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**POSTHARVEST INSTITUTE FOR PERISHABLES
MARKETING POTATOES IN UKRAINE**

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for

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I. EXECUTIVE SUMMARY

Dr. Joseph F. Guenther, University of Idaho potato economist, visited Ukraine in July 1993. He was asked to perform the following tasks: (1) introduce free market concepts to the Ukrainian Institute for Potato Research (UIPR) and (2) to evaluate the current potato market situation.

Dr. Guenther presented a seminar at the Ukrainian Institute for Potato Research titled "Potatoes in a Free Market." The seminar was followed by an informal discussion. Potato scientists who attended were attentive, interested in the topic and eager for more information in the future.

Following the seminar, Dr. Guenther visited Ukrainian Academy of Agricultural Sciences, Ukrainian Institute for Agriculture Economy, collective potato farm, private potato farm, and retail food markets. He made the following general observations:

- (1) The conversion of government owned businesses to private ownership has begun, but is currently stalled.
- (2) Potatoes and other food products are sold in a mixed public and private market.
- (3) Fresh potato per capita consumption is quite high; processed potato consumption is non-existent.

(4) Much of the Ukrainian potato crop is produced on private plots and doesn't go through traditional market channels.

(5) The two biggest problems cited by private potato farmers were finance and technology transfer.

(6) Private farmers, scientists and administrators recognize the need for agricultural extension programs.

It is recommended that efforts be continued or increased in potato processing and potato storage management. It is also recommended that Mr. Igor Kholodylo, of the UIPR, be brought to the U.S. for training on potato marketing. He would then use his knowledge to develop an extension program in the private sector Ukrainian potato industry.

II. INTRODUCTION

This report documents a visit by Dr. Joseph F. Guenther, University of Idaho potato economist, to Ukraine during July 1993. The purpose of the visit was to introduce Ukrainian specialists involved in the potato industry to concepts of marketing potatoes in a free market system.

Included in the visit were meetings with scientists in the Ukrainian Institute for Potato Research , Ukrainian Academy of Agricultural Sciences, Ukrainian Institute for Agriculture Economy. A collective potato farm and a private potato farm. Observations of retail food markets in both the private and public sectors were also made. Igor Kholodylo, who recently moved into a marketing position at the Potato Institute, was the guide. Dr. Pavel Zernetsky, a language professor and entrepreneur served as interpreter. The visit to the UIPR included a seminar presentation by Dr. Guenthner titled "Potatoes in a Free Market." The main theme of the seminar was that the "consumer is king." The transition from a communist economy to a capitalist economy can also be described as a change from a producer society to a consumer society. The former system in Ukraine was built around production; consumers were simply forced to purchase the quality and quantity that the government decided should be produced. In a free market, the consumers rather than the government, make decisions on what they will buy. This in turn influences production.

The seminar also stressed two other concepts: incentives and competition. The free market provides profit incentives that the communist system could not match. Those who are successful at efficiently providing what consumers want can be rewarded with profits. Profits, however, are not guaranteed because of competition. This competition enhances efficiency.

Dr. Guenthner stressed the consumer, incentives and competition concepts as he gave an overview of the U.S. potato market. The emphasis was on practical applications rather than obscure theoretical concepts. Many examples and anecdotes were used. This approach

led to many interesting questions from the potato scientists. Following the seminar an informal discussion with a smaller group was conducted. The audience had a basic knowledge of capitalism, was quite interested in the topic and seemed to be enthused to move toward this system.

Following the visit at the Ukrainian Institute for Potato Research, Dr. Guenther moved from teacher to student to learn about the potato market situation in Ukraine. He met with other scientists, economists, growers and marketers. Below is a discussion of his observations.

III. OBSERVATIONS

The economy of Ukraine is in a difficult transition period. During the visit, inflation was 30 percent per month. The cost of auto fuel is a big problem. When the former USSR was intact, Ukraine received cheap oil from the oil-producing regions of USSR. Now they are paying world prices, even from Russia and other former USSR states. Additional economic problems are corruption, organized crime, poor infrastructure, absence of important institutions, and lack of knowledge of free markets. In spite of these problems, Ukrainian entrepreneurs are developing successful businesses, including some in the agricultural sector. More specific observations follow.

A. Public/Private Transition

When Ukraine obtained independence, the government began to convert ownership of some businesses from public to private. There is speculation that the transition may have been too rapid and poorly planned. Farmland seems to be a particular concern. Some say that too much was given too early and that there is not enough left for distribution. There is also concern about corruption among those who made distribution decisions. Currently being discussed is the option of converting collective farms to cooperatives.

