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European and Ukrainian agriculture are mutually complementary

Agriculture has long been the richest, most diversified and most innovative of Ukraine's economic and social activities. Since Russia launched its aggression against Ukraine in 2014 with the annexation of Crimea, it has also become the most essential for the country and the one that raises the most questions in its relations with the European Union, which it intends to join as soon as possible. Many accuse Ukraine of [unfair competition](#): on wheat, which is seriously disrupting Poland's agrarian economy; on poultry meat, which is said to be a threat to French production; on sugar and, increasingly, on organic products.

Beyond the particular circumstances we are currently experiencing, Ukraine could occupy a place of choice within an enlarged Union. Thanks to its high-performance agriculture, it could help to strengthen the Union's role in meeting the food needs of deficit countries, at a time when, without Ukraine, the European Union is losing market share all over the world, particularly to the growing competition from Russia. Ukraine's competitiveness should not be an obstacle to fruitful cooperation, if the accession negotiations agree to include all the key issues of climate change, ecological diversity and the aspiration of a majority of rural people to contribute to solving these problems. This paper outlines the issues at stake and the solutions we need to analyse together in order to take action, and thus to set a new and determined course for a Common Agricultural Policy (CAP) that has lost its way.

[1] Honoré de BALZAC. Lettre sur Kiev. Editions Lapina, Paris 1927.

[2] The "finage" is all the land farmed individually or collectively by a rural community.

LAND AND PLOTS DESIGNED FOR HIGH-PRODUCTIVITY FARMING

In his account of his journey to join the Countess Hanska near Berditchev, in the steppe of the central Ukrainian region of Vinnitsa, Honoré de Balzac notes that after crossing the border posts at Lviv, the land changes colour and seems destined for abundant and easy production. "All you have to do is throw down a few handfuls of seeds, and they germinate and produce grain like nowhere else"[1]. He observed what the great Russian-Ukrainian scientist Dokuchaev identified as the chernozems, or literally in Russian "black lands", the most fertile in the world, and of which the territory of Ukraine is the best endowed in the entire northern hemisphere of our planet. Dokuchaev put forward his work in Paris at the 1900 Universal Exhibition in a [presentation said to be the source of pedology or soil science](#), which marked the beginning of a reinvention of the agronomic sciences, based on an understanding of the origin and maintenance of soil fertility. As well as classifying soils according to the nature of the rocks on which they were based, climate and use, Dokuchaev highlighted the loss of agricultural potential due to wind erosion, which was very intense on the flat, sparsely wooded steppes of most of European Russia at the time. On his advice, windbreaks were planted to protect the large areas of arable land that still formed the signature of the agrarian finage[2] of this part of the world. The Dokuchaev hedgerows consist of two rows

of trees marking out a path that can be used by farmers (and also by soldiers for discreet travel). An understorey of shrubs and sometimes fruit trees form a very effective wind screen and is home to a wide range of flora and fauna, particularly birds, all very useful helpers to the farmers.

The black earth is spread out in a vast, comma-shaped arc, the heart of which lies in the Carpathians, [expanding across central and southern Ukraine](#), then continuing into European Russia, covering southern Siberia after the modest heights of the Urals, extending over an increasingly narrow area on either side of the border between Russia and Kazakhstan, and ending south-west of Lake Baikal. This fertile land forms what can be described as the *Corn Belt of the East*, mainly in Ukraine, but also in the large Russian regions around Krasnodar, Stavropol and Barnaul, or Pavlograd in Kazakhstan.

Ukraine is by far the country in the former Soviet bloc with the greatest supply of *black earth*. It accounts for almost 60% of its forty million hectares of farmland. This is why it was the heartland of grain exports from the Tsarist empire and the main source of food for Soviet Russia. Intensive agriculture is to some extent written into the soil genes^[3] of Ukraine. At the time of the collapse of the USSR in 1991, Ukraine was producing around seventy million tonnes of industrial crops (cereals, sugar beet, oilseeds), an average of almost two tonnes per hectare, while Russia was struggling to collect the same seventy million tonnes of industrial crops from its two hundred and twenty million hectares of farmland. After the 1991 break-up of the USSR, the Ukraine continued to meet Russian demand, which had become its biggest export market.

