

Peculiarities of Restrictions on Land Market Development in Ukraine

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Key words: land policy, moratorium, land sales, agriculture

SUMMARY

Under the existent disproportion of residential population income and income of population from Western Europe and America local people in the near future have all chances to be deprived of own strategic resource as fertilized arable lands. But what is to be done with investment attractiveness of Ukrainian lands? Is it possible taking to aim at the development of land market relations here to put a spoke in wealthy foreign investors' wheel for rights acquisition to manage Ukrainian land? Current conjuncture in land market relations, public opinion and governmental declarations' observations, which are analyzed in the article, give a ground to believe that Ukraine is balancing between a wish to put its resource's potential to the world market and a reluctance to cancel the moratorium on agricultural land sale due to the risk to be sold out to foreign investors.

При существующей диспропорции доходов местного населения и населения стран Западной Европы и Америки, у местных все шансы потерять в ближайшем будущем свой стратегический ресурс в виде плодородных сельскохозяйственных земель. Но как быть с инвестиционной привлекательностью украинских земель вообще, не только сельхозназначения? Возможно ли, взяв курс на развитие рыночных земельных отношений, вставлять палки в колеса богатым иностранным инвесторам, на приобретение прав хозяйствовать на украинской земле? Наблюдения за складывающейся конъюнктурой на рынке земельных отношений, общественным мнением и заявлениями правительства, представленные в данной статье, дают основания полагать, что Украина балансирует между желанием снять мораторий на продажу земель сельхозназначения, пустив их в рыночный оборот, и желанием избежать социальной напряженности в обществе.

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1. INCREASE OF INTEREST TO AGRICULTURAL LANDMARKET

The market itself is a set of economic relations based on the regular exchange transactions between producers of goods (services) and consumers. The exchange usually happens on a *voluntary basis* in the form of equivalent exchange for cash (trading) or other goods (barter). When producers as well as consumers have free access to the market an exchange occurs in a competitive environment (**Wikipedia**).

The land was never made by any of the manufacturers ever lived, but it was turned into a commodity long time ago. And if so, once land is traded as a commodity then a land market is considered to exist. Unlike other dynamic, subject to fluctuations markets such as markets of assets, securities, gold, petroleum products, which are heavily dependent on market conditions, the *land market*, where product supports the most stable investment object, has a steady upward trend. This is particularly true for *agricultural land*, which cause peculiar interest among investors in today's global food crisis.

Due to population expanding, changing of climatic conditions, soil erosion, reduction of running water stocks, reducing water elevation the most harsh conditions of competition in the world formed not only among producers of goods and services, but also between nations for natural resources. In addition to listed natural factors affecting the demand for fertile land, there are economic factors, which in recent years have led to acute shortage of food, especially in developing countries. There are speculation on the prices of essential goods, the increase in demand for grain, increase of unemployment among the young population of countries, the big disparity in incomes between wealthy people and the poor. According to American expert Lester Russell Brown, "Agriculture as it exists now, has been formed by 11 000 years of more or less stable climate. It is disposed to maximize yields getting in this particular climate system. But the climate is changed rapidly. Record-breaking droughts and floods have being fixing annually. 175 million Indians and 130 million Chinese people are fed by excessive use of groundwater. Each year 1.4 thousand sq. miles of land in northern China became empty. The same problems Mongolia, Lesotho, North Korea and Haiti have. In Lesotho, in the last 10 years, grain yield decreased twice, to a great extent of soil fertility loss. Haiti, self-sufficient in grain 40 years ago, now imports more than half of consumption. In Mongolia for the past 20 years almost 3/4 of wheat lands became abandoned, causing yields decrease on 4/5. But it's not the case just for developing countries. Approximately one third of the world's agricultural land loses soil with excessive speed, and every inch of the ground lost 6% in grain production (Brown, L.R, 2011).

In these circumstances the government, farmers in developing countries are searching ways to fix situation, turning to scientists for new ways of increasing crop yields. Whereas employers are looking for opportunities to buy or lease land overseas, hoping to gain on the current conjuncture. Saudi Arabia, Libya, South Korea and China since 2008, actively buying up or lease land in poor countries. Ministry of Agriculture of China develops a plan, which provide

government encouragement towards local companies to buy farmland in South America and Africa. Libya is negotiating with Ukraine to obtain land for the wheat cultivation. Saudi Arabia is considering options to buy up land in the states of Pakistan, Turkey, Egypt, Sudan, Russia, and Ukraine (<http://dv0r.ru>).

