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PERSPECTIVE OF DEVELOPMENT OF ORGANIC PRODUCTS MARKET OF UKRAINE

ABSTRACT

The author carried on the investigation of main tendencies of development world market of organic products and recognized the place of Ukraine on it. Article contains the research of Ukrainian market of organic products, which include analysis of dynamics of organic farmland, amount of production of organic products, number of organic farms in Ukraine, amount of production of organic products and their comparisons by dynamics of growth rates. The author analysis the legislation field of organic products market in Ukraine. On the basis of this research author recognized current state of organic market, main tendencies and projections of the further development of Ukrainian market of organic products.

Keywords: organic products, Ukrainian market of organic products, organic farmland, amount of production of organic products, global tendencies

Introduction

In recent years, traditional food market remains virtually unchanged, while the market for organic products is growing rapidly. However, in Western Europe organic products market has the annual growth rate in range of 7–10%, while in Eastern Eu-

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rope – 20% annually. So, for this reason, experts say that the organic products market is the market of future.

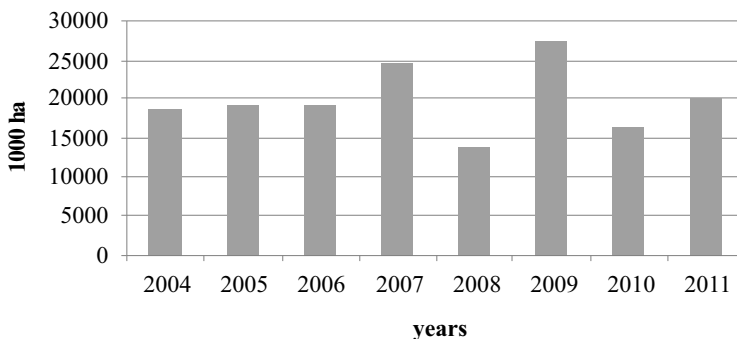
The objectives of the article include: underlining main global tendencies of world organic products market; recognising the place of Ukraine in the world organic products market; making investigation of organic products market of Ukraine; underlining main tendencies and projections of the further development of Ukrainian market of organic products; formulating the perspective directions of development of organic products market in Ukraine.

Safety and food quality has become especially important in international trade over the last 10–15 years. Quality and environmental safety of products, produced by agricultural sector, are the key factors of its internal and external competitiveness. This is due to the rapid spread of the implementation of biotechnology in agriculture. In the food markets of developed countries, popularity of environmentally friendly products and the demand for it have been rapidly growing and has been forming a sector of world trade in food¹.

1. Global trends of organic products market

Global trends of organic products market by the dynamics of the organic certified areas of the world in 1000 ha are presented on figure 1.

Figure 1. Dynamics of the organic certified areas of the world, 1000 ha



Source: created by authors on the basis of FAOSTAT data.

¹ Рынок органической продукции и перспективы его развития в Украине, <http://agrocart.com/2918/rynok-organicheskoy-produkcii-i-perspektivy-ego-razvitiya-v-ukraine> (3.03.2013).

During 2004–2011 organic certified area in the world was constantly changing. Based on the sample data we cannot build a trend with an average or higher reliability coefficient which indicates the constant changes taking place in this field. The lowest values of the research period were in 2008 and 2010. So in 2008, the organic certified area in the world was 13873.89 thousand hectares, which is almost on 44% less than in 2007. In 2010 the figure was 16509 thousand hectares, which is almost on 40% lower compared to 2009. Development of the organic products market as a whole and organic certified area, in particular are under pressure from factors which influence on the economy state in the world. There were the deployments of the global financial crisis, on which organic producers responded by the reduction of areas and the decrease in production of organic products in 2008 and 2010. This reduction is explained by expectations of the lower demand on organic products because it is much more expensive than traditional products and has a high coefficient of elasticity of income and price.

