

# ICPS newsletter<sup>®</sup>

## Ukraine will gain from integrating its AIC into the global trade system

***One condition for a successful agricultural policy is to make a strategic choice in favor of globalization. This means choosing between willingly preserving the post-soviet approach to managing the farm sector and actively integrating into the global economy. The former means continuing disorder and wastage of public funds. The latter means completely rebuilding the basis of agricultural policy, clear prospects for the agro-industrial complex (AIC), and incentives for developing in future, along with short-term losses for some enterprises***

Ukraine's membership in the WTO will secure opportunities for Ukrainian exports under the most favorable conditions and defend the economic interests of domestic commodity producers. In addition, the risk of wild price fluctuations will subside should Ukraine switch from the position of exporter to the position of importer for certain types of products. Provided its AIC is restructured, Ukraine stands to benefit from membership in the WTO.

### Why subsidize the village?

The basic arguments of those who support subsidies are the enormous subsidies granted by the US and EU countries to their farmers. In the past, sector-based groups of agricultural producers and traders used a powerful lobby to get laws and regulations adopted that again and again provided their sector with new kinds of government support. These groups speak in favor of the position that Ukraine's agriculture will not be able to develop without substantial government support.

Opponents of such subsidies argue that current state policy to encourage development in agriculture gets in the way of actually achieving an important strategic goal: to raise the efficiency of the sector. The Government continues to support many inefficient agricultural enterprises by providing generous subsidies, while some of the most efficient producers receive practically no government support.

Corrupt schemes for distributing funds, falsification, embezzlement, and inefficient spending are typical of the Ukrainian system for supporting the agricultural sector. Quite often, it is

necessary to offer a kickback of about 30–50% of the sum obtained in order to actually receive state support. Another trick is when numbers for sold livestock are understated in order to receive supplemental benefits for heavy animals. In other words, a major part of state money is not working to support agricultural producers at all.

Those who point to the state support provided to farmers in the US and the EU countries are ignoring the fact that, except for these highly developed countries, the majority of states around the world are developing countries that mostly do not use state support instruments. New Zealand and some Latin American countries have managed to significantly develop their farm sectors without any assistance from the state.

### Can the domestic market take care of itself?

Another popular argument is the need for the state to protect the domestic market. The key point the supporters of subsidies make is that, after tariff and non-tariff barriers to imports are lowered, Ukraine will see mass deliveries of cheap imported food products at dumping prices and that domestic commodity producers will not be able to match the competition and will go bankrupt.

Calculations show that expectations of such negative consequences are not justified. After Ukraine accedes to the WTO, a 20% ceiling on import tariffs will apply to almost all agricultural and food products. This figure is lower than current tariffs. Researchers from the OECD, UNDP and World Bank who analyzed price differences between global prices and prices of domestic producers came to

the conclusion that customs barriers do not affect the prices of domestic agricultural commodity producers, which tend to continue to be fairly low, often lower even than global prices. This can be explained by the fact that Ukraine is a net exporter of most primary agricultural and food products. Moreover, with the exception of poultry and pork, price differences are much lower than the tariff ceilings that will come into force when Ukraine accedes to the WTO. This means that the impact of reduced tariffs on domestic prices will be insignificant. The authors of this study concluded that the low tariff ceilings would not put additional pressure on producers, while the domestic market will be sufficiently protected since the main groups of agricultural products will remain more competitive than imported goods in terms of prices.

There is also no basis for arguments that liberalized relations with the EU will have a negative impact. According to factor-based and modeling analysis data, a free trade area with the EU will raise Ukraine's imports of farm products by 20%, but Ukraine's exports of farm products will grow 30%—a positive result in absolute terms.

### How to minimize losses from integration

The key risks in integrating Ukraine's AIC into the global trade system are:

- the global situation will have a stronger impact on Ukraine's economy;
- heavily subsidized sectors will be left without any support from state programs, their output will likely drop, and unemployment will rise;
- lower incomes as a result of lower domestic prices due to Ukraine's membership in the WTO; membership in the EU will have the opposite effect: domestic prices will climb;
- the structure of the sector will change and profiles will shift, leading to losses for certain enterprises;

- growing Budget spending on measures to comply with WTO requirements;
- maintaining world quality standards and consumer features in products could challenge the capacities of domestic producers to adhere to international standards;

- lower tax revenues due to reduced farm output and lower revenues from import duty, licensing and certification as a result of lower customs tariffs.