Despite the publication in most Western sources (Dawn, HighQuest) about the problem of land acquisition by foreigners in Russia, Ukraine, these trends have not yet gained wide turns in contrast to African countries. According to Institute for Agricultural Market Studies (IKAR), foreigners control less than one million hectares of arable land in Russia, or less than 1% of arable land (BFM.ru, 2011). A Swedish investment fund Black Earth Farming (it controls about 300,000 hectares through Russian company "Agro-Invest", the Swedish company Alpcot agro (it invested \$ 230 million into Russia and controls more than 120,000 acres (or 49,000 hectares), the company "Rabbi Agro-Pro" with the participation of Israel, American, British capital (it controls 370,000 acres (or 150,000 hectares) among them. In addition, the Danish Trigon Agri has acquired in Russia and Ukraine, 300,000 acres (121,000 hectares) over the past two years (<http://newsru.com>).

At the same time in most of South-American and African countries authorities themselves stimulate the investment attractiveness into their strategic potential on conditions of environmental safety. Thus, in 2009 the South Korean Daewoo Logistics negotiated with the government of Madagascar on the acquisition of nearly half the arable land of this country. Daewoo said the Madagascar land would be leased for about \$12 per acre and that it had leased 1.3 million hectares of farmland from Madagascar's government for 99 years (it is about half the size of Belgium) in exchange of Korean market access. It plans to ship the maize and palm oil harvests back to South Korea (The Financial Times, 2009). In their turn Cambodian government was negotiating with several Asian and Middle Eastern governments, hoping to get at least \$3 billion for millions of hectares of land concessions. Also one Abu Dhabi newspaper asserts that a number of companies from the UAE bought about 16,187 hectares of land in Pakistan's Beludzhistan province for, about \$ 40 million in total for the subsequent export of food to the UAE market.

AGRICULTURAL LAND MARKET VALUE

It is clear that agricultural holdings will have greater interest to the most fertile land layer for the lowest cost. If we analyze the value of farmland on the international market, we can see a huge difference in the price range which does not reflect true relation between land value and quality of this land.

Prices on the private market *in Lithuania* estimated to be around 2920 litas per hectare (\$730 per hectare). According to Savills the price for 1 hectare of agricultural land *in Romania* is between 1000 and 2000 Euro (\$1331-2663). Savills compares Romanian prices to the Irish. In Ireland, which has the highest land prices in the ranking, agricultural land prices in 2008 were over 40,000 euro per hectare (Savills, 2011).

UK affiliated company Blackseavillas Ltd announces the average price *in Bulgaria* at the range of €2350 per hectare (\$3128) for the highly fertile soil and high yields (Blackseavillas Ltd, 2011).

A hectare of good agricultural land *in Poland* today costs more than in France and Germany, and prices are continuously rising, reports Rzeczpospolita. The average prices of agricultural land have gone up by 10 percent during the last quarter, and they are 12 percent higher than last year, according to data from the Agricultural Real Estate Agency (ANR). The average price for a hectare of agricultural land in 2011 cost zł.19,400 *in Poland* (\$4850). However high-quality parcels can cost more - about zł.38,000 (\$9500) (Central Statistical Office (GUS), 2011).

According to ODA (Offre & Demande Agricole) the cost of agricultural land *in France* ranges from €3,000 to €10,000 per hectare (\$3967-13223/hetare) depending on its quality characteristics. Its average cost is \$ 5100/hectare. For comparison, in neighboring Spain it costs \$14500/hectare, in Belgium it is \$26000/hektare (ODA, 2011). After 2010 agricultural land *in Germany* averaged about \$4826-6113 per hectare (<http://bigpictureagriculture.blogspot.com>).

English Savills estimates that the price of arable land *in Yorkshire* (England) remains in the region of £6,000 to £8,000 per acre¹ (\$23297-31064 per hectare), (Savills, 2011). Particularly strong growth in the arable sector was recorded in the eastern region, with the average value of prime arable land increasing by 12.5% to just above £7,400 an acre (\$28733 per hectare) while the average value of poor quality arable land rose by a more modest 3% to nearly £5,100 an acre (\$8014). The average value for pasture rose by 8.3% to £3,250 an acre while the average value for poor pasture land grew by 20% to nearly £2,150 per acre (\$3378). English the Guardian explains the rising of prices for arable land because of rising food prices. Agricultural lands for livestock farming went down up to £3000 per acre (\$11648 per hectare). It is because of doubling in animal feed prices, plus rising fuel and haulage costs (The Guardian, 2011).

