

## WILL THE EASTERN PARTNERSHIP BECOME A DRIVER FOR AGRICULTURE?

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### Abstract

*This article is devoted to the impact of the Eastern Partnership on agricultural production of the member states. ENPARD basic parameters are examined. The results of agricultural development of the states participating in ENPARD and states preparing to join the project was monitored. The Eastern partnership is based on a deep and comprehensive free trade area (DCFTA), economic integration and convergence with EU policies, energy security, human contacts etc. The absolute and relative indicators of agricultural development of the Eastern Partnership countries are analysed. The general and individual problems of the countries are studied. The analysis showed an unequal economic potential for agricultural development. It was noted that the strategic partnership involves interstate cooperation to achieve mutually beneficial internal and external goals.*

*Keywords:* Partnership; convergence; agricultural development; economic integration

*JEL Classification:* O19; O43; Q17; Q18

### Introduction

*"With perseverance, anything and everything, whether right or wrong, good or bad, is achievable and can be conquered."*

-John Davison Rockefeller.

In the course of their development, the countries enter into partnerships with the aim of focusing on important aspects of joint activities. Ukraine has about 20 strategic partners. There are discussions in academic and professional circles concerning numerous centres of strategic interest.

On the one hand, bilateral and multilateral strategic partnership agreements define strategic objectives, common approaches to address key aspects of international politics and to deepen contacts in important areas of international relations, and on the other, the partner relations are often conflicting and impede the further dynamic development.

Signing of the Multilateral Agreement on the Eastern Partnership marked the beginning of a new era of cooperation with eastern neighbours by mediation and with participation of the EU,

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based on a deep and comprehensive free trade area (DCFTA), economic integration and convergence with EU policies, energy security, human contacts etc.

The EU policy on the Eastern Partnership contains a number of negative expert opinions. However, as shown by Riga 2015, the Partnership continues to operate and develop, attracting new tools to achieve its goals.

Our research summarizes the results of the Eastern Partnership in the field of agriculture, the areas of which were outlined by the Eastern Partnership Platform 2 "Economic Integration and Convergence with EU Policies" in the Work Programme for 2014 - 2017.

In a joint statement by Armenia, the Republic of Belarus, Georgia, Moldova and Ukraine on the Development of Advisory Systems of Agriculture and rural development at the Riga Summit, the importance of these aspects of the Eastern Partnership cooperation in the field of agriculture was noted in order to:

- further deepen the relations and cooperation in agricultural and rural advisory system between the European Union and its Member States and our countries,
- secure the European Union support of the reform programs in the field of agriculture and rural areas,
- strengthen the business aspect of the Eastern Partnership through cooperation to improve agricultural entrepreneurship.

The Eastern Partnership member states are the long-time strategic partners of Ukraine. The list of strategic interests goes beyond the Eastern Partnership. The development of agriculture is a new direction of cooperation within the Eastern Partnership. Besides, only a part of the Partnership states receives specialized funds. An unprejudiced evaluation of the results of cooperation requires a long period of the relationship monitoring. Therefore, the aims of research are– the expert assessment of some directions of the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) and the results of agricultural development of the Eastern Partnership member states (European Commission, 2014).

The main objectives of the research are:

- to identify the basic principles of the National Agricultural Policy of the Eastern Partnership member states;
- to conduct the monitoring of the European Neighbourhood Programmes for Agriculture and Rural Development;
- to conduct a comparative analysis of effectiveness of the agricultural sector development in the ENPARD member states and states not participating in this program;

- to identify the problems and development priorities in the field of agribusiness for the Eastern Partnership member states.

The research is based on the equal partnership theory, which envisages the combination of policy, mutual assistance, trade and investment into a single policy based on the developing countries' efforts. In spite of the controversial points as regards feasibility of this concept, we strive to test the hypothesis of equal interdependence of developed and developing countries, and forms of partnership and cooperation between them. We believe that partnership in international economic activities should be based on the principles of openness, collaboration, information sharing, mutual responsibility and mutual development of the integration processes on a common economic basis. Bilateral and multilateral formats of the Eastern Partnership provide for work in the fields both between Member States and the EU, and directly between the parties.

## 1. Literature Review

According to researchers dealing with various forms of international economic relations, elementary forms of international cooperation and integration are the direct connections for businesses (companies and organizations). They are most interested in achieving an optimal scale of activities through cooperation and collaboration with foreign companies (Shishkov, 1993). In the case of the Eastern Partnership, we have the opposite situation, when the partnership is "instilled" from the top with support of national governments. This allows validating certain provisions of international relations theories and hypotheses.

Milner H. (1992), exploring the international cooperation, developed the hypothesis regarding the conditions under which cooperation between States is becoming more probable, namely:

- the "Hypothesis of Reciprocity", the main content of which is expectations of the benefits of cooperation and the fear of loss, and even penalties in the event of deviations therefrom.
- the "Hypothesis on the Number of Actors", in terms of which the prospects of cooperation increase with the decrease in the number of interacting states.
- the "Iteration Hypothesis", on the basis of which the possibility of accession is related to the cooperation mode and interaction duration.
- the "Hypothesis of the International Regimes", i.e. standards, principles and decision-making procedures, the totality of which represents an international cooperation centre.
- the "Epistemic Communities Hypothesis" describes the role of professional experts in development of international cooperation.