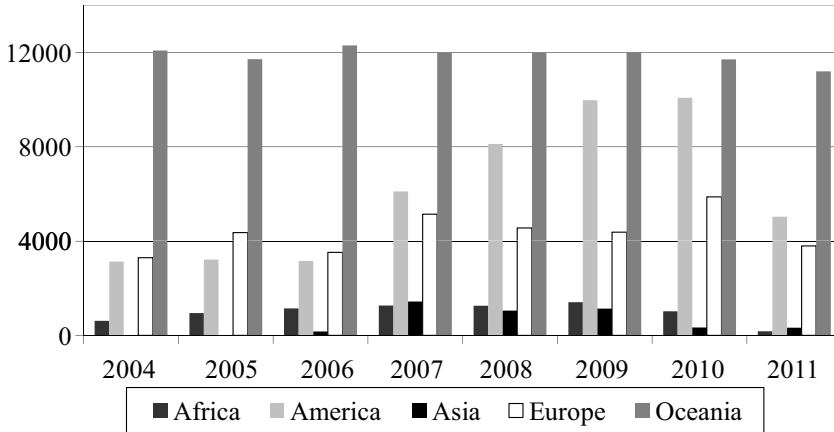
According to the International Federation of Organic Movement, the total turnover of organic products in the world has reached 60 billion USD; the total area of land used for organic production has reached almost 37 million hectares, and the total number of employees – 1.8 million farmers. Data provided by 160 countries². Leaders in organic production are the U.S. (26.8 billion USD), Germany (7.9 billion USD), and France (4.5 billion USD). Ukraine occupies 20th place in the world with 8.3 million USD.

Currently, in the world organic products market had been formed in such segments as fruits and vegetables, milk and dairy products, baby food, agricultural raw materials for processing (mainly cereals). According to the latest data of U.S. Department of Agriculture (USDA), the organic products of all kinds accounted for 3% of the total U.S. market, while in Europe it ranged from 1% to 7%.

Let's consider with the global trends of organic products market by the dynamics of the organic areas by regions (Figure 2). The value of certified organic area is less than the value of organic area, because of imperfection and lack of legislation regarding to certification of land under cultivation of organic products.

² А.Д. Коноваленко, *Формирование рынка органической продукции*, [http://science-bsea.narod.ru/2012/ekonom_2012_18/\(3.02.2013\)](http://science-bsea.narod.ru/2012/ekonom_2012_18/(3.02.2013)).

Figure 2. Dynamics of the organic areas by regions, 1000 ha



Source: created by authors on the basis of FAOSTAT data.

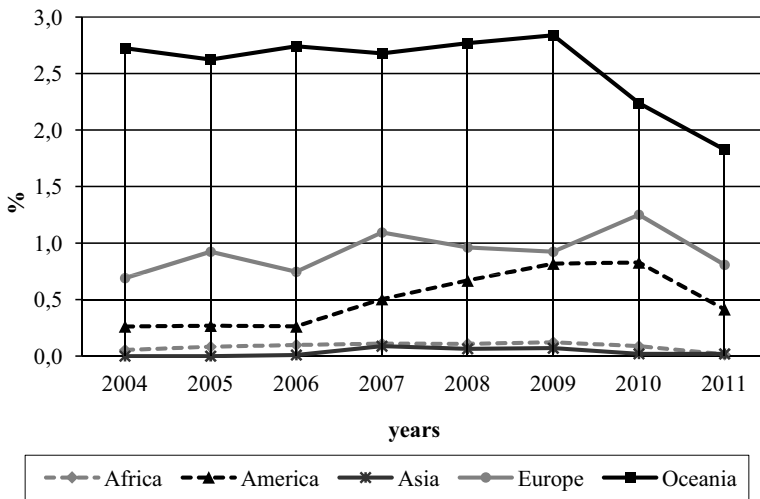
World leader in organic areas is Oceania within 41% of all organic area. Next is America within 30% of all organic area. However, while the Oceania countries, mainly Australia and New Zealand, characterized by stability in organic production, the Americas during 2004–2011 are characterized by periods of growth – from 2004 to 2009 and decline – from 2010 due to the economic instability in this period of the region. On the third place by the organic area is Europe, which is characterized by fluctuations in organic area. The maximum figure of value of organic area in Europe was in 2010.

Each of the different regions has different geographical and climatic features, natural resources. Therefore, the absolute values of organic area are more typical to characterize the natural resources, but not appropriate to characterize organic production. We propose to estimate the tendencies of organic production in the world using as the base not the absolute values, but the share of organic area in the structure of the total agricultural area by region (Figure 3).