1 hectar = 2,47105381 acre

Russian land price ranges from \$ 5,000 on the south, in the Krasnodar region, up to \$320 on the west, in the Lipetsk province. Price of land in Black Earth zone amounts about \$ 700-800 per hectare. According to real estate company "Razgulay the average cost of land acquisition for agricultural holdings in Russia is about \$ 1000 per 1 hectare, plus the cost of registration of the ownership to land which is about \$ 400-500.

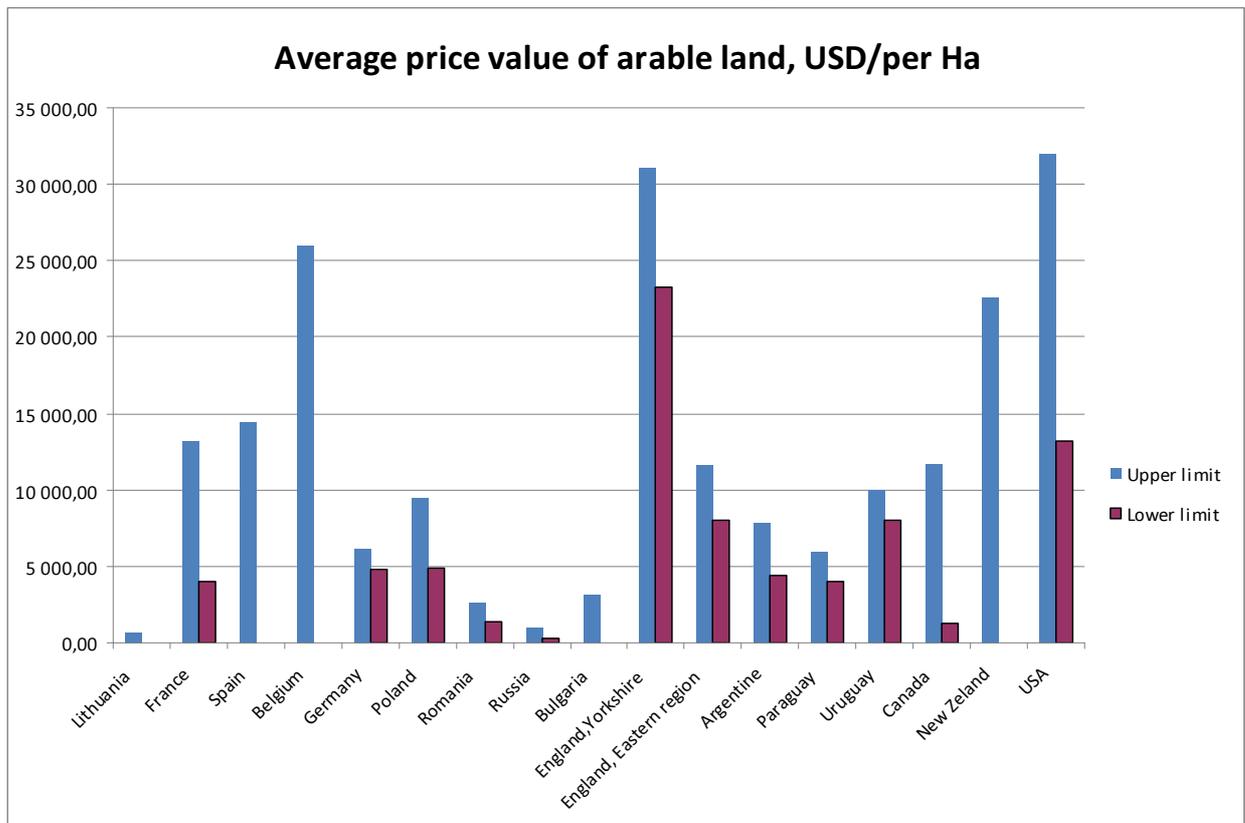
Let's observe the prices in other hemispheres of the Earth. The value of *U.S. soils* varies depending on the location in the Southern or Northern Hemisphere. For example, in *eastern U.S.* one hectare costs \$13200-32000. On average, the price for 1 akr¹ in the U.S. ranges from \$1334-33606 per hectare (www.ers.usda.gov).

The trends for purchasing South-American lands are changing rapidly. In *Argentina*, one hectare amounted \$ 4400-7800 in 2011. According to German Peer Voss farmland Real Estate agency the most profitable farmland in *Paraguay*, intensively operated and close to possessing plants currently cost \$4000-6000 per hectare, cattle ranch land cost \$500-2000. In addition Paraguay has the most favorable tax regime in the region, 10% personal income tax, 10% VAT. In 2012 the land in neighbor *Uruguay* isn't cheap any more, with \$8000-10000 per hectare for prime crop land, \$3000-5000 per hectare for good cattle pasture (Peer Voss, 2011).

