

INVESTMENT OPPORTUNITY OF
UKRAINIAN ORGANIC MARKET

by

Nataliia Soldatenko

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Thesis Supervisor: _____ Professor: Volodymyr Vakhitov

Approved by _____
Head of the KSE Defense Committee, Professor [Type surname, name]

Date _____

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LIST OF ABBREVIATIONS

EU The European Union

FiBL Research Institute of Organic Agriculture

IFOAM - Organics International The International Federation of Organic Agriculture Movements

CAGR Compound Annual Growth Rate

USA The United States of America

ha Hectare

USDA The United States Department of Agriculture

NOP The National Organic Program

R&D Research & Development

ROA Return on assets

ROE Return on equity

CapEx Capital expenditures

FAO Food and Agriculture Organization of the United Nations

CHAPTER 1. EXECUTIVE SUMMARY

In the world of high opportunity costs and risks associated with investments in such developing markets as Ukraine, it might be difficult to find an appropriate way to address future uncertainty through proper capital allocation. However, taking into account recent global movements towards sustainable consumption and production, one needs to analyze whether the development of organic agriculture in Ukraine could become relevant and profitable niche during the transition to the so-called "green economy" satisfying our unchangeable demand for food in the resource-constrained world. Further research draws both on international and local industry data.

Provided industry analysis links the world's trends in organic agriculture to the ones taking place in Ukraine and shows the potential of the country to become the key supplier of unprocessed goods on the EU organic market. Moreover, competitive landscape analysis reveals a few major players in the Ukrainian organic market, while further product benchmarking uncovers different attitudes towards product portfolio construction. When examining the historical financial position of the organic company by comprehensive horizontal and vertical analysis of the income statement and balance sheet, findings lead to the fact that agribusiness exhibits strong financial performance. Conducted PEST, SWOT and driving forces analysis outline the favorable environment of the organic industry.

Therefore, green practices such as organic food production can be one of the best options to invest since it can be treated as an engine for future economic development. The steady annual growth of global demand for organic products creates great momentum for Ukraine to become one of the largest players in the market through setting export-oriented practices. In the meantime, potential investors may focus on domestic demand manufacturing more value-added organic products and conducting national campaigns devoted to widening knowledge concerning the benefits of organic food during the promotion of healthier lifestyles in new generations of consumers.

CHAPTER 2. INDUSTRY ANALYSIS AND RESULTS

2.1. Industry overview

Though organic products became popular through finding their way into store shelves and then coming right into consumers' shopping baskets, it still might be confusing to distinguish them from other products labeled «natural», which use marketing strategy pretending to be produced without any harm to the environment. Therefore, first of all, it is crucial to understand the difference between such concepts as organic, bio or eco, natural and conventional products.

According to Table 1, organic, bio or eco products have the strictest production and transportation requirements to guarantee their compliance with the law and globally established standards in producing environmentally friendly products by implementing best environmental practices. In general, organic, bio or eco are the similar concepts used in different parts of the world (Eco Madein.md 2018):

- Organic – is used for agri-food products in the US and Canada;
- Bio or Eco – are the same concepts used in the Franco-German region and most EU countries.

Table 1. The difference between organic, natural and conventional products

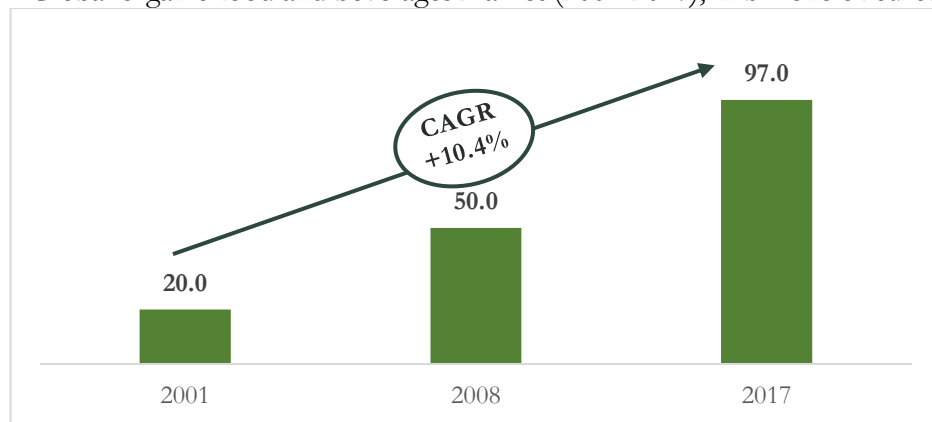
Product Requirements	Organic, Bio or Eco	Natural	Conventional
The use of synthetic dyes, flavors, preservatives	-	-	+
The use of artificial fertilizers	-	+	+
The use of pesticides, herbicides, fungicides	-	+	+
The use of genetically modified ingredients	-	+	+
Specific soil requirements	+	-	-
Special transport conditions	+	-	-
Marking and special manufacturer requirements	+	-	-