The biggest share of organic area in the structure of agricultural area has Oceania, the average share of which for the period is 2.56%. The second place occupied European countries with the average share of 1%. Americas, which traditionally occupies the first places in organic products, occupied the third place with 0.5% respectively, which is indicating not only the spread in the countries of this region

of organic production, but the significant resource potential of it in the growing of agricultural products. Also, it should be noted the reducing trend of the organic area in Africa and America, as in 2011, these indicator decreased by 82% and 50%, respectively in comparison with 2010.

Figure 3. The share of organic certified area in the structure of total agricultural area, %



Source: created by authors on the basis of FAOSTAT data.

According to the International Federation of Organic Agriculture Movement (IFOAM), today there are more than 31 million hectares of agricultural land used for organic production of agricultural products. In total more than 558 thousand farms in 108 countries around the world are practicing organic farming. Australia is leading in organic land with 12.1 million hectares, next is China with 3.5 million hectares. For Europe, this figure is the highest in Switzerland and the Scandinavian countries³.

Demand for organic products had been formed in countries, which have achieved high levels of economic development and population of which believes in the helpfulness of the food for the human body and able to pay the higher price for its

³ Рынок органической продукции и перспективы его развития в Украине, <http://agrocart.com/2918/rynok-organicheskoy-produkcii-i-perspektivy-ego-razvitiya-v-ukraine> (3.03.2013).

ecological cleanliness. Most of the organic products extend outside the traditional trade through alternative distribution channels, including directly from the farms, fairs and in specialized stores⁴.

2. Organic products in Ukraine

Underlining of global trends on the organic products market will allow forming the priorities of its development for Ukraine based on the experience of the leading producers of organic products.

Ukraine has significant potential as a producer of agricultural products, including organic farming, exports, consumption on the domestic market even by the fact that agricultural land of Ukraine was approximately 427 thousand km² in 2012. Thus, the area of organic farmland in Ukraine is about 270 thousand hectares, the share of organic area in the total agricultural land is about 0.7% in 2012⁵.

However, the number of organic products, which are consumed by the average Ukrainian, remains at the low level. According to the official statistics, consumption of organic products in Ukraine per person is only 0.10 euros, while in the EU – about 100 euros.

Currently, during short time period, consumption of organic products per person increased almost two-fold – from 0.55 UAH in 2010 to 1.24 UAH in 2011. It is the significant increase, on the one hand, on the other – this figure for a lot of European countries exceeds 100 euros per person.

In Europe, the biggest consumption of organic products is Denmark with 138.6 euros per person. High rates are also in Switzerland (131.5 euros), Austria (103.8 euros), Sweden (75.4 euros) and Germany (70.7 euros).

The global trend of agricultural production is the growth in organic production. However, the market for organic products in Ukraine is now at an early stage of development, due to the lack of effective legal framework for the regulation of organic production.

It is advisable to explore the market for organic products in Ukraine, which will determine its state and formulate development priorities for it.

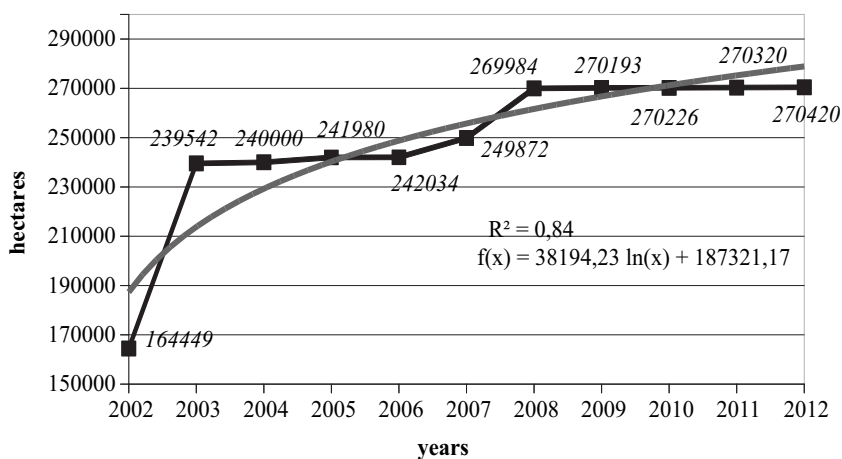
⁴ *Ibidem.*

⁵ Статистичний збірник України за 2010 рік.

The aim of the study is to determine the prospects of the organic products market in Ukraine.

In order to determine trends in the market for organic products let's analyse the dynamics of area of organic farmland in Ukraine (Figure 4).