- the "Power Asymmetry Hypothesis" considers that cooperation is more probable if there is a strong and focused hegemonic State.

The main disadvantage of these hypotheses, according to Milner H. (2009), is that they are not focused on the internal sources of international cooperation. We are planning to combine the findings of these hypotheses validation using the theory of endogenous growth. This theory of growth (endogenous growth) appeared as a result of the presence of acute problems of economic development in developing countries and is focused on internal factors and mechanisms of economic development, which collectively are able to ensure self-development and self-reproduction of national economies.

If we talk about the practical aspects of international partnership and cooperation, we should pay attention to the research of Soupihanov (2009), which deepened the concept of the structural foundations of world markets, constantly changing and complicating, evolving both in the interests of individual countries or regional integration associations and in the interest of the global community. The researcher developed a methodology of evaluate the potential market for agribusiness products. A spectral export line allows detecting the points of contact in the commodity exchange transactions of partner states.

Another point in the research areas of international partnerships and their effectiveness is the scope of agribusiness development at the level of partner states. According to research by Mayovets Y. (2007), the unique formation of agricultural enterprises in Ukraine appear to have been carried out in five directions, namely land reform; economic reform; formation of agricultural market instead of the old distribution system; financial stabilization; and social development. However, none of these directions is completed and this has led to a crisis in agriculture.

In some developed countries, agribusiness has been developed successfully within the framework of public-private partnerships. Spielman D.J. (2006) notes that a public-private partnership is a potentially important means of conducting pro-poor agricultural research in many developing countries. The results of this research suggest that primary impediments to the partnership are perceptions, competition and risk, while the issues of costs and conflicting incentives are secondary. Investment in innovative organizational mechanisms and supportive public policies is necessary.

The methodological basis of export-oriented policies in the global innovation economy should offer new outlook of agricultural economics (a new agrarian vision, agrarianism) based on social and environmental priorities (ecocriticism), an active state and public policy and legislation establishing the social criteria of the policy (McMichael, 2009). The main aspects of innovation in the EU are reflected in the Common Agricultural Policy (CAP).

The experts examined a number of components of agribusiness development at the national and international levels, namely economic potential, export opportunities, public-private partnerships, integration etc. The effective progress of international agreements in specific economic conditions will depend on their content and quality of management.

## 2. Involvement of the Eastern Partnership member states in the European Neighbourhood Programme for Agriculture and Rural Development (ENPARD)

The European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) was established in 2011. The programme has become a new political initiative aimed at development of agriculture, food security, sustainable production and rural employment. The main principles of the programme are compliance with national development strategies; interaction with regional development programs; ensuring coordination between different ministries participating in the programme. During the programme cycle, which lasts from 2014 to 2020, the partner states have to identify three sectors in which they cooperate with the EU. Georgia, Armenia and Moldova took advantage of the possibilities offered by this programme. The basic parameters of the involvement of these countries in ENPARD are shown in Table 1. The implementation of the Eastern Partnership is based on the principles of differentiation, shared ownership and responsibility, as well as the "more for more" approach (the greater the progress of the partner states in implementing reforms, the more support they receive from the EU).

**Table 1. European Neighbourhood Programme for Agriculture and Rural Development**

| Country, period              | Description, Budget   | Expected results  |
|------------------------------|---|---|
| <b>Georgia<br/>2013-2018</b> | Promoting the business-oriented farmers' cooperatives as a model for small farmers to improve their production and access to markets<br><b>Budget:</b> EUR 102 mln. | <ul style="list-style-type: none"> <li>- Strengthening of cooperation among small farmers;</li> <li>- Improved performance of institutions engaged in agriculture;</li> <li>- Increasing and improving services to small farmers;</li> <li>- Development of business-oriented small farmers groups, associations and other forms of profit-based collaborative actions between farmers.</li> </ul>  |
| <b>Armenia<br/>2015-2017</b> | <b>"ENPARD Armenia Technical Assistance: Producer Group and Value Chain Development"</b><br><b>Budget:</b> EUR 2.8 mln.   | <ul style="list-style-type: none"> <li>- Support of agricultural institutions, encouragement of development of farmers' associations and improvement of access to more affordable food in the European Neighbourhood countries;</li> <li>- Strengthening of the newly established primary producer groups;</li> <li>- Development of effective, sustainable new producer groups, as well as assistance to and strengthening of existing ones at various stages of their development;</li> <li>- Strengthening of the value-added chains ensuring improved access to affordable, better quality food.</li> </ul> |
| <b>Moldova<br/>2015-2018</b> | <b>"ENPARD Moldova – Agriculture and Rural Development" Budget Support Sector Reform Contract (BS SRC):</b> support the Government                                  | <ul style="list-style-type: none"> <li>- The growth of export potential of key products in the EU market;</li> <li>- Restructuring and modernization of the agri-food sector;</li> <li>- Sustainable management of natural resources;</li> <li>- Improvement of living and working conditions in rural areas;</li> <li>- Harmonization of products with quality, security and control</li> </ul>  |

## WILL THE EASTERN PARTNERSHIP BECOME A DRIVER FOR AGRICULTURE?

efforts to eradicate poverty, promote sustainable growth, improve food security and employment in rural locality  
**Budget:** EUR 64,075 mln.

requirements of the European Union's;  
 - Improvement of agricultural product competitiveness;  
 - Promotion of investment in physical infrastructure and services in rural areas.