Source: Economichna Pravda (2018)

Worldwide, the organic market has constantly expanded fueled by a strong demand for sustainable products. According to the FiBL and IFOAM - Organics International cornerstone survey "The World of Organic Agriculture", organic retail sales, the organic farmland and the number of organic producers continued to grow and reached another all-time high in 2017, as shown by the data from 181 countries (FiBL & IFOAM – Organics International 2019).

Indeed, the global organic food and beverages market has been continuously growing at the level of 2001-2017 Sales CAGR of 10.4%, providing trading opportunities for agribusinesses all around the world. At the same time, the world's largest single market for organic products in 2017 is the USA (40.0 billion euros with a 6.0% increase over the prior year and more than double the sales a decade ago) accounting for 41.2% of the global market (Organic Trade Association 2019). It is followed by the EU (34.3 billion euros) – where the biggest market share belongs to Germany (29.0% of the EU market or 10.0 billion euros) – and China (7.6 billion euros) representing 35.4% and 7.8% of the global organic market share respectively. Furthermore, such countries in the European region as Switzerland and Denmark are the ones with the highest per capita consumption at the level of 300.0 euros, while average European consumers spend on organic products 40.8 euros a year (Ministry of Agrarian Policy and Food of Ukraine 2019).

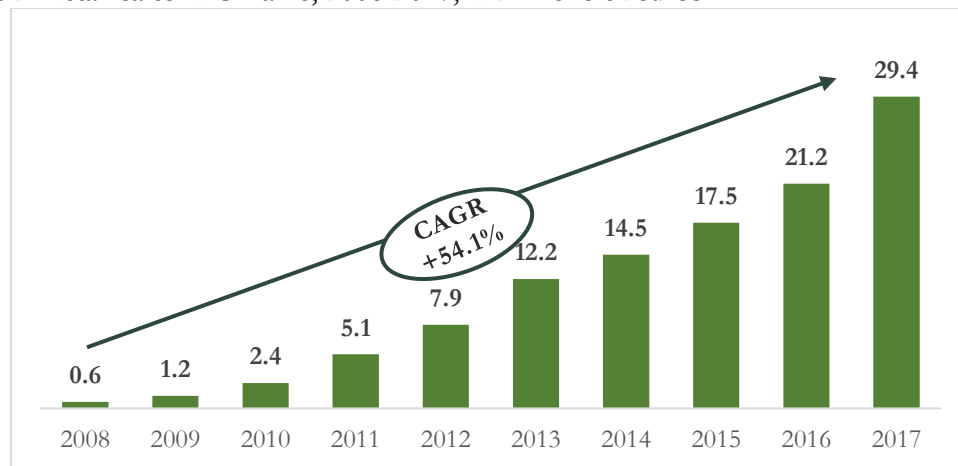
Figure 1. Global organic food and beverages market (2001-2017), in billions of euros



Source: FiBL & IFOAM – Organics International (2019)

Comparing to rather matured and saturated markets of the USA and Europe, Ukraine's organic industry is in its infancy and still developing thus providing the opportunity for various manufacturers entering the market with an outstanding growth perspective backed by 2008-2017 CAGR of 54.1%. Domestic consumers can find organic products online, in organic specialty stores like Natur Boutique as well as in bigger retail chains such as GoodWine, Novus, Auchan, MegaMarket or Sylpo. Although eco-friendly goods have gained more shelf space, the range of organic products available is still developing. Now Ukrainians can find local fruits and vegetables, herbs, teas, honey, cereals, mushrooms, oils, eggs, meat and dairy products, bakery products, juice, and jam.

