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**The Draft Law “On
Agriculture”: Back to Central
Planning?**

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Recently the Ministry of Agricultural Policy and Food of Ukraine made public its Draft Law 'On Agriculture'. It has all the means to re-introduce central planning in Ukrainian agriculture. In its current form, the Draft Law should be heavily reconsidered, or better dropped altogether.

The Draft Law defines main principles, mechanisms and instruments of the State agricultural policy (SAP) in Ukraine. The **objectives** of the SAP in the Draft Law mainly reiterate modern agricultural policy objectives (Article 4), i.e. i) food security and supply of high-quality food and raw materials for processing industry, ii) an export-oriented and competitive sector, and iii) contribution to preserving nature and landscape. Further detailed analysis of the Draft Law, however, reveals that food security is meant here in a sense of food self-sufficiency (Article 13). Economic research clearly shows that while self-sufficiency does indeed provide consumers with physical availability of food, it does not ensure its economic availability. Ensuring food self-sufficiency will exclude Ukraine from international trade and specialization benefits, thus making the country overall poorer.

Another deficiency is that achieving productivity increase is completely missing from the set of SAP's objectives. Economic research suggests that the only sustainable way to increase the competitiveness of agriculture is to ensure its productivity growth. Given the current productivity gap in Ukraine, this should be the key issue for the government; focusing on fostering technical and efficiency progress will ensure food security in the country and increase the contribution of agriculture to national economic growth and welfare.

The key element of the Draft Law is the system of so-called **agricultural passports** (AgPTs, Article 12). The system is structured in the following way: AgPTs are developed for each administrative unit of Ukraine; afterwards they are aggregated to the regional and further up to the national level, i.e. to 'AgPT' of Ukraine. Individual AgPTs are developed for five years and contain **agricultural production standards** (AgPS, Article 11) as well as the five-year planned production and other targets. Local, regional and national agricultural development programs should be based on the AgPTs and achieve the targets specified in these AgPTs.

The main concern about the AgPS is that, among other things, they set up the norms for crop structures and rotations, for densities of keeping animals, preserving specialization of the farm etc.

Moreover, the Draft Law foresees administrative and even criminal responsibility (Article 17) for breaching of the AgPS in the AgPT.

The ultimate result of these new elements will be the failure of 'invisible hand' of the market to restructure Ukrainian agriculture into a more competitive and productive sector. Freezing crop and animal structures for five years destroys one of the fundamental market mechanisms of adjusting production plans according to the international markets price signals; it will 'freeze' non-competitive farms in the sector. It is important to remember that the social losses generated by non-competitive farms must be borne somewhere else in the economy. Essentially the system of AgPTs is a return to the principles of **central planning of the Soviet era**.

A further key instrument of the SAP is **price regulation**. The Draft suggests allowing price fluctuations within the price bands, i.e. within minimum and maximum prices (Article 38). To keep the prices in the price band, the government can apply market interventions, pledge purchases, export and import quotas and other trade barriers. In case the difference between the market price and corresponding min-max limits exceeds 20%, administrative measures may be imposed.

The economic literature is quite unanimous about the negative consequences of such a price band regime. This is the least efficient policy instrument for increasing the incomes of producers. In addition, it is incompatible with WTO standards and it inflicts huge budget expenditures and huge social losses to the economy. Minimum prices allow very efficient farms to generate 'above normal' profits, while inefficient farms generate some profits but remain in the sector rather than being forced to improve their production or exit. This prevents the sector from restructuring, adds costs to the entire value chain, reduces its international competitiveness and passes the burden of this regulation onto consumers. Maximum prices, on the contrary, tax farmers, reduce their investment activities and decelerate productivity growth in the sector. The deficiencies of this price regime became one of the key reasons why the EU initiated the reform of its Common Agricultural Policy (CAP) back in 1992.

Overall, the Draft Law has a strong 'non-market' or central planning flavor and largely ignores the negative lessons that the EU learnt with its heavily regulated CAP. In its current form, the Draft Law should be heavily reconsidered, or better dropped altogether.