In Canada, the Ontario province has the highest farmland prices with \$ 4767 per acre¹ (\$11780 per hectare), while Saskatchewan with \$498 per acre (\$1230 per hectare) and Manitoba with

\$833 per acre have the lowest (<http://usda01.library.cornell.edu/.../AgriLandVa/>). In *New Zealand* price for farmland consists of \$9,130 per acre¹ (\$22561 per hectare).

Average prices for farmland worldwide are reflected in diagram below.



Comparing market prices for agricultural land, it was surprise to admit that the most fertile soil like Ukrainian black soil are equal by the price to single purchase of bread-basket for Englishman family. And yet no other land can be compared with Ukrainian by its lowest price for arable land in Europe. The cost of *Ukrainian land* is composed of:

- the lease rights acquisition cost (\$120-800 per hectare depending of the region and soil quality);
- annual lease fees (legally fixed at a minimum 3% of the land parcel value but may vary from region to region, amounting averaged price as \$25-45 per hectare);
- annual cultivation (actual farming operation costs).

The question is how it can be possible in market conditions to keep such a low price on land? Clearly when the land officially can't be sold and the average rent is about 286-300 UAH per hectare (\$35-37) it can't have appropriate market value. But then how to explain the value of agricultural land in China where 1 hectare cost \$12285 and land also can be just leased and prohibited to purchase? The only answer is that it is profitable for those who earn millions on such land.

Ukrainian agricultural land which is amount 32.5 million hectares of arable land (compared to 100 million hectares in the EU) has 70% of it as a black soil. It is considered by foreigners as

«one of the best mid and long-term investment opportunities in the world» (<http://www.investukraine.net/agriculture/sustainable-evolution-of-the-ukrainian-market/>).

According to the agency Kyivpost one Ukrainian agriholding Kyiv-Atlantic, which received a cash infusion from Danish investors in 2006 amounted more than \$ 30 million into building a 40,000-ton grain elevator, a feed mill and an oil processing plant. As a result the company get \$ 36 million turnover in 2010 (Kyivpost, 2011).

Another agrarian company Kraft-Foods which invested capital into Ukraine since 1995 have doubled its investments up to \$ 500 million over the last three years. (Kyivpost, 2011).

According to estimates of international experts and investors of the company Avellum partners "Large agricultural producers are tapping international capital markets by doing IPOs and Eurobonds: MHP, Avangard and recently Mriya have attracted approximately \$ 780 million by issuing Eurobonds, while Agroton, Milkiland and, again, Avangard did successful IPOs attracting approximately \$ 345 million (Kyivpost, 2011).

It is not surprising that the majority of money-bags have a great desire to have access to Ukrainian farmland market seeing good examples of impressive turnovers of agrarian production. However next question is occurred: is it really free access to agricultural land market, especially for foreigners, or whether it should be a free access for all market players?

3. RESTRICTIONS ON AGRICULTURAL LAND ACQUISITION IN UKRAINE

Along with general moratorium on sale of agricultural land, which is expected to be eliminated from 2013 there are a number of legislative provisions that restrict the size of land parcel and its intended use. Thus, Article 13 of the Land Code prescribes that "...citizens and legal entities may acquire ownership to agricultural land with total area of 100 hectares for the period until January 1, 2015. This area can be increased in case of land inheritance". This land can be acquired in addition to the right for free privatization for citizens which is regulated by the article 121 of the Land Code. According to article 121, each citizen of Ukraine may get up to about 2 hectares of land for certain purposes, several of which are also intended for agriculture. There are subsidiary farm (up to 2 hectares), individual summer house construction (about 0,10-0, 25 ha), gardening (up to 0, 12 ha). It should be admitted that only 6,6 mln. people have used their rights for free privatization among 15,1 mln.

In addition, a part of citizens of Ukraine who were members of former collective farms have acquired the right to issue a land share of former collective farms' fund into their individual private ownership. As a result currently 84% of arable lands in Ukraine which make up roughly 29 million hectares are privately owned by individuals. The average size of such individual land parcels formed from a land share is 3.7 hectares in Ukraine. That's just this kind of land along with subsidiary farms are subject for moratorium on sale. The law prohibits until January 1, 2013 the alienation and change of the designated purpose of commercial and private agricultural land. The law also prohibits until January 1, 2013 to use the rights to land parcels as assets in the charter capital of business entities. At the same time these lands can be exchanged or inherited without changing its agricultural purpose.