THE COLLAPSE OF THE USSR IN 1991 LED TO A DECLINE IN ITS AGRICULTURAL SECTOR, WHILE THE ASIAN CRISIS IN 1998 GAVE IT A BOOST

To understand how the former Soviet Union went from being the world's biggest importer of wheat to being a group of three major producers — Russia,

Ukraine and Kazakhstan — it is worth revisiting the past. The port of Odessa, and more generally the Black Sea, became the world reference for the wheat market and for most of the major export cereals, ahead of the Rouen market and the Gulf of Mexico market for American produce. Bled dry, Boris Yeltsin's Russia was forced to turn to the major international financial institutions, which imposed far-reaching reforms including the rapid and complete privatisation of the agricultural sector. In practice, to cover the food requirements of a highly urbanised country totalling one hundred and forty million inhabitants, it was much more efficient in the short term to resort to massive imports of meat and dairy products from Ukraine, the European Union and the United States. This was the time of [Bush's legs](#), frozen chicken legs that Americans do not eat, sold in truck trailers lining the aisles of former kolkhoz markets. The importers of these food products soon became rich, competing with each other with extreme violence, bribing the control and customs services, amplifying and generalising endemic corruption. Instead of entering the market economy advocated by the World Bank, Russia's agriculture languished under the pressure of food imports. It remained "*the black hole of its economy*" until the Asian financial crisis of 1998.

In the summer of 1998, the rouble, already reeling from speculation in government bonds (GKO), collapsed. Losing three quarters of its value, it no longer allowed consumers to buy imported goods, which had become four times more expensive in the space of a few weeks. The new social class of food importers responded quickly to this situation, which increased their debts and threatened them with bankruptcy. Western exporters were forced to take action, as their advances have become irredeemable, seriously threatening them with bankruptcy too. Some of the importers — those not immediately ruined by the crisis — understood that they had to re-create and conquer a production market. They did not dwell on details and focused on the essentials. They had already realised that poultry meat was easy to produce. In just a few weeks, a day-old chick transforms 1.6 kilograms of grain into one kilogram

^[3] Soil characteristics include moisture content, acidity, aeration and nutrient availability. Influenced by factors inherent in the soil rather than climatic factors.

of broiler chicken — a physiological ratio that is essential to understanding the scale and speed of the rise in broiler production in Russia and Ukraine. These new entrepreneurs signed agreements with the best suppliers of Western poultry technology to modernise the old Soviet-era poultry farms at the lowest possible cost. They made sure they took control of the grain production of the former kolkhozes, as it was the keystone of their future economic success. They discovered the importance of rapid access to good genetic resources, essential equipment for modernising buildings and efficient veterinary medicine. Western poultry equipment manufacturers were keen to listen, seeing in this movement an opportunity for development at a time when their markets were shrinking in saturated Western countries. These manufacturers accepted overdrafts for these new customers, which they defended vis-à-vis their export insurance companies. Western banks in Russia and Ukraine followed suit, cautiously but resolutely agreeing to cover cash flow requirements. These initiatives changed the context of the agricultural economy in a decisive way.

More detail would be required to describe the diversity of responses from the former collective farms, some of whom were crushed by the harsh reforms, while others created new entities within old structures, forming the nucleus of private groups, some of which went on to become regional and sometimes national leaders. The constraint of the financial crisis and its opportunities were clearly perceived by the new bosses of the old industrial structures, whose modernisation was much riskier than the promise of modern, affordable poultry farming. The movement began with small and medium-sized businesses, before gathering momentum with the emergence of large groups. Big or small, they were all able to set themselves up with the interested complicity of public officials to meet local food needs, by selling poultry, flour, bread, etc. on the markets, then in the embryonic distribution networks, in which they were sometimes also the reference shareholders. Some of these new farmers saw this as a way of setting up international agricultural holding companies, which

gave their name to the "agroholdings" that have dominated the agricultural landscape of the former Soviet Union for the last twenty years.