Source: ENPI (2012), European Commission (2014), European Commission (2014)

Armenia is the most agrarian country among the Eastern Partnership member states. The share of agriculture is about 20% of Armenia's GDP, and this proportion remained actually stable after signing of the Eastern Partnership Agreement (see Table 2).

**Table 2. Share of agriculture in GDP, %**

| Country name | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------|------|------|------|------|------|------|------|------|------|------|------|
| Armenia      | 20.9 | 20.5 | 20.3 | 18.4 | 18.9 | 19.2 | 22.8 | 20.1 | 20.7 | 20.8 | 19.4 |
| Azerbaijan   | 9.9  | 7.5  | 7.0  | 6.0  | 6.6  | 5.9  | 5.4  | 5.5  | 5.7  | 5.7  | 6.8  |
| Belarus      | 9.9  | 9.9  | 9.7  | 10.1 | 9.7  | 10.6 | 9.4  | 9.8  | 8.1  | 8.6  | 7.8  |
| Georgia      | 16.7 | 12.8 | 10.7 | 9.4  | 9.4  | 8.4  | 8.8  | 8.6  | 9.4  | 9.3  | 9.2  |
| Moldova      | 19.5 | 17.4 | 12.0 | 10.7 | 10.1 | 14.4 | 14.8 | 13.4 | 14.8 | 15.5 | 13.8 |
| Ukraine      | 10.4 | 8.7  | 7.5  | 7.9  | 8.3  | 8.3  | 9.5  | 9.1  | 10.2 | 11.8 | 14.0 |

Source: The World Bank Group

The European Neighbourhood Programme for Agriculture and Rural Development (ENPARD) was launched in Armenia in January 2015 and will last for three years. The Programme is designed to support the agricultural institutions, encourage the development of farmers' associations and improve access to more affordable food in the European Neighbourhood countries.

The "ENPARD Armenia Technical Assistance: Producer Group and Value Chain Development" project is implemented by UNIDO and UNDP. The overall objective of the Technical Assistance project is to support the Government of Armenia in ensuring an efficient and sustainable agriculture contributing to better conditions in rural areas of the country.

The project announced an open call in the mazes of Shirak, Lori, Gegharkunik, Aragatsotn, Kotayk and Vayots Dzor to select and support the groups engaged in production and processing of fruit, berries, nuts, vegetables, potatoes, grain, legumes, honey, herbs, tea, milk and dairy. Currently, the call is open and the application process is underway.

Agricultural policy is aimed at liberalizing the economy, agricultural land and other means of production, manufacturing and service infrastructures. Considerable attention is paid to development of agriculture due to active government support.

Despite the fact that there has been a significant decline in production volumes in agriculture in 2010, in the following years, Armenia demonstrated a steady increase in added value (see Table 3

and Table 4). For the economy of Armenia, the agribusiness has been and remains very important and indispensable for sustainable operation of the national economy.

The area of the cultivated agricultural land in Armenia increased by almost 68 thousand hectares from 2011 to 2015 and amounted to 351.3 thousand hectares. The targeted use of arable land has reached 78.5% in 2015, compared to 63.2% in 2010. 53 agricultural cooperatives were created in the framework of the "Eastern Partnership" programme for development of agriculture and villages (ENPARD) (National Statistical Service of Armenia, 2015). The increasing number of business entities and area of arable land has led to positive trends. The volume of products grown by peasant farms increased in 2016.

**Table 3. Agriculture, value added (2010 constant US\$) USD mln.**

| Country name | 2007  | 2008   | 2009   | 2010  | 2011   | 2012   | 2013   | 2014   | 2015   |
|--------------|-------|--------|--------|-------|--------|--------|--------|--------|--------|
| Armenia      | 1,716 | 1,767  | 1,872  | 1,574 | 1,795  | 1,965  | 2,114  | 2,279  | 2,539  |
| Azerbaijan   | 2,760 | 2,928  | 3,031  | 2,933 | 3,103  | 3,308  | 3,470  | 3,380  | 3,603  |
| Belarus      | 4,570 | 4,963  | 4,977  | 5,096 | 5,436  | 5,784  | 5,542  | 5,694  | 5,535  |
| Georgia      | 989   | 946    | 884    | 847   | 919    | 885    | 985    | 1,001  | 1,030  |
| Moldova      | 475   | 671    | 650    | 700   | 680    | 543    | 796    | 864    | 748    |
| Ukraine      | 8,823 | 10,287 | 10,082 | 9,950 | 11,901 | 11,389 | 12,961 | 13,337 | 12,710 |

Source: The World Bank Group

**Table 4. Value added growth rate in the previous year, %**

| Country name | 2007  | 2008 | 2009 | 2010  | 2011 | 2012  | 2013 | 2014 | 2015  |
|--------------|-------|------|------|-------|------|-------|------|------|-------|
| Armenia      | 10.0  | 3.0  | 6.0  | -16.0 | 14.0 | 10.0  | 8.0  | 8.0  | 11.0  |
| Azerbaijan   | 4.0   | 6.0  | 4.0  | -3.0  | 6.0  | 7.0   | 5.0  | -3.0 | 7.0   |
| Belarus      | 5.0   | 9.0  | 0.0  | 2.0   | 7.0  | 6.0   | -4.0 | 3.0  | -3.0  |
| Georgia      | -     | -4   | -6.0 | -4.0  | 9.0  | -4.0  | 11.0 | 2.0  | 3.0   |
| Moldova      | -35.0 | 41.0 | -3.0 | 8.0   | -3.0 | -20.0 | 47.0 | 9.0  | -13.0 |
| Ukraine      | -5.0  | 17.0 | -2.0 | -1.0  | 20.0 | -4.0  | 14.0 | 3.0  | -5.0  |