Figure 4. Dynamics of area of organic farmland in Ukraine, hectares



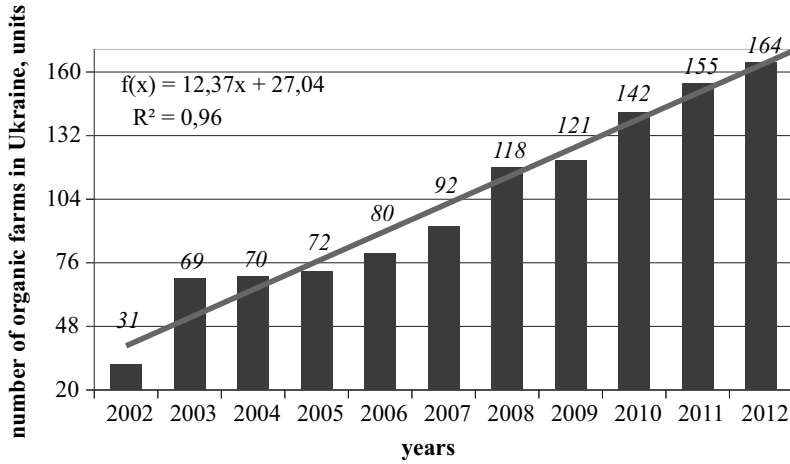
Source: created by authors on the basis of FAOSTAT data.

During 2002–2012 there was a steady upward trend in area of organic farmland in Ukraine. Based on sample data we build a logarithmic trend of the area of organic farmland in Ukraine. The correctness of the applied model is confirmed by high values of the coefficient of determination. The trend indicates that the area of organic farmland will continue to increase.

In 2009, Ukraine entered to the top five leading countries by the growing of organic wheat. The area under its cultivation was 50.4 thousand hectares.

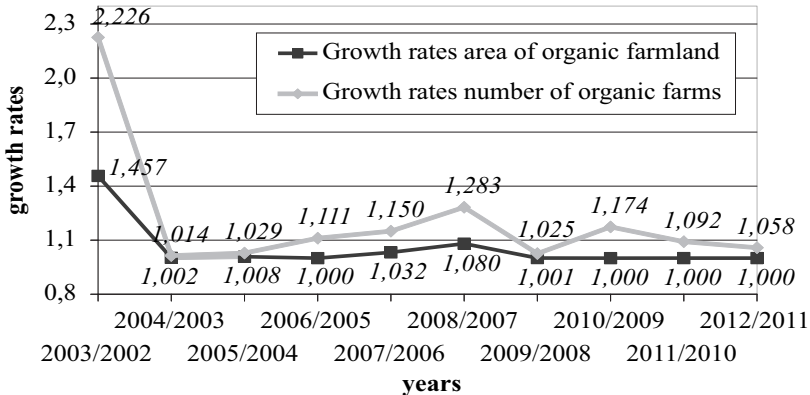
To further study the characteristics and trends of the market of organic products in Ukraine, we consider the dynamics of the number of organic farms in Ukraine (Figure 5).

Figure 5. Dynamics of number of organic farms in Ukraine, units



Source: created by authors on the basis of FAOSTAT data.

Figure 6. Growth rates of areas of organic farmland and number of organic farms in Ukraine from 2002 to 2012 years



Source: created by authors on the basis of FAOSTAT data.

From 2002 till 2012, the number of organic farms is growing. So in 2002, on the market were operated 31 farms, then in 2012 – already 164 organic farms. Based on sample data we build a linear trend of the number of organic farms in Ukraine. The trend indicates that the number of organic farms in Ukraine will continue to grow.

Let's compare the growth rates of areas of organic farmland and number of organic farms in Ukraine (Figure 6).

During 2002–2012 the growth rate of the number of organic farms exceed the growth areas of organic farmland, which may indicate the following:

- a) newly organic farms are usually small companies which grow organic products on small areas which haven't significantly influence on foundation of organic farmland;
- b) slight increase of areas of organic farmland in comparison with bigger increase in the number of organic farms may indicate a certain restructuring processes on the market in this area;
- c) at the same time, a slight increase in areas of organic farmland and a growing number of organic farms may indicate intensive processes of closing and opening a business in this field.