Figure 2. Retail sales in Ukraine, 2008-2017, in millions of euros

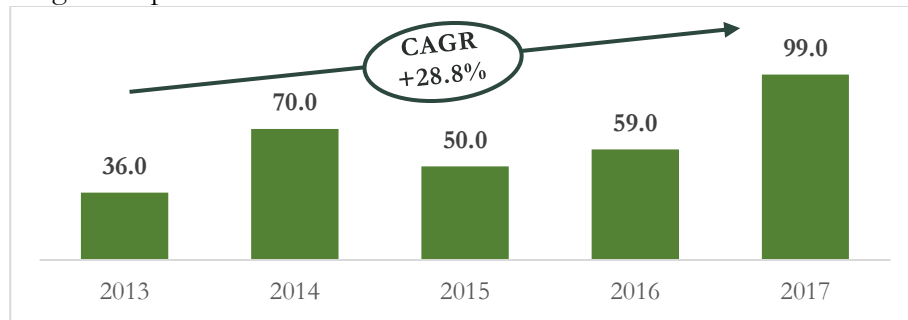


Source: FiBL & IFOAM – Organics International (2019)

While organic consumption per capita in Ukraine is at the level of 0.7 euros as for 2017, organic producers find market opportunities abroad exporting their goods (Ministry of Agrarian Policy and Food of Ukraine 2019). Organic exports of Ukraine show positive growth dynamics with 2013-2017 CAGR of 28.8% and consist primarily of agricultural commodities like cereals, oil crops or pulses and wild collection products such as berries, mushrooms, nuts, and herbs. The largest partners of Ukraine consuming domestic organic products are the Netherlands, Germany, Great Britain, Italy, Austria, Poland, Switzerland,

Belgium, Czech Republic, Bulgaria, Hungary, USA, Canada, Australia, and some Asian countries (Ministry of Agrarian Policy and Food of Ukraine 2019).

Figure 3. Organic exports of Ukraine in millions of euros



Source: FiBL & IFOAM – Organics International (2019)

Having a share of 95.0%, the EU is the main organic export market for Ukraine. Moreover, according to the European Commission, Ukraine is the first supplier of the EU of organic products from the European continent in 2018 (European Commission 2018). Ukraine is among the Top-5 importers of organic products to the EU, while the volume of the organic agri-food from the country is 267.0 thousand tons, representing an 8.2% share of the total volume of the EU imports.

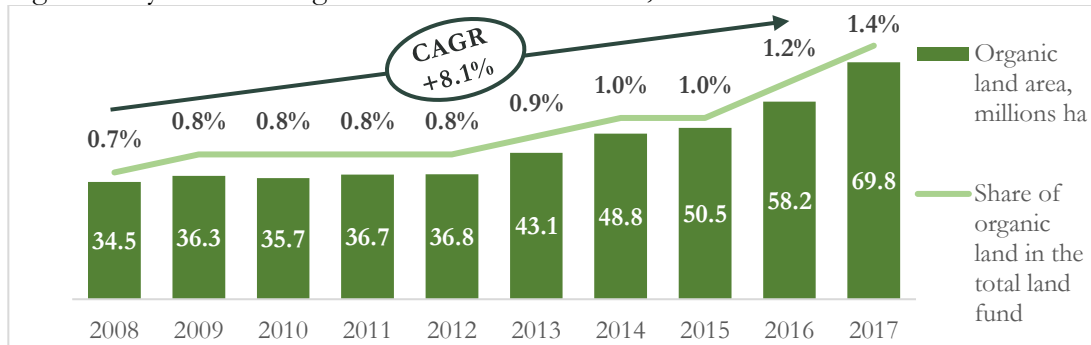
Ukraine exports to the EU primarily consist of commodities including cereals, other than wheat and rice – 114.0 thousand tons or 42.8% of the total volume, wheat – 76.0 thousand tons or 28.5% and oilseeds – 42.0 thousand tons or 15.8%. The share of processed goods in Ukrainian exports is insignificant and consists of fruit juices, which account for 6 thousand tons, or 2.2% of the total volume.

Overall, global demand for food and beverages will continue growing with a projected 2019-2022 CAGR of 8.9% (The Business Research Company n.d.). This constant increase is backed by supply-side market participants working in land areas and satisfying constantly increasing demand.