Source: The World Bank Group

The wheat harvest increased to 369.4 thousand tons, which is about 10% higher compared to the last year's 338.1 thousand tons. The same trend is observed in the potato harvest, i.e. 776.6 thousand tons compared to the last year's 733.1 thousand tons. As for vegetables, this figure amounted to 10,337 thousand tons (954.6 thousand tons in 2015) (National Statistical Service of RA, 2016).

The added value in agribusiness in Georgia has been growing very slowly, despite the fact that it is the first to receive funding under the ENPARD programme among the Eastern Partnership states. The total ENPARD budget for Georgia, covering the period of 2013-2018, is EUR 102 million. The project funded by the EU covers 13 municipalities in 5 regions of Georgia. The main objective of the project is to contribute to increased productivity of Georgian agriculture and

reduction of rural poverty, as well as support of establishment and strengthening of business-oriented farmers' groups to promote increased effectiveness and competitiveness of small farmers in agricultural economy. The agriculture cooperatives supported by the project are operating in the fields such as hazelnut production/mechanization/processing, potato farming/storage facilities, grape farming, apiculture, vegetable farming/greenhouse/cooling/storage and crop production/mechanization.

A slow growth of the added value alternates with negative growth (see Table 3 and Table 4). Consequently, the country has shown a declining share of agriculture in GDP. 2011-2013 became symbolic for food exports increase. However, it is rather an exception to the general trend. The rise was followed by a substantial drop (see Table 5 and Table 6).

**Table 5. Food export, USD mln.**

| Country name | 2007  | 2008   | 2009  | 2010  | 2011   | 2012   | 2013   | 2014   | 2015   |
|--------------|-------|--------|-------|-------|--------|--------|--------|--------|--------|
| Armenia      | 96    | 206    | 154   | 200   | 275    | 393    | 492    | 539    | 507    |
| Azerbaijan   | 1,743 | 336    | 738   | 717   | 917    | 1,109  | 1,160  | 1,080  | 608    |
| Belarus      | 1,692 | 2,131  | 2,202 | 3,092 | 3,747  | 4,471  | 5,254  | 5,236  | 4,003  |
| Georgia      | 523   | 422    | 603   | 524   | 706    | 1,012  | 1,649  | 1,628  | 1,063  |
| Moldova      | 589   | 695    | 690   | 846   | 1,222  | 985    | 1,093  | 1,157  | 945    |
| Ukraine      | 5,801 | 10,141 | 8,834 | 9,083 | 11,629 | 16,676 | 15,831 | 15,532 | 14,171 |

Source: The World Bank Group

**Table 6. The rate of food export in the previous year, %**

| Country name | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------|------|------|------|------|------|------|------|------|
| Armenia      | 115  | -25  | 30   | 38   | 43   | 25   | 10   | -6   |
| Azerbaijan   | -81  | 120  | -3   | 28   | 21   | 5    | -7   | -44  |
| Belarus      | 26   | 3    | 40   | 21   | 19   | 18   | 0    | -24  |
| Georgia      | -19  | 43   | -13  | 35   | 43   | 63   | -1   | -35  |
| Moldova      | 18   | -1   | 23   | 45   | -19  | 11   | 6    | -18  |
| Ukraine      | 75   | -13  | 3    | 28   | 43   | -5   | -2   | -9   |

Source: The World Bank Group

The economy of the Republic of Moldova used to be focused on agriculture. Despite the fact that in general, there is a decrease in the share of agriculture in GDP, it amounted to 13.8% by the end of 2015. The agribusiness is a priority for the Moldovan economy. The EU funds will be used for milk and meat production projects, building of large greenhouses to grow vegetables, production of agricultural products with high added value, frozen and canned food, as well as development of rural infrastructure. All registered farmers in the country, including those from the Transnistrian region, will be able to get access to EU funds under the ENPARD Programme in Moldova.

The European Union will provide over EUR 64 mln. of financial assistance to the Republic of Moldova until 2018 under the ENPARD Programme for development of agriculture and rural areas.

At the same time, EUR 53 mln. will be allocated as direct budget support and will be paid to the country in three instalments until 2018. These funds are intended to support the Government efforts to implement the policy in the field of agriculture and rural development. Besides, EUR 11 mln. will be allocated to Moldova as additional support.

The expected results of the EU assistance to Moldova in the framework of the ENPARD Programme are improved design and implementation of agricultural policy and rural development and improved quality of services, increase of investment in agriculture modernization, compliance with agri-food industry requirements and food chain safety and quality of EU food products, increased levels of education, improved research and advisory services in agriculture and agri-food sector, including the promotion of information systems and improved access to capital, input and output markets for farmers, increased employment opportunities and income generation in rural areas in support of the agriculture and agri-food sector etc.