To minimize these losses, the Government needs to indicate its policy priorities with regard to: legislative and administrative guarantees for property rights, above all

for land, access to financial resources, improving information transfer, transport, trade, technical, and educational infrastructure. ■

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# Tobacco control will reduce mortality in Ukraine

**About 100,000 people die every year in Ukraine from smoking-related diseases. Data from a recent study indicates that the number of smokers has grown over the last five years. Yet an effective tobacco control policy could reduce the death rate. This is required of Ukraine by both the WHO Framework Convention on Tobacco Control signed by the country and most stakeholders**

## The number of smokers is growing

According to a study carried out in June 2005 by the Kyiv International Institute of Sociology (KIIS) at the request of the International Centre for Policy Studies (ICPS) and the Tobacco Control Resource Center, the number of smokers in Ukraine has been climbing over the past five years. From 2000 to 2005, the number of Ukrainians that smoke on a daily basis rose and the number of those who have never smoked slipped. Today, 61.9% of men smoke every day, compared to 57.7% in a similar survey from 2000; 15.8% of women do the same, compared to 13.5% in 2000. Overall, 36.7% of adult Ukrainians smoke on a daily basis, up from 34.1% in 2000.

Smoking has significant negative health consequences for a population and is the most frequent cause of "preventable" deaths. According to estimates from the World Health Organization, in 2000, smoking-related diseases accounted for 13% of mortality in Ukraine—more than 100,000 people.

## Most Ukrainians favor restrictions on smoking

The need for such a policy was confirmed by public debates held in Chernivsti, Kharkiv, Kirovohrad, Kyiv, and Sumy over 13–23 June 2005. Representatives of government, business and civic organizations and medical doctors were invited to discuss three tobacco policy options: preserving status quo, finding a compromise between health interests and the tobacco industry, and taking radical steps to control tobacco in Ukraine.

Nearly all those involved agreed that government policy should pursue a goal of reducing the spread of smoking—and this can be achieved only by reaching a serious compromise or establishing radical anti-smoking restrictions. According to participants in the public debate, continuing with the current policy is not acceptable in the interests of healthcare.

The key drawbacks in current tobacco regulation were named as access to cigarettes, lack of effective mechanisms to restrict sales to minors, and lack of mechanisms to protect non-smokers from exposure to second-hand smoke. Another significant flaw in current policy is the ubiquitous presence of advertising, especially that targeting young people and women.

## The Convention norms are now EU requirements

The EU ratified the Framework Convention in June 2005, providing a roadmap for complying with its tobacco control norms. Declining smoking rates will be the main indicator of successful policy.

The measures contained in the WHO Tobacco Convention include both price and non-price restrictions aimed at reducing both demand and supply related to cigarettes.

**Higher taxes.** This is the most effective method. High price help prevent the start of smoking among minors, reduce consumption among heavy smokers, and stimulate people to quit. According to World Bank estimates, a 10% rise in price reduces demand by about 4–8%. According to KIIS survey data, 36%

of smokers say they would smoke less or give up smoking should the price for cigarettes double.

**A total ban on advertising.** Nearly all EU members have put such a ban in place. What is important is a complete prohibition, as it has been proved that partial bans are not effective. According to survey data, the number of Ukrainians who are satisfied with the current state of regulation of tobacco advertising plunged from 46% in 2000 to 14% in 2005, while the share of those supporting a total ban went from 47% to 56%.

**Protection from second-hand smoke** in the workplace, in public transit and in closed public places. Given that passive smoking is just as dangerous as active smoking, people have the right to breathe air that is free of tobacco smoke. According to the survey, 87% of adult Ukrainians think that the law should protect non-smokers by banning smoking in public places.

In addition to these steps, the Convention mentions controlling packaging and labeling of tobacco products, regulating the contents of such products, running campaigns to raise public awareness of the negative consequences of smoking for personal health, helping smokers quit, reducing contraband in tobacco products, and banning on sales of tobacco products to minors. ■

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