Concerning the latest available data for 2017, the share of organic land area in the total global land fund is only 1.4% (FiBL & IFOAM – Organics International 2019). However, the area of organic land shows the strongest increase in nominal terms so far by

11.6 million ha or 19.9%: from 58.2 million ha in 2016 to 69.8 million ha in 2017. Half of the global organic agricultural land or 35.9 million ha belongs to the Oceania region, 35.6 million ha of which are accounted for by Australia alone, while 20.9% or 14.6 million ha – to Europe (where 12.8 million ha to the EU itself) and 11.5% or 8.0 million ha – to Latin America.

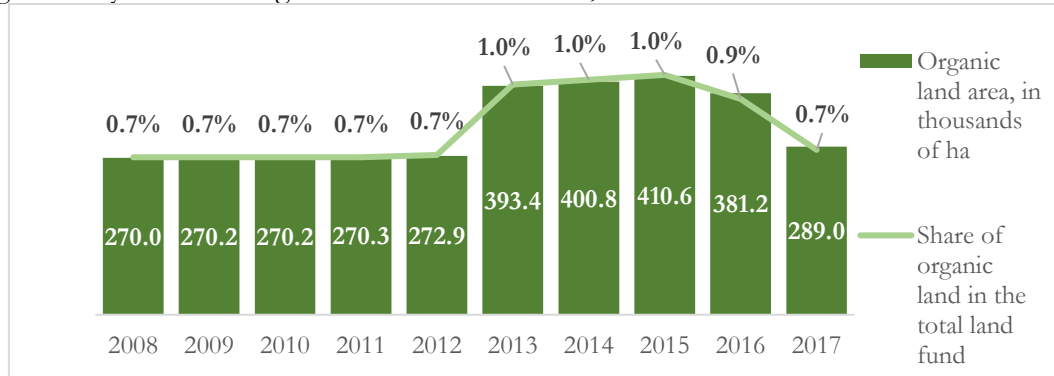
Figure 4. Dynamics of organic land area in the world, 2008-2017



Source: FiBL & IFOAM – Organics International (2019)

With 0.3 million ha, Ukraine is among the Top-25 countries with the largest area of organic agricultural land in 2017 and among Top-15 in Europe, where Ukraine takes the 13th place. However, the area of organic agricultural land constitutes only a 0.7% share of the total agricultural land of Ukraine providing a strong platform for its further continuous growth.

Figure 5. Dynamics of organic land area in Ukraine, 2008-2017



Source: FiBL & IFOAM – Organics International (2019)

The world organic agricultural land areas are being processed by 2.9 million organic producers, 88.8% or 2.4 million of which are from developing countries and emerging markets in Asia, Africa and Latin America (FiBL & IFOAM – Organics International 2019). Top-3 countries with the largest number of organic producers are India – 0.8 million, Uganda and Mexico – 0.2 million each. Comparing to the previously mentioned pace of growth of farmland managed organically on Figure 4, the number of organic producers shows a moderate increase of 4.7% from 2016.

Comparing to the moderate growth of organic land areas in Ukraine showed on Figure 5, the number of organic producers entering the market increases from 118 in 2008 to 304 in 2017 at the pace of 2008-2017 CAGR of 11.1% (FiBL & IFOAM – Organics International 2019). As of 2019, the total number of organic manufacturers certified by Organic Standard is 507, showing a rapid increase of 66.8% from 2017. Furthermore, the biggest share of organic manufacturers produces crops and exports their goods abroad.

Figure 6. Dynamics of the number of organic producers in Ukraine, 2008-2017



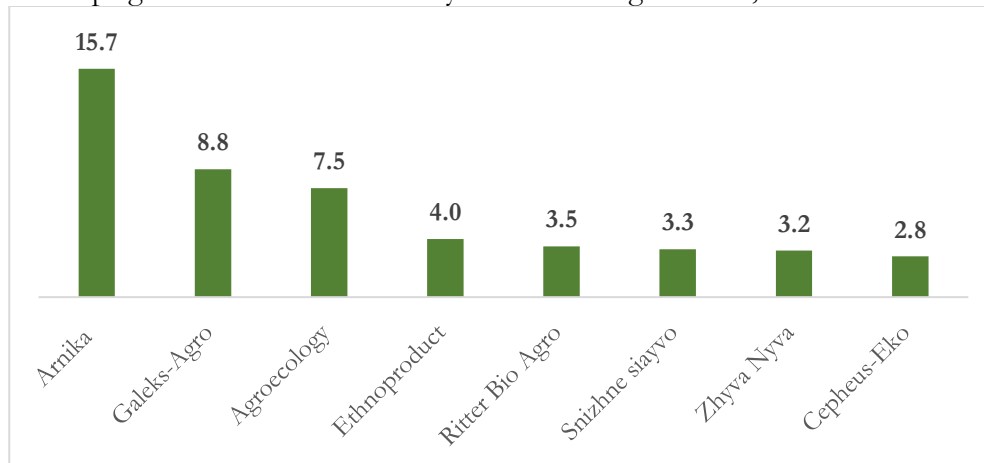
Source: FiBL & IFOAM – Organics International (2019)