Land law (art. 15 of transitional provisions of the Land Code) also prescribes elimination of moratorium on sale of farmland and subsidiary farms from the moment when laws on State Land Cadastre and law on Land Market will be adopted. The first mentioned law was already adopted as of 7th of July, 2011.

The Land Code of Ukraine restricts the sale of agricultural land to the foreigners whether it is physical or juridical entities. At the same time art. 33 and 35 of Land Code regulate the possibility to lease land for farming, subsidiary farming and collective or individual gardening by foreigners and stateless people. The rental period for all cases can be set up to 49 years.

And then a variety of shady schemes have been inventing in order to avoid existing legislation. There are changes in land use when land should have any other commercial use except agricultural in order to be sold in big amount, using exchanged procedures. (According to the State Committee on Land Resources (SCLR), almost 20 percent of farmland has changed ownership in the last decade). It can be formal legal registration of the domestic legal entities financed by foreign investors.

Interested in buying land in Ukraine can observe different international sites where there are clear instructions how to get arable land into ownership if you are foreigner and even have legal support after sale. It is very clear from advertisement at the site http://www.agrilandsales.com/bulgarian_farmland_news-74.html. *“Buy large areas of Europe's best farmland for a low price. Uaproperty.com, which has been a portal for **foreigners wanting to buy real estate in Ukraine for over 6 years**. They are now offering their great experience in land procurement and contract negotiation to clients seeking farmland.*

The consultancy services offers the following service:

- * Finding of farmland according to client requirements, as to size and crops.*
- * Negotiation of best lease price from vendors*
- * Setting up of Ukrainian company to hold the land for buyers*
- * Ensuring correct and advantageous contract for client in purchase of lease*
- * Post sale, assisting new owner regarding land management.*

Fees are very reasonable in comparison to the huge value of the services.

*Ukraine is unique in that it offers one of the world's few countries where large land holdings can be secured. uaproperty can secure land parcels from **5 hectares to 5,000!** Even more, given time. Price for lease of 49 years? This varies according to area, size and facilities, but FAR less than for comparable land (if available) elsewhere.*

Uaproperty are based in Kiev, Ukraine and also work through offices near London in UK of the Foreign property Shop.com Ltd, a well established UK company.”

Who are talking here about restrictions on size, land use, categories of land owners? Environmental NGO Green Front records there are hundreds of listings of farmland sellers online on the black market and annually sales amounts almost \$900 million in Ukraine (KyivPost, 2011).

Struggling against the fraudulent actions another restrictive rule has been introduced by a lawmaker under which agreements, powers of attorney signed during the moratorium on agricultural land sale or other land disposal methods are considered invalid.

But that does not stop potential investors from law violation. Besides trample of legislation there are cases of predatory destruction of the land are observed. The [NGO Green Front](#) reports several cases when the soil was extracted from the land parcels owned by pensioners in Kharkiv oblast in Ukraine. “A single Kamaz truck carries, on average, 10 tons of soil. An excavator digs out fertile soil, on average, up to four feet deep. Then an excavator loads a soil into a truck that delivers a product to a buyer. Retirees who own farmland also suffer a great deal from the government abuse. The SCLR reports that 53 percent of land owners are retirees and 30 percent of them have no heirs. The law enforcement officials considered available evidence insufficient to open a case.» (Krasnozhon L. and Peregon O., 2011).



Source: NGO Green Front.

4. WORLDWIDE PRACTICE OF RESTRICTIONS TO BUY FARMLAND

Practice of restrictions on agricultural land purchase by foreigners is not unique to Ukraine. Most of the EU accession countries prohibit or limit foreign ownership of agricultural land.

In *Romania* agricultural land can be acquired by foreigners only if the company (partly or fully foreign) will have Romanian legal entity. Romanians as well as Lithuanians have asked EU to prolong moratorium on farming land sale to the foreigners until 2014. In Poland foreigners must have permission from the Ministry of the Internal Affairs before they may buy more than one hectare of agricultural land. So, foreigners mostly lease farmland here.

In *Estonia*, foreign legal entities may acquire real estate for production purposes “only by the consent of local governor and, in the case of foreign-controlled Estonian legal entities, on the condition that the branch of a foreign legal entity is registered in Estonia. Cooperatives, corporations and other private companies may own non-land assets, but must lease their land resources from individual landowners or the State.” (<http://www.fao.org>).