At the same time as the revival of high-performance poultry production, which is still dependent on Western genetics and veterinary medicine, pig production experienced spectacular growth. Although productivity is lower than in poultry production, it remains attractive to investors. It takes around three kilograms of grain to produce one kilogram of pork^[4].

The penniless new states emerging from the USSR could not compete with the Western countries in providing subsidies to this large and diversified movement, which was very different from the single-family model supported in Europe by the Common Agricultural Policy (CAP). They supported the development of production tools by deferring indefinitely the debts accumulated by the former kolkhozes over the previous fifteen years (taxes, contributions to pension and health funds, unpaid debts, etc.). Writing off this debt freed up initiatives and large companies developed with the creation of commercial brands and the acquisition of dominant positions in food distribution. By way of example, the powerful Russian businessman Potanin invested in the agricultural sector by gradually taking over the assets of the former Ministry of Bread, using its silos and wagons to enhance the value of the takeover of many former kolkhozes, whose cereal production, albeit extensive, far exceeded the needs of poultry farms. In Ukraine, Yuri Kossiuk took control of the historic Mironovski grain centre, south of Kyiv, whose "M" appears in the name of his powerful international group "MHP", which produces over 800,000 tonnes of poultry meat a year and is one of Ukraine's leading exporters of basic products (wheat, maize, soya, sunflower, etc.). These entrepreneurs, who were forced to deal with corrupt public services, played a decisive role in initiating a return to cereal exports, which had made the fortunes of the great Russian merchants "in the days of the Tsars", or those of the international Dreyfus group, itself returning to the port of Odessa

^[4] We shall return to the importance of this second productivity index, which is more decisive than many other accounting indices, even agricultural ones.

in Ukraine and to the plains of the Volga in Russia to re-establish itself in this area of considerable agricultural potential.

THE STRUCTURAL COMPARATIVE ADVANTAGES OF EASTERN EUROPEAN AGRICULTURE

European farming structures rapidly felt the impact of this Russian and Ukrainian agricultural recovery. The slump in their pork exports reduced the reference price for a kilo of pork by almost a euro in Europe. It also accelerated the reorganisation of European production structures, particularly genetics, which have now been brought together within two major groups through the takeover and merger of several entities, including French, Dutch, Swedish and Danish companies. Russian, Ukrainian and European producers use virtually the same technologies. They rely on the same genetic heritages and have sought, at least for export-oriented groups, to do without growth hormones in view of gaining access to European markets where regulations prohibit them. It is not the use of molecules that are banned in the European Union that is creating unfair competition from poultry or pork exporters from Russia or Ukraine. The crux of the competition is that their production costs are half those of European producers.

Honoré de Balzac's aforementioned enthusiasm about production capacity is shared, more than a century later, by many European visitors who have come to see the production potential of this new agricultural world. The soils have organic characteristics that make them fairly resilient to climatic variations, and a high mineralisation capacity that reduces the need for synthetic fertilisers. This is an initial factor in reducing the cost of certain inputs. But the most significant difference in production costs is generated by differences in plot organisation. Farmland in the Ukraine, Russia and Kazakhstan is organised into large plots, bordered by the windbreaks recommended by Dokuchaev, and equipped with more than half as much machinery as most European farms.

Equipment is used twice as long in each season and has a longer lifespan than on Western farms, where 'good farmers' often take pride in owning new, state-of-the-art equipment. As a result of these technological choices, capital investment in Russian and Ukrainian farms is actually less than half that of their Western European neighbours. While European farmers produce a tonne of wheat at €180 or €200, Russian and Ukrainian producers produce the same tonne of wheat — which may, moreover, contain two points more protein — at around \$100. This difference in comparative advantages translates into production costs per marketable unit that are half those of Western producers. With the same performance in processing these cereals into poultry or pork meat, their cost prices are also more than twice as low. This is an inescapable fact that must be considered when analysing the relations to be established between the countries of the former USSR and Western producers, particularly European producers, who are the first to be affected by the competition from the Black Sea.