As of 2019 Kyiv region and Kyiv city itself accumulate the highest number of organic producers – 92, this area is followed by Vinnytsia and Kharkiv regions with 62 and 35 manufacturers respectively. These key regions represent 37.3% share from the total number of organic producers spread across the country.

2.2. Competitive landscape

A guide published recently namely Ukrainian Agribusiness identifies the largest organic producers in Ukraine by the size of the area of organic land (Top Lead, LATIFUNDIST 2019). The undisputed market leader is Arnika, followed by Galeks-Agro and Agroecology with 15.7 thousand ha or 5.4% share of the total Ukraine organic land fund, 8.8 thousand ha or 3.0% and 7.5 thousand ha or 2.6% respectively. All these companies have appropriate certificates from Ukrainian internationally recognized inspection and certification body proving the eligibility of organic status. Furthermore, the abovementioned operators are export-oriented.

Figure 7. Top agribusinesses in Ukraine by the area of organic land, in thousands of ha



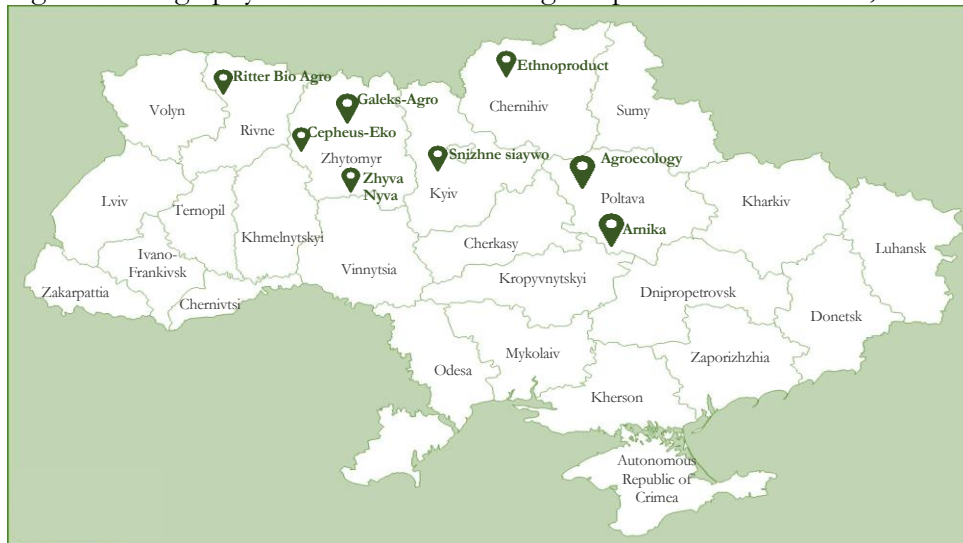
Source: Top Lead, LATIFUNDIST (2019)

According to the map presented below on Figure 8, all core organic manufacturers are evenly distributed in the North-central part of Ukraine. Zhytomyr region is the most concentrated one where the largest number of main organic producers operate: Galeks-Agro, Zhyva Nyva, and Cepheus-Eko.

However, Poltava region with the most fertile soil across the country takes the first place by the organic land area as the land fund of Arnika and Agroecology situated here in aggregate is almost as large as the area of organic lands of other major players.

Ethnoproduct, Ritter Bio Agro and Snizhne siayvo are located in Chernihiv, Rivne and Kyiv regions accordingly.

Figure 8. Geography distribution of main organic producers in Ukraine, 2019



2.3. Product benchmarking

Identifying the key organic producers of Ukraine, the next step is to conduct product analysis. The Table 2 below summarizes product portfolios of top organic manufacturers.