In *Hungary* where the moratorium on land acquisition by foreigners has existed since 2004 it was prolonged in 2011 for 3 years. Thus, the government expects land prices’ growth during moratorium period so that it won’t be basement for speculation on the market. “However, foreign citizens will be able to purchase land only if they have been residents for at least three years, farm for a living, pay taxes and if Hungarian farmers renounce their pre-purchase option. Hungary wants to preserve its farmland for Hungarian farmers and rid itself of foreign farmers

who illegally bought land after 1994, or have options to do so under contracts hidden behind legal leasing or other deals. Hungary also restricts private land owners to holdings of no more than 300 hectares.” (<http://www.fao.org>).

A restriction on land sale-purchase by foreigners is existed in *China*. Officially peasants have state or collective right to own farming land. But having a Chinese as a partner a foreign company can enter the land market and lease farming land.

Even those countries which formally declare free access to land for foreigners in fact have so many restrictions that do not allow entering farmland market. In *Western France* the right to purchase agricultural land is granted by government organization SAFER (*Sociétés d'aménagement foncier et d'établissement rural*) based on the collective opinion of a commission of representatives of the commune, the mayor, representatives of the prefecture, agrarian syndicalists. Under all equal conditions the priority is always given to the Frenchman.

In *USA* foreigners own less than just 1% of agricultural land. And these land are mostly pastures. The reason why it is so is that according to the bill on foreign investments into agriculture as of 1978 in each individual case foreigners should apply to the USA Ministry of Agriculture to buy farm or forest land. And even in case of positive result final decision remains on State where laws and restrictions are different. For instance in Kansas it's forbidden to sell agricultural land to foreigners. In Georgia, Kentucky, Maryland only foreigners from friendly states can acquire farmland. In Indiana and some other states not more than 2 hectares can go to one hands.

Interesting that in *Austria* none could get the land for speculation since each owner will be always under vigilant surveillance of the authorities. And if one decided to buy cattle farm than not less then 5 cows should be kept there, if the land is using for gardening then no other purposes permitted.

According to the Coordinator of Economic Analysis Department under the Ministry of Agriculture and Food of Brazil's Marcelo Fernandez Guimaraesa foreign companies and individuals are very successful in buying and renting land in Brazil. From 2002 to 2008 an estimated inflow of foreign direct investment in the land purchase was over \$2.43 billion. Since land acquisition without limitations and its destructive use has caused considerable damage to agriculture in Brazil, this led to the necessary restrictions in the legislation. Now the purchase of land by foreigners is limited to one quarter of municipal area and the citizens of one country can buy not more than 40% of this area. At the same time, in case of lease agreements there are no restrictions for foreigners to land use. Currently, the Brazilian government seriously engaged in the development of new rules that would restrict the purchase of agricultural land by foreign companies in the future. (Zinkov R., 2011).

In neighboring to Brazil Argentina, the government also wants to restrict the right to acquire land by foreigners. Correspondent lawdraft was submitted in April 2011.

Seeing these examples does Ukraine still have the need to eliminate moratorium on sale?

5. OPINIONS "FOR" AND "AGAINST" RESTRICTIONS ON THE RIGHT TO SELL AGRICULTURAL LAND

Most of the sources both foreign and domestic reiterate the need to facilitate the access to Ukrainian agricultural land market based on the idea of immediate flow of investments to the economy and especially to agricultural industry.

Some Ukrainian politicians express the need to let foreigners enter into the land market because they will bring technology with them which allowed receiving twice bigger yield of crops on worst quality land than in Ukraine. On the other hand the prohibition on land sale for foreigners, will not allow selling the land at more expensive price during the fair competition with indigenous people. Mouthpiece of this party the Head of the State Land Committee on Land Resources Sergiy Tymchenko thinks that "After removal of moratorium on sale agricultural land its price won't be bigger than \$500-700 per hectare. But it is going to be increased annually depending on three indicators such as development of agrarian complex infrastructure, land consolidation and increase of soil quality". (UNIAN agency, 2012).

Other nationalistic oriented politicians strongly object the idea of moratorium removal. They motivate it by the reason to lose a strategic resource for citizens of Ukraine. As the majority of citizens (70-80%) who have the title to the land of agricultural commodity are retired people, who can be easily fooled and lost the land for nothing. Moderates believe that the moratorium should be extended until land inventory of all lands will be finished, all titles to land will be registered, and a program of rural development will be adopted.

Entrepreneurs speak in favor of the abolition of the moratorium, due to the lack of opportunities not only to sell farming land but also to mortgage it. According to Roman Fedorovich, the general director and manager of the department for land acquisition of "Ukrainian Agrarian Investments" the land after the release of the moratorium will cost from \$500 to \$1,000 per hectare (Rachkevich M., 2010). It is remarkable that in China, where a hectare of arable land costs \$12 285 an existence of moratorium on land sale does not affect its value.