In addition, in the 90's foreign certification centres made organic certification of abandoned farmland, so traders brought orders for the production of organic raw materials for the needs of the European market⁶, and in recent years the total area of land has decreased.

For the underlining of the major trends of the market of organic products, let's explore the market demand on organic products Ukraine by amount of production of organic products (Figure 7).

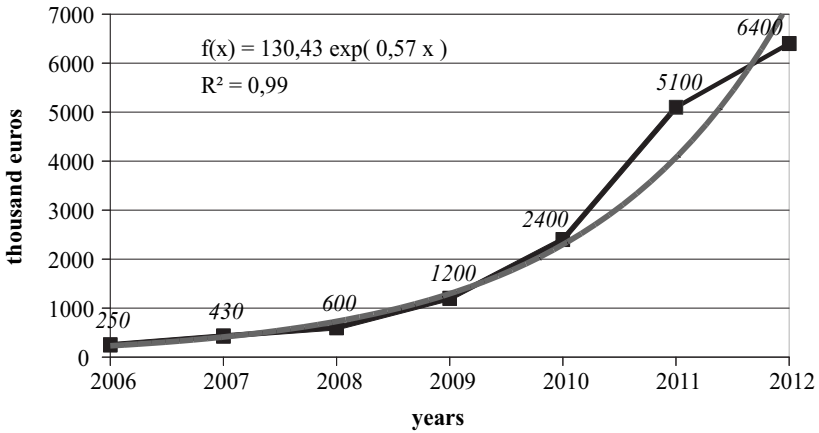
The amount of organic products is growing, in 2006 the amount of organic products production was 250 thousand euros, in 2012 it was 6.4 million euros. Despite steady growth, projected growth by international organizations of the amount of organic products to 9.8 million euros in 2012 has not reached⁷. Based on sample data we build the exponential trend of organic production in Ukraine. The trend indicates that the amount of organic products production will continue to grow.

⁶ А.Д. Коноваленко, *Формирование рынка органической продукции*, http://science-bsea.narod.ru/2012/ekoном_2012_18/ (3.02.2013).

⁷ European Organic Farming Statistics, www.organic-europe.net (21.01.2013).

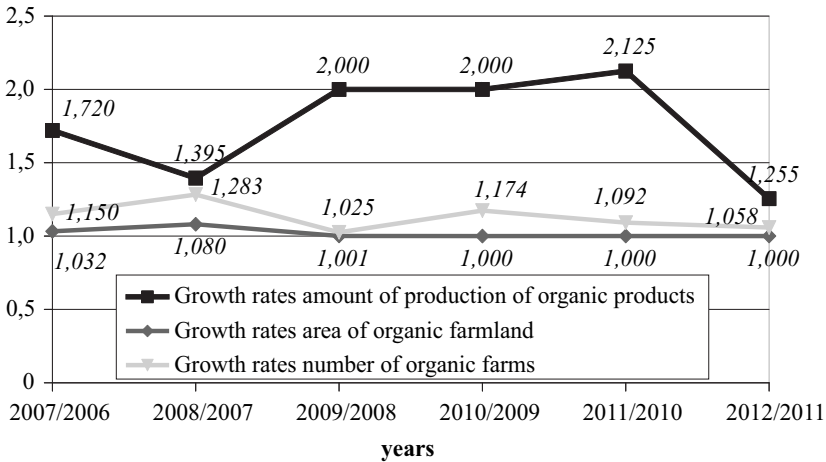
To determine the current state of the organic products market, we compare the growth rates production of organic products, areas of organic farmland and number of organic farms (Figure 8).

Figure 7. Dynamics of amount of production of organic products in Ukraine from 2006 to 2012



Source: created by authors on the basis of FAOSTAT data.

Figure 8. Growth rates production of organic products, areas of organic farmland and number of organic farms in Ukraine from 2002 to 2012 years



Source: created by authors on the basis of FAOSTAT data.

Based on the comparison of growth areas of organic farmland, the number of organic farms and organic production of Ukraine during 2006–2012 we made the following conclusions: the growth rate of organic production is much higher than the growth rate of area of organic farmland and the number of organic farms, which indicating the increase in the number of organic consumers, demand for organic products on foreign markets and annual price for these products. Taking into account the lack of significant increase in the number of organic farms, establishing of own trademarks or manufacturers which produce organic products, possible is further increase of prices for organic products with the increase of demand and lack of supply growth.