### **3. Development of agriculture in the Eastern Partnership member states not covered by ENPARD**

In Azerbaijan, the trend of agricultural production was quite unstable prior to the signing of the Eastern Partnership Agreement. Therefore, the increase in the share of agricultural products in the GDP in 2015 to 6.8% cannot be directly linked to the project participation.

The same unstable trend is observed in Belarus. However, unlike Azerbaijan, judging by results in 2015, the share of agriculture in the GDP declined. Perhaps, it has more to do with the Belarus economic measurement model than the Eastern Partnership programme. Although the share of industry and services in GDP has increased significantly, the agricultural sector still remains a developed part of the national economy.

Constraining factors for development of agriculture in the Republic of Belarus are the lack of agricultural land market; a limit of the land area for private farmers to 100 hectares; the use of land by foreign companies only on a rental basis. However, agriculture in Ukraine demonstrating growth is developed in the same conditions. Therefore, the reasons must be sought elsewhere. According to the World Bank, the amount of added value created in the agricultural sector of Belarus (at a fixed value, 2010) can be seen in the relatively small but steady growth over the past 10 years (see Table 3). There is no breakthrough in the agricultural business in Belarus, but a sustainable development. Only starting from 2015 there was a slight decline in production, which continued in 2016. For 8 months of 2016, the agri-food output in all categories of property holdings fell by 2.2%.

The extension and expansion of the food embargo against Russia in June 2015 stimulated the development of a number of agricultural areas (cultivation of vegetables in greenhouses) and processing of food raw materials (fish products, cheese-making).

Belarus maintains longstanding economic relations with Ukraine, going far beyond the Eastern Partnership. At the end of 2015, Ukraine ranked second by turnover, third by export and fifth by import (in 2014 – the second, second and fourth, respectively) in the structure of foreign trade turnover of Belarus. The important directions of the Belarusian export to Ukraine in the field of agriculture are mineral and nitrogen fertilizers - USD 91,389 mln. and tractors and truck tractors – USD 57,029 mln. The most significant areas of import from Ukraine are waste from extraction of vegetable oils (USD 194,328 mln) and vegetable oil (National Statistical Committee of the Republic of Belarus, 2016).

Agricultural policy development in the context of the Eastern Partnership takes into consideration the provisions and principles of relevant state programmes, the "State programme of sustainable rural development for 2011-2015", and the "State programme for agribusiness development in the Republic of Belarus for the years of 2016-2010".

The economy of Ukraine is strengthening its positions in the agricultural sector actively. This is shown by the data on the share of agriculture in GDP presented in Table 1. This trend has particularly intensified after Ukraine's signing of Association Agreement with the EU. Its benefits in mutual trade allow domestic products to enter the European markets freely.

The fall of world prices for goods traditional for Ukrainian export (products of the chemical industry and metallurgy) facilitated the transfer of capital into the agro-industrial business. Reorientation of Ukraine's economy from industrial to agro-industrial model can become a cornerstone in the building of its export capacity and formation of a national brand.

Due to its area, Ukraine has the largest absolute indicator of the value added in agribusiness. At the same time, business performance is closely dependent on the level of world prices for basic agricultural products. Ukraine is a confident net exporter of grain, expanding its export potential. This means that the formation of domestic grain prices in Ukraine is largely based on the situation in the world markets. Recently in the world, despite an increase in gross fees, the main cereal crops has been steadily increasing, which in turn affects both domestic prices of cereals and manufacturers' profit.

Besides external factors affecting the export volume, there are internal factors affecting the cost of the grown grain, namely increased cost of petroleum products, fertilizers, seeds, deficit of vehicles, and loss of grain during harvesting. It is the increased impact of the devaluation factor that directly or indirectly led to higher input cost. Export of some products, including animal and

confectionery products, has been lost due to changes in relations with Russia. Ukrainians began to consume mainly Ukrainian products, which are in demand in the global market due to high quality and safety.

According to the FAO (Food and Agriculture Organization), the index of food prices, particularly grain, as of July, is the lowest over the past five years (see Table 7). Ukraine in 2015/2016 MY set a record in grain exports, i.e. 39.4 mln tons. Experts disagree on the forecasts for cereal prices in 2016/17 MY. On the one hand, there are cereal stocks in the market replenished by new harvest, and in some regions a good harvest is expected, so the domestic prices for grain are reduced. However, because of rise in fuel prices, this trend could be reversed. According to FAO forecasts, the global wheat production in 2016/17 MY will amount to 732 mln. tons, mainly due to the United States, Russia and the EU. The global cereal demand, according to FAO, will be increased by 1.3% in the 2016/17 marketing year as compared to an earlier forecast. However, the world stocks at the end of the agrarian season in 2017 will be 1.5% lower than projected earlier.