There is a moratorium on converting some government owned businesses that have not yet been privatized. For example, the Kiev city government continues to own and operate food storages in each of the 12 districts in the city. The storages, however, are not now automatically filled by a centrally planned government. They now operate like a private business and negotiate quantities and prices.

Negotiating business transactions is an important part of the transition. The government food purchasing organizations must now compete with private firms in both buying and selling.

B. Public/Private Market Mix

Food products are sold in a mix of public and private markets. Government stores and restaurants continue to operate as before with one key difference; they now are expected to earn a profit. Government and private facilities are often located next to each other allowing consumers to easily make comparisons. A general observation is that

government stores provided a lower quality product, but at lower prices than in the private markets.

There were numerous private shops in Kiev which sold a wide variety of consumer products in addition to food. They were most often in small structures on the sidewalk or in subways. Other private vendors were at the stadium market and the central food marketplaces in the city. Even under communism there had been some private marketing of food, but now the shops are ubiquitous.

Long queues were not seen and food supply seemed adequate during the summer period. Inflation, however, is causing a hardship for pensioners and others on fixed incomes. Some older people were observed begging on the streets.

C. Potato Consumption

Per capita potato consumption in Ukraine is among the highest in the world. The estimated average for the country of 52 million people is 120 kg per year, more than double the rate of consumption in the U.S. Food preferences differ from north to south in Ukraine. In the north per capita potato consumption is about 180 Kg per year. In the south it is about 80 Kg.

Nearly all of the potatoes are consumed in the fresh form. A search of the Kiev food markets found only one shop with a processed potato product. It was an imported potato crisp product sold in a foreign currency shop. Western-style fast food restaurants that serve frozen french fries were not seen in Kiev.

D. Potato Market Structure

Although Ukrainian potato consumption is high, much of the supply never reaches what the U.S. industry would consider a conventional marketing system.

Private growers reportedly produce more than 80 percent of potato crop in the Ukraine. Nearly half of the private crop is grown in city workers' garden allotment plots. Some of the garden produced potatoes enter private markets but a tradition in the Ukraine is for people to grow and store their own potatoes. Others buy 200 to 300 kg of potatoes during fall harvest and store them for winter consumption.

The main outlet for private and public growers is the government food storages. There are 12 such facilities in Kiev and more in other cities and rural areas. On-farm storage is very scarce. There are no large private buyers and no potato processors. Government storages now contract with both private and government farms to supply their facilities. Potatoes must pass quality standards to be accepted. All purchases are off-the-field.

The government storages in turn supply both public and private shops with packaged fresh potatoes. Mesh bags are most often used. Potatoes displayed in shops are usually clean and attractive, but with no promotion or product differentiation other than skin color.

E. Private Farms

A visit was made to the farm of the Nicholai Baglai family in Shibene village, Borodyanka region, Kiev Oblast. Nicholai, his wife and their son operate an apparently successful 30 hectare wheat and potato farm. He is a former head of a collective farm. He

was given 30 hectares by the government. The land is about 20 kilometers from their home, which was built by Mr Baglai and his son.

Mr. Baglai sells the farm's wheat and potatoes to the city of Kiev. He had recently signed a contract for his wheat and expected to sign a potato contract during harvest. Since he has no storage facilities, everything will be sold off-the-field.

According to Mr Baglai, his biggest problem as a farmer is finances. He has used a government program to borrow money for purchasing a tractor and operating capital. The government offers a lower, subsidized interest rate for qualified farmers. Due to the high rate of inflation, even the subsidized interest rate is quite high. Mr. Baglai worries about making payments and obtaining adequate credit in the future.

The second most important problem of the Baglai farm is technology. Mr. Baglai is an agricultural engineer and former head of a collective farm, so his knowledge base and access to information are better than many other farmers. He relies on his friends at the UIPR for technical information, but says there is a need for an extension service.

F. Technology/Extension

Collective farms have connections to the Potato Research Institute and receive technological information directly from them. Some of the collective farms conduct potato research, either in conjunction with the Institute or individually. They typically conduct their own variety trials. When asked about how this information is shared with others such as private farmers the answer was "it is not shared."

Even though a private farm owner visited had strong connections to the Institute, he strongly expressed a desire for an extension service. He said that other private farmers with whom he is acquainted share his opinion.