The world organic products market is growing. Thus, 10% of the world population have already consumed organic products, while in Ukraine the same figure, according to various sources, is 1–2%⁸. The organic production compared with traditional is more expensive, which making difficult to expand the domestic organic market in Ukraine. Average price for organic products is 2–2.5 times higher than for traditional foods, which is due to the small amount of production, that do not allow obtaining economies of scale of production and make lower labour costs. However, naturalness of organic products is one of the competitive advantages in the market, used by most manufacturers of food products in Ukraine.

3. Organic products certification

There are problems with organic products certification. The basic standards which use of the ECP are:

- International (IFOAM, Codex Alimentarius),
- Regional (Directive EU – 2092/91),
- National Standards (American National Organic Program, Organic Program of Australia, Japanese Agricultural Standard for environmental products, standards of Switzerland and others).

There are also more than 260 private standards in the world, for example: Demeter, Naturland, Bioland, Gea, Ekowin, others.

Let's consider the current situation with organic labels and certification in Ukraine.

The operators of the organic movement in Ukraine are: Living Planet, BIOlan Ukraine Association, Organic Federation of Ukraine, Organic Standard Ltd, Ukragrofin.

⁸ Global organic farming statistics and news, www.organic.-world.net (21.01.2013).

All organizations which provide organic certification and as the result provide services for labelling in Ukraine are members of two main international organizations, namely IFOAM (BIOlan Ukraine Association, Organic Federation of Ukraine, Organic Standard Ltd, Ukragrofin) and GEN (Living Planet). The circumstances of the Ukrainian organic products labelling is that most of these organizations provide only foreign labels for exporters. There is no national organic label at all.

From 1991 to 2012 cultivation, production, storage and circulation of organic products actually controlled and regulated by the state, according to official statistics and the lack of a clear definition of what foods should be attributed to organic, it's difficult to determine the actual state of the organic products market and ensure its development.

Most market operators suggested to the lack of legislation in this field. But instant of this Ukrainian organic market developed year by year and Ukraine as the organic products producer has strong position on the world organic market. Authorized Certification Authority is a legal entity accredited in accordance with this Law, has the permission to inspection and certification of organic products (raw materials).

Today in Ukraine there are no existing regulations that determine what kind of products are organic, what does it mean organic production, which organizations can provide the certification of organic products, how should implementing organic produce certification process and what are certification agencies which are eligible to implement it and what kind of labelling is apply to organic products. At the same time Verkhovna Rada of Ukraine prepared the draft of Law „On the production and circulation of organic agricultural products and raw materials” (further in the text – the Law), according to which „organic product is defined as the product, which is result of certified production according to requirements”.

According to the procedure of certification and developed rules were created lists of organic products on which are developed certification standards. Complex procedures and limited conditions of its use will result in the limited development of organic products market in Ukraine. Unique for all organic products under the Law are the methods and requirements for organic production.

The need to develop a common state labelling mentioned in the Law, which states that „the use of state logo and labelling of organic products for identification of organic products is obligatory”. However, while there is mentioned about the need to create public Logo, also it contained that „it is permitted the use of non-state

(private) logo introduced by entities directly engaged in production, sales of organic products, raw materials or their associations”⁹.

In 2012, organizations involved in the development of the organic movement in Ukraine provided the certification and labelling of organic products and, and at the same time prevented this development, because each of these organizations has its own organic label which is not look like others, which leads to:

- a) complications of identification of organic products for consumers;
- b) high competition between the „organic” organizations, since certification and labelling are their main profitable activity;
- c) disorientation in the informing of consumer and their education about the benefits of organic products.

No single approach to labelling and certification of products at the national level leads to the following consequences:

- a) lack of the unified system of certification of organic products, corresponding lack of common requirements and rules to organic production;
- b) lack of government control over the production, turnover and sale of organic products;
- c) lack of consumer awareness about organic products and their benefits;
- d) unformed market for organic products, because of lack of common approaches and requirements for its production;
- e) difficulties in the making choices in favour of organic products to consumers due to the insufficient information field and the lack of the unified system for identifying organic product.

Development of unified labelling of organic products will become the basis for further development of the organic products market, as it allows the creation and implementation of the comprehensive program of inform consumers about the benefits of organic products that will form the core of the consumer market of the product and accordingly the increase of firms interest in the production of such products.