**Table 7. Index of food prices**

|       | Months 1-7 of 2014 |              |               | Months 1-7 of 2015 |              |                | 2015 vs. 2014 growth rate, % |       |      |
|-------|--------------------|--------------|---------------|--------------------|--------------|----------------|------------------------------|-------|------|
|       | Amount, mln. tons  | Price, USD/t | Cost, USD mln | Amount, mln. tons  | Price, USD/t | Cost, USD mln. | Amount                       | Price | Cost |
| Wheat | 3.3                | 247          | 815.1         | 3.7                | 188          | 695.6          | 112                          | 76    | 85   |
| Corn  | 11.1               | 204          | 2,264.4       | 13                 | 161          | 2,093          | 117                          | 79    | 92   |

Source: FAOSTAT, 2016

US experts predict this year's record average crop yield of wheat in the world, 33.3 c/ha, which eliminates the 2.2% reduction in acreage, and transitional balances will increase by 6.1% to the record 258 mln. tons. According to experts of the Ukrainian Agribusiness Club Association, the harvest of grain crops in Ukraine in 2016 is expected to reach 59.8 mln. tons, i.e. 0.3 mln. tons less than last year. The largest share in the grain harvest will account for corn, the gross amount of which will reach 27.3 mln. tons. However, an increased demand in 2016/17 MY will not build transitional balances. Gross harvest of wheat decreased from 26.5 million tons in 2015 to 23 million tons in 2016 due to reduced acreage. Gross barley yield is estimated at 7.9 million tons (-5% compared to the last year), which was estimated for 2016 at 20.5 mln tons, i.e. 0.6% lower than in 2015/16 MY. Ukrainian grain exports is estimated at 17.2 mln tons (+ 8.5%).

The Eastern Partnership provides an opportunity for the member states to develop their business with support of European programmes and partners. However, this requires members to have an active willingness to work with European companies, to strive for new reforms and development of new business areas. The Eastern Partnership aims at developing agribusiness in the states willing to participate in programmes of high technological level. For this purpose, the member states receive access to European companies, which can help them introduce new technology and ensure productivity growth in the agricultural sector.

We cannot talk about a close connection between labour productivity in agriculture and states' membership in the Eastern Partnership programme. If we analyse the figures in the agriculture value added per worker, we would note some randomness in fundamental change of the trend direction. There are significant leaps in this relative indicator. We might speak here not only about fluctuations of export earnings, which is also relevant, but also about the trends of de-industrialization, reduced crop yields and livestock productivity, irrational work organization, excessive employment etc. The low level of labour productivity is caused by depreciated production facilities, the use of outdated technologies, a lack of motivation in work, a lack of decent conditions of work, a lack of staff in agricultural enterprises, and a lack of infrastructure. These factors reduce not only productivity, but also quality of agricultural products.

The issue of productivity has another dimension. Large agricultural holdings have access to financial and technical resources, but are not able to ensure mass employment in rural areas. However, the ability of minority shareholders is limited due to the lack of resources, though they make up the social structure of rural areas. Therefore, agricultural holdings productivity growth cannot be the main objective, taking into account the negative social consequences for Ukraine (Ivasyuk P., 2016).

During the analysed period, the largest increase in labour productivity in the agribusiness in Ukraine was achieved. During 2012-2013 MY, the production surplus of agribusiness per worker increased by 55% to USD 4,000 - 6,000 (in fixed 2010 prices) (see Table 8).

**Table 8. Agriculture value added per worker (fixed 2010 prices, USD)**

| Country    | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   | 2015   |
|------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Armenia    | 11,069 | 11,551 | 12,479 | 10,636 | 12,376 | 13,742 | 15,103 | 16,637 | 19,091 |
| Azerbaijan | 2,611  | 2,739  | 2,811  | 2,703  | 2,850  | 3,032  | 3,187  | 3,112  | 3,339  |
| Belarus    | 9,365  | 10,560 | 11,012 | 11,742 | 13,036 | 14,459 | 14,469 | 15,558 | 15,814 |
| Georgia    | 2,595  | 2,542  | 2,436  | 2,393  | 2,665  | 2,633  | 3,012  | 3,158  | 3,346  |
| Moldova    | 2,021  | 3,021  | 3,094  | 3,500  | 3,578  | 3,001  | 4,629  | 5,267  | 4,765  |
| Ukraine    | 3,333  | 4,006  | 4,049  | 4,125  | 5,099  | 5,048  | 5,948  | 6,342  | 6,270  |

Source: The World Bank Group

This was largely due to introduction of new technologies in the agriculture of Ukraine by European partners of participants. To develop the agricultural business, it is very important to increase productivity and create new technological processes. This is the only way that these countries can be successful in the agricultural sector and win their place in the global food market. Labour productivity in agribusiness has grown substantially in Moldova and Armenia. Not so radically as in Ukraine, but some elements of the new European technologies were also introduced in Moldova, which stimulated the labour productivity growth. As regards Armenia, the labour productivity growth in the republic was due to development of cooperation with Russia, not with the EU. Moldova cooperates more with the EU. The approaches are different, but the result is approximately the same.

**Table 9. The rate of agriculture value added per worker in the previous year, %**

| Country Name | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|--------------|------|------|------|------|------|------|------|------|
| Armenia      | 4    | 8    | -15  | 16   | 11   | 10   | 10   | 15   |
| Azerbaijan   | 5    | 3    | -4   | 5    | 6    | 5    | -2   | 7    |
| Belarus      | 13   | 4    | 7    | 11   | 11   | 0    | 8    | 2    |
| Georgia      | -2   | -4   | -2   | 11   | -1   | 14   | 5    | 6    |
| Moldova      | 49   | 2    | 13   | 2    | -16  | 54   | 14   | -10  |
| Ukraine      | 20   | 1    | 2    | 24   | -1   | 18   | 7    | -1   |

Source: The World Bank Group

The lowest labour productivity in the agribusiness was seen in Azerbaijan and Georgia by 28 and 29%, respectively, for the period from 2007 to 2015 (see Table 8 and Table 9). Despite the injection of funds from the EU, Georgia cannot show any significant results in improved labour productivity, or in increased export of its agricultural products. The emphasis on small agricultural cooperatives does not allow for the full use of the economic potential for development. In any case, labour productivity growth in the agriculture of Belarus and Georgia as a whole can be considered satisfactory for their economic model.