THE ISSUES AT STAKE IN THE BLACK SEA SINCE THE RUSSIAN WAR IN UKRAINE

The Black Sea is the nodal point for export flows from Russia and Ukraine. The port of Odessa, which concentrated exports in the 19th century and then shared Soviet imports with St Petersburg, once again became an export port at the end of the XXth century, where railways and lorry deliveries converged, sometimes directly from freshly harvested fields. All the major world operators have silos here, and sometimes a quay, but the port is cramped and too small to absorb the sixty million tonnes that Ukraine exports. New ports have been created or redeveloped on either side of Odessa, such as Nikolaïev, Pivdienniy and the ports at the mouth of the Danube. Russia is not to be outdone. It is doubling the capacity of Novorossisk, its only deep-water port on the Black Sea, and of the river ports of Azov and Rostov-on-Don. Several operators are equipping themselves with cranes to reload large ships. – [Panamax, totalling 60 000 tonnes](#) - from the sea-river barges that drain the major river

basins of the Don, the Volga and, more recently, the Dniepr. Russia and Ukraine, — neighbouring countries undergoing the same far-reaching agricultural changes — are competing on the same markets in an increasingly acute competitive environment. They are targeting the importing countries of North Africa and Asia, notably China, but are also interested in the hubs that open up access to the countries of continental Africa.

This intense commercial competition was acceptable before the invasion of Crimea in 2014, but it has intensified since the annexation of Crimea and even more so since the Russian aggression of February 2022, which marks Moscow's determination to completely Russify the Sea of Azov. By deliberately reducing the "air draught" under the new Kerch bridge, which has linked the Russian Kuban to the peninsula since the annexation of Crimea, it is preventing Ukrainian ships from sailing to and from the ports of Mariupol and Berdiansk, which used to be the exit point for agricultural produce, metal products and coal from the Donbass. By closing off access to import-export markets for industries in eastern Ukraine, the latter are being forced to retreat to Black Sea ports and incur additional logistical costs, while complicating flows from the centre and west of the country.

In the weeks following the Russian aggression, the movement of ships in the Black Sea was *de facto* impossible due to the threats created by floating mines and fire from warships. The dangerous nature of the crossings immediately caused the price of marine insurance policies to soar, effectively banning all shipping. The markets were concerned about the impact of the blockade of the Black Sea on the grain trade, despite a previous harvest and sufficient world stocks. Fearing food crises in importing countries, the [UN Secretary General](#) began negotiations to reopen maritime traffic. [Turkey](#), which controls the Straits and maintains active relations with Russia, joined this initiative. Russia, whose flows from Novorossiysk were blocked and which therefore feared for its own exports, agreed to sign a protocol allowing it to monitor all ships entering and leaving

the Black Sea. It installed its controllers in Istanbul. Exports resumed, but with much longer delays and higher costs.

Ukrainian agricultural producers were quick to respond to the blockade of the Black Sea by looking at all other export possibilities. The first option was to shift flows to the Romanian sea and river port of Constanta, by rail, road or the Danube linked to the port by a canal. But the capacities of Constanta (around 100 Mt) and its two neighbouring associated ports (Midia and Mangadia) are rapidly becoming saturated. Some producers are using the Soviet-style railway line that links the Ukrainian network directly to the city of Katowice to the west of Krakow in Poland. On the spot, these producers are looking to rent, and in some cases acquire, storage capacity pending rail shipments to the major European grain ports. Other producers are making the most of the so-called "*transit stations*" located at Ukraine's European borders, equipped with parallel tracks in both gauges to enable loads to be transhipped. Finally, some are sending the lorries directly to Poland or Hungary. There, as with the Romanian alternative, they have to find temporary storage capacity pending available rail paths.