Dr. Guenther also met with Dr. Olexiy O. Sozinov, President of the Ukrainian Academy of Agricultural Sciences. Dr. Sozinov explained that the Academy consists of 52 institutes (including the Potato Institute), 45 experiment stations, 230 experimental farms and employs 17,000 people. He, too, recognizes the need for extension. He said that during these difficult economic times, funding for new positions is not likely. He is prepared to change appointments of some of the scientists to carry up to a 70 percent extension responsibility.

Extension programs on potato production technology are certainly needed, but programs on economics and marketing are needed as well. Among current Ukrainian scientists, production expertise is at a much higher level than business expertise. More training would be needed to implement extension programs in business skills.

IV. RECOMMENDATIONS

The Ukrainian potato market will undergo changes, but it cannot make a rapid transition to a mature, well-developed, U.S. type market. It can become more efficient and consumer-oriented under the current free market environment. The following recommendations are made to facilitate the transition.

A. Potato Processing

It is recommended that processing technology transfer be encouraged and that Western potato processors be contacted regarding opportunities in Ukraine. There is much interest within the Ukrainian potato industry in the processed potato market. It should be recognized, however, that processed potatoes would be a higher cost substitute for fresh potatoes, and may not be immediately popular or affordable to large numbers of Ukrainian consumers.

There are two potential barriers to establishing a Ukrainian potato processing industry: (1) cost of processing equipment and (2) consumer demand. Discussions with some Ukrainian potato people revealed that equipment costs have discouraged some early attempts to begin experimental potato processing. A small-volume, low-cost package would be appropriate.

Consumer demand for processed potatoes in Ukraine is an unknown because they have not been available. In Western Europe and North America, consumers have developed tastes and preferences for processed potatoes gradually over several decades. Growth in consumer income also helped boost the demand for processed potatoes. In Ukraine neither tastes/preferences nor consumer income could be expected to build a large demand in the short run.

B. Storage

It is recommended that storage technology improvement programs be continued. There are practically no on-farm storages for potatoes in Ukraine. The storages that do

exist are owned by city governments and are not technologically up to date. Modern on-farm storages would provide growers with market power and enhance market efficiency.

C. Market training

It is recommended that a U.S. training program be implemented for Igor Kholodylo. He has the confidence and rapport with administrators, scientists and farmers. There is a need for a Ukrainian educator to be trained in and observe the U.S. potato market. It is expected that Igor would return to Ukraine and lead an extension marketing program in the Ukrainian potato industry.

Mr. Kholodylo's training program could include time with growers, processors, potato growers of Idaho, Idaho Grower Shippers Association and the Idaho Potato Commission.

V. CONCLUSIONS

The Ukrainian capitalist economy is in its infancy. The potato market must operate within the limitations of this struggling economic structure. Potato consumption in Ukraine is quite high and people regard potatoes as an very important part of their diet. Marketing potatoes can become more efficient by utilizing modern storage technology and training Ukrainians how to operate businesses in a capitalist economy. Potato processing technology is needed, but Ukrainian consumers will continue to eat most of their potatoes in the fresh form until incomes improve and consumers develop a preference for processed products.

APPENDIX I

ITINERARY FOR J F GUENTHNER

- 12 July 1993 Arrive Kiev, met by Igor Kholodylo; hotel accommodation reserved
- 13 July 1993 Visit Potato Institute; Mr. Guenthner's seminar presented; discussion with specialists
- 14 July 1993 Visit Ukrainian Academy of Agricultural Sciences
- 15 July 1993 Visit Institute for Agriculture Economy
- 16 July 1993 Tour potato farms and meet potato growers
- 17 July 1993 Tour Kiev; depart for Cambridge, UK

APPENDIX II

LIST OF CONTACTS

Ukrainian Institute for Potato Research

Igor F. Kholodylo, Commercial & Advertising manager

Julia Pashkivska, Director Variety Testing, Borodyanka

Nicholai Grishchenko, Chief Agronomist, Borodyanka

Andrij A. Osipchuk, Deputy Director, Breeding Center

Ukrainian Academy of Agricultural Sciences

Olexiy O. Sozinov, President

Edouard V. Diatchenko, Director

Ukrainian Institute of Agricultural Economics

Petro T. Sabluk, Director

Private Potato Grower

Nicholai Baglai

Kiev oblast

Borodyanka region

Shibene village

Humanization and Development of Education International Institute

Pavel V. Zernetsky, President (interpreter)