6% in 2012 (Gross Products..., 2013)).

The economic feasibility of developing export-oriented organic farming is primarily based on the country's natural resources potential. Ukraine has vast areas of fertile croplands with high humus content (3–5%) which for 15–20 years have been free from cropping or chemical or even organic fertilization. Usually, these lands are located in remote areas or around former villages, which means they are not affected by technogenic or any other negative environmental factors. These are the croplands that can be used for organic farming.

In Ukraine, organic products are considered a "luxury." At this stage the income elasticity of demand is in the highest category, which means that demand will grow together with incomes. However, in developed countries the situation is different, as evidenced by the results of the studies of F. Bunte (2007) and F. Zhang (2006). Demand in the middle of organic European and US markets (some of the most crowded and fastest growing) for milk, meat, cereals, peas, corn, apples, grapes, strawberries and other berries has price elasticity. This means that this segment of the world market may expand significantly after new players emerge and prices fall.

Cross-elasticities for organic and non-organic products are positive, which means these products are interchangeable, and the income elasticity for organic products does not exceed the elasticity for ordinary goods. Obviously, consumers in developed countries do not see organic products as a "luxury" demand for which increases together with the profit, but rather as an integral part of a healthy lifestyle and manifestation of the public attitudes towards environmental issues.

These conditions allow Ukraine's export-oriented producers to offer competitive prices thanks to the use of cheap labor prevailing in agriculture and the lack of rent (or its small share in the cost of production).

The social significance, cultural appeal and environmental benefits aimed at improving the condition of land, water, air and increased biodiversity are just as important for the development of export-oriented organic farming as a part of the national economy and for improving the living standards.

IFOAM's official statistical surveys show that at the beginning of 2003, Ukraine had 31 registered farms with "organic" status, and in 2012 there were already 164 certified organic farms with 272,900 ha of certified organic farmlands (Fig. 2).

Over the last five years, Ukraine's annual market for organic products is estimated at 40 million US dollars (Organic Farming..., 2013). Ukrainian farms are most-
ly oriented on exports to EU countries (Italy, Germany, the Netherlands, Belgium and France) and, to a lesser extent, to North America (including the United States and Canada) and Japan.

Fig. 2. Changes in the number and area of certified organic farms in Ukraine, 2002 - 2012


The driving force behind the growth of organic farming in Ukraine is undoubtedly the export market. The main organic products exported by Ukraine are cereals, beans, oilseeds, essential oils, mushrooms, nuts and fruit juice concentrates (Milovanov, 2010). Here, it is important to point out promising product specializations that will help to achieve strong positions on the global market (Table 1).

Analysis of the promising directions of export-oriented agriculture shows that Ukraine has a number of organizational and economic factors that impede the growth of organic farming. Specifically, in most cases manufacturers use outdated technology, which results in low profitability and affects the motivation of small and medium-sized operators. Another factor is the isolation of scientific research institutions and organic businesses, which hinders innovation and technological development. Furthermore, there are a number of unresolved issues such as problems with transport infrastructure facilities, product storage and processing, provision of tillage equipment, access to export infrastructure and more.
Table 1. Promising Directions in Ukraine's Export Specialization on the Global Market for Organic Products

<table>
<thead>
<tr>
<th>Directions for organic farming</th>
<th>Farmland / grazing land</th>
<th>Cheap labour force</th>
<th>Modern technology</th>
<th>Theoretical and practical breeding base</th>
<th>Infrastructure and related industries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fruits</td>
<td>+</td>
<td>+</td>
<td>+/-</td>
<td>+</td>
<td>+/-</td>
</tr>
<tr>
<td>Berries</td>
<td>+</td>
<td>+</td>
<td>+/-</td>
<td>+</td>
<td>+/-</td>
</tr>
<tr>
<td>Beef</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>+/-</td>
<td>+/-</td>
</tr>
<tr>
<td>Pork, poultry</td>
<td>+</td>
<td>+</td>
<td>-</td>
<td>+/-</td>
<td>+/-</td>
</tr>
</tbody>
</table>

Source: (Shlapak, 2004; Ekologichne Silske... 2006; Artish, 2009; Kuzmenko, 2013).

Ukrainian exports of organic products are affected by two factors. First, competitive prices. Second, legitimacy and compliance with quality standards, because in Ukraine, the environmental certification of agricultural products is done in accordance with the standards established by such international organizations as the Global Eco-labeling Network (GEN) and, in some cases, the International Federation of Organic Agriculture Movements (IFOAM). However, a negative factor which complicates the process of standardization and certification for entering international markets is a very small number of national certification centers where you can go through the procedure and obtain confirmation that products conform to international standards.

At this stage, developing organic exports requires focusing on promoting innovative production. It should be noted that environmental and regional programs to support agriculture are among the WTO's "green box" measures, and the costs of these activities are not strictly limited. Thus, government development programs can be implemented in several ways. Firstly, subsidies for organic producers (especially during the transition period) to stimulate interest and increase business profitability. Secondly, information support and assistance in the preparation of production, marketing, financial and international trade strategies to improve coordination between the participants of the national and international market for organic products. In this regard, it is important to create a positive image of exports to educate producers on the benefits and opportunities of organic farming. Thirdly, subsidies for the development of production and sales infrastructure. Fourthly, the improvement of regulatory framework to reinforce the State standards that meet international regulations and to develop the national system of certification and labeling of organic products.

4. Conclusion

1. The study has showed that the growth rate of the global production and sales of organic products in 2004–2012 is approximately 10%. Sales of organic products on the world market in 2012 reached 80 billion US dollars, with North America and Europe accounting for about 90% of sales.
2. The potential of export-oriented production in Ukraine primarily depends on the country's natural resources, as well as a number of organizational, economic, socio-cultural and regulatory factors, which allows Ukraine to compete on the global market. In view of the above, in 2012 Ukraine had about 164 certified producers, and the area of organic farmland increased by 165% between 2002 and 2012.

3. Developing export-oriented organic farming requires the government's focused effort in the following areas: subsidies for organic farmers, media support for market participants, promoting the development of production and sales infrastructure and providing exporters with access to market infrastructure at the international level, improving the regulatory framework and aligning it with international standards.

References

EKOLOGINĖS GAMYBOS BŪDAS – INOVATYVI Į EKSPORTĄ ORIENTUOTOS ŽEMĖS ŮKIO GAMYBOS PLĖTROS KRYPTIS

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Santrauka

Nepaisant pasaulio ekonomikos augimo sulėtėjimo, tarptautinėse rinkose ekologiškų produktų pardavimai ir toliau didėja, tapdami viena iš perspektyviausių žemės ūkio gamybos sričių. Atsižvelgiant į Ukrainos turimus gamtinius išteklius, galima teigti, kad į eksporų orientuota ekologiškų produktų gamyba turi didelį potencialą. Šiame straipsnyje išanalizuotos tarptautinės ekologiškų produktų rinkos tendencijos, įvertintas Ukrainos ekonominės, socialinės, institucinės ir teisinės aplinkos poveikis ekologiškų produktų gamybos plėtrai, atskleisti veiksniai ir perspektyvios į eksporų orientuotų ekologiškų produktų gamybos kryptys, pasiūlytos priemonės, galinčios paskatinti eksporțiaujančius ekologiškų produktų gamintojus.

Reikšminiai žodžiai: į eksporų orientuota ekologiškų produktų gamyba, tarptautinė ekologiškų produktų rinka.

JEL kodai: O13, F1.