Moldova showed the greatest growth in labour productivity. However, it must be remembered that in 2007 it had the lowest rate in the group of states participating in Eastern Partnership.

The World Bank calculated the food production index used as a basis for the years of 2006-2010 (see table 10). This index shows food production in the Eastern Partnership member states after agreement signing, particularly after implementation of main provisions of agricultural support programs.

**Table 10. Food production index (2004-2006 = 100)**

| Country Name | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|--------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Armenia      | 102.2 | 108.6 | 120.7 | 120.0 | 119.6 | 104.6 | 115.6 | 123.5 | 129.2 |
| Azerbaijan   | 102.9 | 105.6 | 105.7 | 112.6 | 122.6 | 120.9 | 128.5 | 135.0 | 139.8 |
| Belarus      | 99.1  | 106.2 | 106.3 | 114.2 | 119.0 | 123.1 | 118.8 | 124.9 | 125.9 |
| Georgia      | 119.5 | 78.1  | 89.4  | 76.4  | 76.5  | 71.6  | 77.1  | 72.6  | 86.9  |
| Moldova      | 98.9  | 95.5  | 76.0  | 102.8 | 90.6  | 93.8  | 101.5 | 76.2  | 87.8  |
| Ukraine      | 102.3 | 101.1 | 94.1  | 114.1 | 116.9 | 106.9 | 123.7 | 126.6 | 138.4 |

Source: The World Bank Group

The food production index in Ukraine since 2009 went up to 18% by 2015. This is the largest increase among the Eastern Partnership member states. Ukraine managed to accelerate the food production significantly through introduction of new technologies in the agricultural businesses significantly. Moldova, vice versa, for the period from 2009 to 2013, recorded a decrease in the food production index. Moldova had problems with dry climate. Also, agricultural producers are not able to hedge their risks, since the insurance companies are not interested in signing contracts with farmers due to arrears in payments by the state.

In Georgia and Azerbaijan, this index rose by 14% over the period analyzed. Although these countries do not have a great influence on the development of agriculture, food production fully satisfies their needs. In Belarus and Armenia, the index rose by 6% and 8%, respectively. Ukraine has appeared to be the most successful country in the development of food production among the Eastern Partnership member states.

Export of agricultural products in Ukraine is a priority of the foreign economic activity. The share of food export in the total export of Ukraine tends to increase. This is the result of the agribusiness growth stimulation. However, after signing of an association agreement with the EU, Ukraine has intensified its activities in sale of food in the EU. Ukraine exports a lot of agricultural raw materials, not only finished food. Ukraine shows the highest share of export of agricultural raw materials in the total export of the country for 2015 among the Eastern Partnership member states, and this figure is growing continuously (see Table 11 and Table 12).

**Table 11. Agricultural raw materials export (% of commodity export)**

| Country    | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|------------|------|------|------|------|------|------|------|------|------|------|------|
| Armenia    | 0.97 | 2.98 | 3.00 | 1.52 | 0.93 | 1.12 | 0.05 | 0.16 | 0.25 | 0.34 | 0.62 |
| Azerbaijan | 1.03 | 0.71 | 0.62 | 0.04 | 0.15 | 0.06 | 0.05 | 0.08 | 0.09 | 0.08 | 0.08 |
| Belarus    | 2.51 | 1.86 | 1.92 | 1.30 | 1.56 | 2.04 | 1.48 | 1.22 | 1.64 | 1.64 | 1.87 |
| Georgia    | 2.22 | 2.38 | 2.42 | 1.91 | 2.12 | 1.10 | 0.91 | 0.94 | 0.98 | 0.99 | 1.05 |
| Moldova    | 0.73 | 1.04 | 1.41 | 0.80 | 0.66 | 1.04 | 1.04 | 0.76 | 0.68 | 0.81 | 0.95 |
| Ukraine    | 1.47 | 1.36 | 1.29 | 0.86 | 1.15 | 1.13 | 1.07 | 0.98 | 1.25 | 1.75 | 1.87 |

Source: The World Bank Group

**Table 12. Livestock production index (2004-2006 = 100)**

| Country    | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  |
|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Armenia    | 99.0  | 106.8 | 112.0 | 116.1 | 114.7 | 112.8 | 112.8 | 115.0 | 124.5 |
| Azerbaijan | 99.9  | 103.7 | 109.2 | 113.9 | 134.2 | 144.1 | 148.6 | 158.0 | 165.9 |
| Belarus    | 101.2 | 107.8 | 110.1 | 114.2 | 123.1 | 126.2 | 127.1 | 132.9 | 136.5 |
| Georgia    | 108.8 | 82.9  | 82.9  | 75.9  | 73.7  | 75.6  | 74.2  | 69.9  | 74.1  |
| Moldova    | 100.3 | 103.1 | 103.4 | 82.0  | 88.5  | 100.5 | 101.2 | 95.0  | 95.8  |
| Ukraine    | 99.1  | 101.4 | 98.8  | 96.2  | 96.6  | 98.6  | 98.9  | 100.0 | 104.8 |

Source: The World Bank Group

This is a contradictory trend. For the economy of Ukraine, it would be better to export finished food. However, the world structure has developed in such a way that it is required to resort to the export of agricultural raw materials. Perhaps, in the future this trend will be changed towards export of products with high added value. As for the other member states of the Eastern Partnership, Moldova is the leader by export of food in the total country export for 2015. Although this share has reduced after 2009, Moldova tries to refocus on other types of exports.