A coordinated effort is needed to mobilise continuous rail paths within Europe, so as to speed up the transfer of grain destined for export from the Polish border to the major ports on the North Sea or the Atlantic Ocean. With no experience of European rail transport, and its complex organisation by state and region, Ukrainian producers have been forced to extend their local storage facilities. The accumulation of intermediate costs has led them to destock locally. They therefore offered their maize and other grains to Polish and Hungarian livestock farmers, who were very happy to buy them at well below the European price, triggering an *ipso facto* protest from their cereal growers who felt they had been cheated, then [a political crisis in the European Union](#), which should have, and could have been avoided.

The best and cheapest logistics are still to be found in the Black Sea. After much hesitation, Russia

was unable to oppose the delimitation of a secure maritime corridor through the territorial waters of EU Member States, through which more than 50 million tonnes transited during the last campaign. But the continental route remains significant, handling around ten million tonnes. Despite the reopening of the sea route, the prices paid to Ukrainian producers are nowhere near their pre-war levels. They have to make do with prices of between \$120 and \$150 per tonne, wiping out the roughly equivalent margins they earned before the war, which had fuelled the expansion and modernisation of port infrastructure, storage capacity and farms in both Ukraine and Russia. With the same cost prices as Ukraine, Russia has a huge commercial negotiating margin with the countries it targets to increase its international influence. It can literally [break prices for African countries](#) where it is increasingly prominent, prompting them to abstain from votes at the United Nations condemning Russia's aggression against Ukraine.

AGRICULTURAL RUSSIA COMPETES WITH UKRAINE AND EUROPE

This picture, of both the economics of agricultural production and access to solvent markets, sets out the stakes for both Ukraine and Russia, as well as for Europe, which is more affected than it realises by the emergence of a [Russia that is now the world's leading wheat exporter](#). Competition from Russian exports is strong, while European exports to North African countries are structurally declining. Russia has practically captured the Egyptian market, which produces — at most — only eight months of its annual food consumption. Neither Europe nor the United States play a significant role in covering the needs of this huge country, which provides access to other African nations with food deficits. Algeria recently changed the selection criteria for the cereals it imports, allowing Russian cereals access to its market. Morocco is looking to increase its purchases from Ukraine... or Russia. Many African countries are becoming increasingly sensitive to the attractive offers made by Russian exporters, who, like their Ukrainian competitors, have considerable

negotiating power. They can offer advantageous payment terms. This is because the world price (if this term has any real economic meaning), which has fallen to between \$180 and \$200 per tonne, is still much higher than the Russian or Ukrainian cost prices, which are still in the region of \$100-120 per tonne.

Russia's foreseeable return to a more important export position is based on its low production costs, but also on a potential that is still under-exploited: its two hundred million hectares of land could produce twice as much. Land reserves — suggested by climate change — could amount to several tens of millions of hectares. Finally, Russia has energy and mineral resources that make it one of the world's major producers of nitrogen fertiliser, not to mention the resources of the immense watersheds of its major rivers for developing irrigation.

Russia's agricultural export potential is therefore threatening Ukrainian and... European exports. With their margins squeezed, Ukrainian producers need to analyse their cost structures more closely, particularly their use of fertilisers and plant protection products, especially if Russia makes them more expensive to export to Ukraine. Against this backdrop, Ukraine could lose the positive foreign trade balance generated by its agricultural exports.

The European Union's agricultural exports are seriously under threat if it does not take steps to reverse the results of this inevitable competition. But are the European machinery and the lobbies that feed off it ready to do so? Are they ready to recognise that their real competitor is not the Ukraine, but immense Russia, which, because of the advantages already mentioned, is self-sufficient in food on less than 80 million tonnes of grain.

Are Europeans aware of this reversal of alliances and trade competitions? One might well doubt it if one listens to the arguments put forward by the main French agricultural trade organisations, echoed in particular by their Dutch and German counterparts. They continue to see Ukraine not as a competitor

with undeniable comparative advantages with whom an agreement should be sought, but as an unfair competitor accused of using molecules banned in Europe and of practising commercial dumping. It is true that these arguments are attractive to the public authorities and the political forces that support them, because they help conceal the scale of the European crisis in the agricultural sector as a whole, by simply citing excessive bureaucracy as the reason for the large number of spontaneous demonstrations, which have led farmers to lose sight of the objectives they expected from the Common Agricultural Policy (CAP).

