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AGRI-FOOD POLICY REVIEW

**Food Safety and Quality
Standards in Ukraine: A need
for a breakthrough**

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The current largely Soviet-type food safety and quality (FS) system in Ukraine does not ensure effective FS control for population but rather undermines Ukraine's export potential and international competitiveness in agriculture and food sectors via significant FS compliance costs. Recently, however, the government of Ukraine came out with a comprehensive and progressive proposal (Draft Law #10495) to streamline the Ukrainian FS legislation and harmonize it with the best international practices. This should significantly decrease the FS compliance costs and increase the effectiveness of the FS control system at the same time. In our view, the Draft Law requires speedy enactment.

Food safety and quality control system have important implications for health safety of humans. However, FS regulations can also act as barriers that impede trade, production and innovations. The negative impact that such barriers can have on international competitiveness is often underestimated.

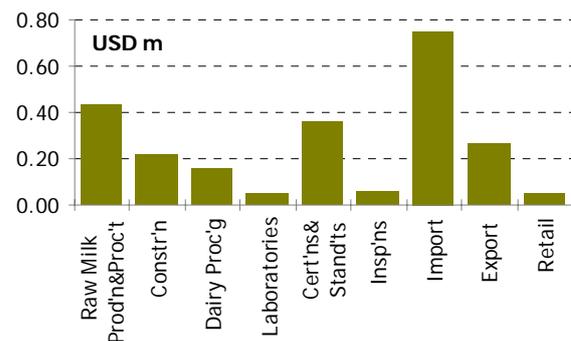
Ukraine has been using outdated and non internationally-harmonized and WTO noncompliant FS system. Its main features are:

- i) FS legislation is fragmented and contradictory;
- ii) FS standards and other requirements are outdated, overly-prescriptive, mandatory and product-focused; this, for example, may dictate a specific recipe, type of equipment, or material to use;
- iii) FS control government agencies (several) control the same parameters and lack of appropriate communication or coordination. This results in scattered and overlapping competencies, redundant inspections, and overall inefficient FS control.
- iv) FS control is based mainly on the 'end-of-pipe' principle, whereby pervasive sample collection, compulsory certification, and frequent on-site inspections are implemented instead of a comprehensive and robust risk based control system throughout the production process (such as HACCP – hazard analysis and critical control points);
- v) Testing laboratories mainly do not meet the requirements of the EU and other industrial countries;
- vi) Lack of a well-functioning traceability system to enable prompt recall of unsafe products, identification and sanctioning of non-compliant producers for alleged FS violations.

Such a rigid, outdated and overly complex FS system in Ukraine results in significant compliance costs for the business. For example, according to the IFC estimates, the FS compliance costs for a typical export-oriented dairy supply chain in Ukraine made up USD 2.24 m in 2010 (see Figure 1). As there are about 17-22 such chains in Ukraine, it results in USD 38-49 m or roughly

9% tax on Ukraine's dairy export in 2010! This significantly undermines Ukraine's agri-food export potential and competitiveness. The experience of advanced economies, however, has shown that necessary and adequate levels of safety can be achieved without restrictive, inflexible, and highly administrative processes.

Figure 1: Food safety compliance costs at different stages of a typical dairy supply chain in Ukraine



Source: IFC. Note: Typical dairy supply chain includes 12000 households and 1200 milk collecting points; 2-3 commercial farms with more than 1000 cows; dairy processor with: 1-3 processing lines (at 1/3 capacity) and 1 laboratory, 10-13 dairy products varieties, 12 inspections annually, 60% of imported equipment, 47 t of dairy exports per month on average.

Figure 1 demonstrates that import of raw materials, equipment, and final products, raw milk production and procurement, dairy processing, and even dairy export are the most heavily regulated stages of the dairy value chain. In USD 2.24 m of the overall FS compliance burden, staff costs account for a lion share of the overall burden (49%); other types of costs (including consulting services, acquisition costs, and unofficial payments) account for 29%; and only 22% make up the official fees. This represents a 'hidden' FS control burden that does not necessarily contribute to official revenues and to the overall FS in the country.

Recently, the government of Ukraine came out with a comprehensive and progressive proposal to streamline the Ukrainian FS legislation and harmonize it further to the best international practices. The Draft Law # 10495, among other things, suggests introducing: i) one FS controlling government body (State Veterinary and Phytosanitary Service); ii) mandatory introduction of HACCP and of traceability and food reclaiming system; iii) simplification and streamlining the requirements with respect to production hygiene, registration and permit procedures, state control procedures, labeling etc. The Draft Law is expected to significantly decrease the FS compliance costs and thus to support the competitiveness of domestic producers. Moreover, it is to increase the effectiveness of the FS control system. In our view, the draft law requires speedy enactment by the Parliament and the President.