The main market operators, which are service providers of certification of organic farms, fix the rapid development of the market of organic products and the high potential of its further development. However, based on the dynamics of the

⁹ Проект ЗУ „Про виробництво та обіг органічної сільськогосподарської продукції та сировини”, пп 979, від 12.12.2012 року, http://search.ligazakon.ua/l_doc2.nsf/link1/JG0R700B.html (21.01.2013).

processes with organic farmland and the number of organic farms, we can conclude that the market of organic products is still in its infancy and its rate of growth is negligible. It should be noted that all organizations involved to the market research and development of organic products and organic production, regardless of whether they are members of international organizations supporting organic production or operating at the domestic market, providing services to the production and certification of organic products. Thus, to a certain extent on the level of research and development of market projections for organic products is subjective.

The main directions of development of the organic products market are in the State program of development of organic production in Ukraine.

The criterion for the success of program is the share of organic farmland as a percentage of the total agricultural land of the country.

During the implementation of the program was planned to achieve the following indicators (percentage of certified organic farmland should be): by the end of 2012 – 2%, by the end of 2015 – 7%. In 2012, the program planning value hadn't been achieved, which indicates the need to develop a mechanism for achieving results.

Ukraine has significant potential for development of organic products market as the result of proximity to the European market, the capacity of which is according expert estimation about 26 billion USD.

The main problem of organic production in Ukraine is the export of domestic organic products as agricultural raw materials.

Conducted researches show that 60% of total population from major Ukrainian cities ready to buy environmentally friendly products, even assuming that their prices will be higher than for traditional (nonorganic) products. The most popular products among Ukrainian may be meat and meat products (39%), 36% of respondents want to buy milk and dairy products, 29% – fruits and vegetables, and 16% – pasta and bread.

Conclusion

Analysis of major trends in the market for organic products has allowed concluding that the market is evolving and if current trends continue it will develop in the future. However, the market for organic products in Ukraine is now at an early stage of development, due to the lack of effective legal framework for the regulation

of organic production. Consequently, the appropriate legislative and implementing a balanced policy towards organic production, namely: common requirements and rules for organic production, the unified system of certification and labelling cause to the growth of organic products market and influences on the level of ensuring food security, and taking into account the agricultural potential of Ukraine will allow to reach the leading position for it in the global organic products market.

There are also national-level factors which influence on the development and implementing of organic model of agricultural farming in Ukraine. Positives are the availability of natural resources and consumer potential. For Ukraine, with its high share of rural population and relatively poor physical facilities, the development of organic farming is perspective, because of the possibility of obtaining additional income for rural residents of „green” tourism, which is the basic component of globally recognized environmentally oriented farming¹⁰.

One of the urgent tasks is to harmonize the legislation of Ukraine for the production of organic products with international certification systems. Compatibility of such systems will expand foreign markets for organic products. This is confirmed by the signing of an agreement between the U.S. and the EU from 1.06.2012, the essence of which is the implementation of equivalent exchange of organic products between countries.

Prospects of development of organic products are attributable to the following: the growth of effective demand and growing fashion for the healthy lifestyle, reducing the anthropogenic impact on land resources and the unfavourable ecological situation in the cities.

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PERSPEKTYWY ROZWOJU RYNKU EKOLOGICZNYCH PRODUKTÓW UKRAINY

Streszczenie

Autorki przeprowadziły badania głównych tendencji rozwojowych światowego rynku produktów ekologicznych, z uwzględnieniem Ukrainy. Artykuł zawiera badania ukraińskiego rynku produktów ekologicznych, łącznie z analizą dynamiki w dziedzinie ekologicznych gruntów rolnych, liczbą gospodarstw ekologicznych na Ukrainie, wielkością produkcji produktów ekologicznych i ich porównania według dynamiki tempa wzrostu. Przeanalizowano regulacje prawne rynku produktów ekologicznych na Ukrainie. Na podstawie niniejszych badań przedstawiono sytuację na tym rynku oraz główne tendencje i prognozy dalszego rozwoju ukraińskiego rynku produktów ekologicznych.

Słowa kluczowe: produkty ekologiczne, ukraiński rynek produktów ekologicznych, ekologiczne grunty rolne, wielkość produkcji produktów ekologicznych, globalne tendencje

JEL codes: Q560, P2

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