For the majority of experts in agriculture and land management it is obvious that there are many other economic factors that could help to revive agricultural sector without land sale. The independent expert Michael Lee thinks that exactly due to the growth of global food crisis, land value will increase. And it would be better to receive a modest income in the form of rent payment in cash or in combination with seed material than receiving the money and spending them once to stay without a mechanism to manage own resources. The moratorium is working for the benefit of medium-sized businesses, which should not spend the money to redeem land, but may continue to rent it, and invest into production (equipment, raw materials, infrastructure) (Lee Michael, 2010).

The author absolutely agrees with him. Especially when foreigners who work in Ukraine since 1990th prove by their activities that no conventions could stop to earn money for those who really want working. As an example the family of David and Daniel Sweere introduced agrocomplex in village Demki of Cherkassy region and got \$36 million turnover in 2010 (Kyivpost, 2011).

6. REASONS WHY THE QUESTION ON MORATORIUM ABOLITION IS VITAL IN UKRAINE

A) The only reason that the question of moratorium abolition is acute to the Ukrainian people is financial. In a country where 26% of the population lives below the poverty line, only industries with foreign capital can work successfully. Land reform and land sharing together have led to agricultural land fragmentation and decrease of land use (depending on region there are 35-65% of agricultural land are now used). In case of land shares, where the average size is 3.7 hectares, manual labor remain dominant comparing to innovative technologies, which is also doesn't work for their productivity. According to the Ministry of Agrarian Policy of Ukraine's 4.6 million families handle 6.5 million hectares of land for their own needs. While 3.2 million hectares handled by large agroassociations, and only 10 percent of them use western technologies of land cultivation and raising plants.

For comparison, we give an example of operating of one of major agroassociations which is Ternopil agricultural holding "Mriya". It leases 190,000 hectares in Ukraine. In 2009 the association of large farms could increase the amount of grain production three times, raising the annual harvest up to 50 million tons. In 2010 Mriya received from the International Finance Corporation's \$ 200 million for the development and leasing new land parcels (Ivanitsky Paul, 2010). If we take into account the discriminatory rental fee as 3% of standard land valuation, which is an average of 286-300 UAH per hectare (about \$ 35), then it would be no sense talking about the competitiveness of small Ukrainian farmers.

But even in such unequal conditions Ukrainian small and medium agri-business continue to grow (Table 1).

Table 1

| Farmers' evaluation of their financial situation | | | | | |
|---|------------------------|------------------------|------------------------|------------------------|------------------------|
| | Decem. 2007 | Decem. 2008 | Decem. 2009 | Decem. 2010 | Decem. 2011 |
| Very good | 0,75% | 0,00% | 0,00% | 0,00% | 0,00% |
| Good | 25,25% | 3,24% | 30,75% | 25,06% | 26,75% |
| Satisfactorily | 58,50% | 48,03% | 49,75% | 64,27% | 66,25% |
| Unfortunate | 15,50% | 39,00% | 18,00% | 10,42% | 6,75% |
| Very unfortunate | 0,00% | 9,73% | 1,50% | 0,25% | 0,25% |

Source: regular poll made by APC-Inform 400 farms (small, medium, large) in 24 oblasts of Ukraine

According to a survey conducted by the Agency APC-Inform, Ukrainian farmers do not count on state support and assistance from outside. If farmers frequently applied to the banks for loans on agricultural technique before the crisis in 2008 then now with an increase of interest rates on the loan, they refuse credit lines. There are only 11.73% of those who issued loans were fixed recently. 68.75% of examined farmers evaluate the credit conditions as unsatisfactory. Moreover, 28.22% of farmers informed that the main reason why they can not invest in technology is a state policy regarding agricultural sector. Another reason for holding back the implementation of investment plans, is an increase of costs on basic agrarian resources. It is interesting that 26.88% of farmers been interrogated do not see the need to invest in technology because they already have reasonably good equipment and technology parks at their farms (<http://www.apk-inform.com>).

B) The issue on taxation of commodity producers lays in the same plane. According to the World Bank in 2011 Ukraine has taking top position in the rank by the number of taxes paid, not the sum, but exactly by numbers. WB informed that Ukrainian business pays 135 different taxes in one form or another. For comparison, in Hong Kong there are only three taxes collected. In Georgia, Sweden, Norway - four taxes, in Singapore - five taxes. At the same time in France there are only seven taxes. In the UK, Czech Republic, Netherlands, Portugal, Spain, Finland there are eight taxes. In the United States are 11 (<http://finance.bigmir.net>). The question: who will succeed in business in this situation foreign or Ukrainian investor is rhetorical.