Armenia, unlike Moldova, relies on export of food. After 2009, Georgia showed a decrease in the share of food export in the total export, but by 2014-2015, the share of food export increased again. The same can be said about Belarus. There were moments when the share of food export in the total exports decreased. Azerbaijan has a weak dependence on food export (see Table 11 and Table 12).

If we talk about the classical forms of partnership suggesting the cooperation and joint efforts in common projects in the framework of the Eastern Partnership, we have identified the basic interests of the crossing points (see Table 13).

**Table 13. Areas of bilateral cooperation between Ukraine and the Eastern Partnership member states**

| Country    | Bilateral cooperation states   |
|------------|--|
| Belarus    | Sector of plant growing and seed production, food and processing industries, veterinary and phytosanitary control, agricultural machinery.   |
| Azerbaijan | Sub-sectors of food, including confectionery, alcohol, oil, milk, meat, tobacco; construction of a joint logistics centre for mutual supplies of agribusiness products in Ukraine and Azerbaijan.  |
| Georgia    | Export and import transactions to meet the countries' market needs in agricultural and food products, including cereals, natural juices, meat and milk products, tea, fruit and vegetables (apples, peaches, nectarines), citrus fruit, wine, food, etc. |
| Moldova    | Seed production.   |
| Armenia    | Quarantine and plant protection.   |

Source: Operational update of news agencies

Joint projects of the Eastern Partnership member states have an episodic nature. From the hypotheses put forward by Milner H. about the probability of cooperation between states, we can

confirm, in our case, only one hypothesis, that of International Regimes. This is regime in place between the states and the EU. There is a focus on rules and standards developed and implemented by the EU. The EU acts as a centre and a link in the system of the Eastern Partnership. However, in most cases, these relationships are built on a bilateral basis between the centre and the partnership members.

### **Conclusions/Final remarks/Future debates etc.**

The main tools to implement the Eastern Partnership policy are a strategic association agreement and a free trade zone. On the one hand, in the context of a multilateral treaty, we have post-socialist countries, which, despite the common past, have significant differences in climate and economic conditions. On the other hand is the EU, which forged ahead in achieving many economic and technical indicators. The inequality in economies of the two sides contains certain risks associated with the loss of local markets by resident companies. In terms of the national currency devaluation, as it happens in a number of countries, import substitution takes place due to the low purchasing power of the population. This fact is an element of market reduction and competitive risks at this stage. Post-socialist countries do a lot for reorganization of agrarian and industrial sector, starting with land privatization and ending with adoption of the EU technical regulations.

In this article, we covered a limited list of issues related to agribusiness development in the Eastern Partnership member states. The analysis showed an unequal economic potential for agricultural development. The reason lies in climatic differences and in organization of agricultural production. Georgia and Armenia focus on cooperatives. A part of the economy in Belarus is state-owned, and shows significant results (milk production). In Ukraine, along with farms, large agricultural holdings are developed, including those based on foreign capital. Whilst the issue of providing employment through creation of agricultural cooperatives has relevance to Moldova and Georgia, Ukraine represents a current consolidation of agricultural enterprises on the basis of technology.

Development requires availability of an operating market of agricultural land. It can serve as an additional stimulus to attract investment in industry from both domestic and foreign sources.

Logistics systems of the Eastern Partnership member states require optimization. This will create additional competitive advantages for storage and transportation of products. An effective risk hedging system in rural economy, seed certification, leasing of agricultural equipment etc. is needed.

To find solutions to the agribusiness pressing issues, major investments are needed. The EU allocates its funds covering a part of the investments needed, but they cover only the minor needs. The reforms that would stimulate the inflow of investments in the agricultural sector are necessary.

During investigation, the countries were subdivided into groups: the ENPARD member states and the states simply getting ready to join the project. Initially, the countries were in unequal conditions so we cannot say that the capital injections were able to resolve the existing problems. The proposed funds cover a wide range of issues not only related to technical modernization, but also increasing competitiveness. The funds are designated to address the social problems in rural areas.

The signing of contracts related to EU's association with Ukraine, Moldova and Georgia provided them with additional opportunities to strengthen and develop trade in the European markets. However, as the analysis showed, each side has used this opportunity with a different result.

The strategic partnership involves interstate cooperation to achieve mutually beneficial internal and external purposes. These objectives of the Eastern Partnership for the agro-industrial sector should not only be intended to get access to the EU market, but also to increase the competitiveness of the agribusiness sector and to reach the potential of foreign trade in global markets.

Further directions of scientific research should tackle the issues related to the agricultural infrastructure and qualified staff, which form the basis of competitive production.

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## WILL THE EASTERN PARTNERSHIP BECOME A DRIVER FOR AGRICULTURE?

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