France has lost one hundred thousand farms in the ten years between the last two agricultural censuses. As most of these are family farms, 200,000 jobs in rural areas have disappeared. Most of the land that has been freed up has been taken over by larger farms, some of which are over a thousand hectares in size. At the same time, fruit and vegetable growers and winegrowers are calling on more than 400,000 temporary jobs provided by migrants from Africa, Bulgaria and Romania, often in precarious situations. European agricultural professional structures do not seem to be measuring the impact of the agricultural dynamics of Eastern European countries.

AGRICULTURE IN UKRAINE AND EUROPE ARE INEXTRICABLY LINKED

The Russian war in Ukraine is therefore highlighting some key issues for the Common Agricultural Policy.

The Ukrainian producers' initiative in favour of a continental route was tantamount to outlining an export area on a European scale. A sort of cereal loop comparable to the one that drains the great American plains and serves the Gulf of Mexico, one of the three references of the world market, along with Rouen and now the Black Sea.

The best interests of European producers clearly lie in building a common export offering. This will involve building "*destination logistics*" assembling

cereals and other agricultural products, produced and processed in both Ukraine and the European Union, with a fair distribution of margins and attractive prices, to combine — and capitalise on — the comparative advantages of each. Schematically, the offer would combine a tonne from Ukraine at a cost price of 100 and a tonne from the European Union at a cost price of 200, in order to market a tonne at 150. It should be agreed to retain an identical margin for both origins, of 20 for example, in such a way as to allow these exports to be below the world price, including the margin, and therefore without support costs for the Community budget. This combination of weightings would allow importers to benefit from the better protein quality of Black Sea wheat, with the commercial reliability that Europeans are much better at guaranteeing than Ukrainians, who are too subject to the pressures of corruption. This would mean setting up a form of self-regulation between producers rather than competition dominated by the five major global traders, [known by the acronym ABCD](#). This idea is far from utopian. It has already been partly realised by European farmers based in Ukraine as they have consolidated the results of their two establishments. Within the European Union, regulations have long sought to contain the competition generated by production cost differentials between different regions.

An agricultural Europe is thus taking shape, with coordinated flows to the exporting ports of the Atlantic and North Sea on the one hand, and to the ports of the Mediterranean and Black Sea with the Bulgarian, Romanian and Ukrainian ports on the other. This prospect appeals to a number of Ukrainian producers who fear pressure from the ABCDs, but who also fear intra-European reticence and bureaucracy. This project would be truly European. It should precede discussions on Ukraine's accession to the European Union in a bid to explain the reasons for it and to demonstrate in concrete terms that it is essential to maintain Europe's export capacity and to offer new prospects for cooperation in the agricultural sphere.

Equally strategic, negotiations are essential to respond to the growing need of some young people,

European and Ukrainian agriculture are mutually complementary

both in the current European Union and in Ukraine, to settle in the rural world with diversified activities combining agricultural production and support services for the management of common goods. The renewal of generations in the agricultural sector is an issue that is occurring everywhere, and one that the CAP barely addresses, unless we consider that the era marked by the end of farmers would also be that of the end of the rural population.

One cannot help but be struck by the convergence of contemporary issues and social and socio-economic expectations in these two areas. The issue of the coexistence of large integrated production structures and small and medium-sized enterprises is central. To achieve this, it is essential to develop appropriate regulatory tools that meet the need to control production costs, respond to food and environmental issues and revitalise Europe's rural fabric.

This would seem to be the surest way of dispelling the fears felt by EU producers in the face of Ukrainian competition. It is also a way, as Poland and Hungary have shown, of combating the corruption that is still rife in Ukraine, in all sectors, forcing the best people to submit to the corrupting forces.

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