C) Now imagine a situation when an average statistical Ukrainian citizen has annual salary in \$80000-120000 a year, whereas the Austrian, American or Englishman would have \$3000-12000 for the same period (not bearing in mind the interest rates on loans, taxes, fees and other financial barriers to business development). Would the residents of these countries agree to give the green light for buying up their land and provide business development by foreigners? It is one thing, when having all other equal conditions the choice for farmer where to make business is influenced only by geographical location, quality of soil, existent infrastructure. And quite another matter when the same choice is influenced by socio-economic and material factors.

Experts from the Organization for Economic Cooperation and Development (OECD) noted that the income gap between rich and poor inhabitants of developed countries became bigger. On average, 10% of the richest people earn nine times more than 10% of the poorest. Moreover, even in Germany, Sweden and Denmark this index have reached 6/1, while in Japan, Italy and the UK it is 10/1. In Russia this index amounts 20/1. (Belyakov Eugene, 2011).

In this context it is interesting to see comparisons of living standards in Europe and Ukraine based on European Quality of Life Index, presented in Table 2.

Table 2

Living standards indexes of European Countries and Ukraine

| Living standards indexes | UK | France | Denmark | Netherlands | Germany | Poland | Italy | Sweden | Ireland | Spain | Ukraine |
|--------------------------------|------|--------|---------|-------------|---------|--------|-------|--------|---------|-------|---------|
| Annual family income, thous. € | 35,7 | 24,4 | 27,8 | 26,4 | 27,5 | 21,3 | 18,2 | 26,8 | 29,2 | 16,7 | 2,6 |
| Duration of working day, hours | 37 | 38 | 35,2 | 30,7 | 35,5 | 41,1 | 38,3 | 36,3 | 36,0 | 39,2 | 40 |
| Quantity of holidays per year | 28 | 34 | 32 | 29 | 33 | 37 | 31 | 33 | 29 | 41 | 21 |

| | | | | | | | | | | | |
|-------------------------|------|------|------|------|------|------|------|------|------|------|------|
| Average lifetime, years | 78,9 | 80,9 | 78,1 | 79,3 | 79,1 | 75,4 | 80,1 | 80,7 | 78,1 | 79,9 | 66,0 |
|-------------------------|------|------|------|------|------|------|------|------|------|------|------|

Source. European Quality of Life Index at www.eurofound.europa.eu

It is notable to admit the gap in 10 times between the average annual family income in Europe (€20-30 thousand) and in the Ukraine (€2.6 thousand). At that in Ukraine there is one of the longest working day and minimum number of holidays.

CONCLUSIONS

1. As in most countries of the world the foreigners pose a threat for indigenous people to lose their basement. Thereupon Ukraine is not unique. Such basement to Ukraine is its black soil which is still remains the most uncontaminated by chemical elements in the world. Having almost 32 % of degraded farmland and 20 % of low-yield arable farmland due to soil erosion it is still the land of great interest for production. So, it would be good if government will comprehend the potential and will be able to shift land policy towards improving the soil quality, land management and business environment for local workers instead of wasting time and efforts on removal of the moratorium. It is important to create economical conditions which encourage foreigner investors to work on Ukrainian land and not simply buy up them. Foreign investors who work in Ukraine since 1990th prove by their experience that labour is a driving force for getting millions of turnover from Ukrainian black soils letting aside absence or existence of moratorium on land sale.

2. If the state is interested in a strong domestic agricultural producer, affecting by financial instruments such as rates on loans reducing, cutting taxes, increasing purchasing prices for agricultural products, revision of standard land monetary value and rental rates, the question of the need to sell the land will disappear by itself. After all, in the short term, Ukrainians should expect extension of competition for markets of commodities with companies from Central and Eastern Europe. And in this case such a resource as land can become a dominant advantage, or at least remedy to survive in difficult economic conditions.

3. Increase of disparities in incomes within the country and globally affects the ability to participate effectively in commodity production. Reducing of the imbalance leads to stabilization of socio-economic situation of each individual family, farm and large enterprise. Trying to emulate America, we can use an excellent example of a social market economy, established by Roosevelt. He raised the salaries to wage labourers two times, secured them with pensions and forced large American business to share its income. At the same time intellectual American businessmen were able to comprehend the necessity of incomes redistribution for the benefits of manpower. The author wish Ukrainian fertile land will give such wisdom to leaders of the nation.

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BIOGRAPHICAL NOTES

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