The first group of similar companies by the manufactured products includes Arnika, Zhyva Nyva, Cepheus-Eko as well as Ritter Bio Agro which specialize in the production of crops and vegetables.

The second group consists of Galeks-Agro, Agroecology, and Ethnoproduct. Their product portfolios are more diversified and include not only crop production but also dairy and meat products. Moreover, Galeks-Agro and Ethnoproduct also produce organic honey, while Agroecology – sunflower oil and flour.

Finally, there are no big competitors for Snizhne siayvo at the frozen fruits and vegetable segment creating a chance for other companies to fill the market niche and satisfy increasing demand for organic products.

Table 2. Summary of organic companies' portfolios

Organic products/Companies	Arnika	Galeks-Agro	Agroecology	Ethnoproduct	Ritter Bio Agro	Snizhne siayvo	Zhyva Nyva	Cepheus-Eko
Crop production	+	+	+	+	+	-	+	+
Dairy products	-	+	+	+	-	-	-	-
Meat products	-	+	+	+	-	-	-	-
Honey	-	+	-	+	-	-	-	-
Sunflower oil	-	-	+	-	-	-	-	-
Flour production	-	-	+	-	-	-	-	-
Vegetables	-	-	-	-	+	-	-	-
Frozen fruits and vegetables	-	-	-	-	-	+	-	-

Based on the results of the analysis of the first peer group, Arnika is outperforming its peers. According to the company data, the company's products are of the premium quality proved by appropriate certifications according to the EU, Bio Suisse (Switzerland) and USDA (NOP) agriculture standards (the USA) (Arnika Organic 2019). These certificates enable Arnika to access foreign markets and constantly expand their presence on the global organic market establishing new partnership relations. Key importers of Arnika's products as for now are Switzerland, Germany, the Netherlands, Austria and New Zealand to which the company exported more than 47.6 thousand tons of organic crops during 2016-2018 (Arnika Organic 2019). Other export markets are Estonia, Lithuania, and the USA. Moreover, investment in research and development make the company one of the most technologically advanced in the market. This leadership is backed by the fact that the company invests heavily in R&D at the level of 17.5 million euros to produce stable and high organic yield, ensure its storing, processing and delivering using the state-of-the-art machinery and in the compliance with all organic standards (Arnika Organic 2019). For example, the utilization of drones enables the team of specialists to examine and monitor large fields of Arnika's organic land more effectively – not partially, but in the whole area. The company also uses drones to monitor all important processes, such as tillage, sowing, harvesting and machinery cleaning (Arnika Organic 2019). Furthermore, Arnika optimizes

its business processes by special software and hardware complex system for machinery monitoring updating management with each step of operations and enabling them to make more well-informed decisions (Arnika Organic 2019).

The second peer group is more homogeneous and presented by similar companies. All operators are private enterprises apart from Ethnoproduct, which is a private joint-stock company disclosing its financial results.

Compliance with the requirements set out in the EC regulations 834/2007 and 889/2008, as well as with the Bio Suisse (Switzerland) and Bioland (Germany) standards have been confirmed by Galeks-Agro. The company exports 75.0% of its products mainly to Switzerland, Germany, Hungary, Israel, the Netherlands, Italy, Ireland, and the United Kingdom. Moreover, it opens the first in Ukraine certified dairy plant for the production of organic dairy products from its raw materials – "Organic Milk" and "Organic meat product".

Agroecology is one of the pioneers in organic farming practices within Ukraine since the 1980s. It has developed its organic management system and processing infrastructure to preserve and increase soil fertility as part of its day-to-day operations. Agroecology targets both the domestic and the export market of Switzerland, Germany, Canada, the Netherlands and Austria (ukraine.fibl.org 2017).

In its turn, Ethnoproduct's core business purpose is producing natural food such as organic cereals, dairy, and meat products in compliance with international organic principles and standards. Ethnoproduct's dairy product portfolio consists of raw milk, pasteurized milk, sour cream, kefir, and lean yogurt.

2.4. Financial performance

Since Ethnoproduct is a private joint-stock company among other top organic producers, its results might be treated as barometer of financial performance of the sector.

Sound revenue generation serves as an indicator of the confidence and stability of the company. In 2017, net sales of the company reached 38.6 million UAH up from 15.3

million UAH in 2013 with the corresponding 2013-2017 CAGR of 25.9%. Reasonable cost reduction policy of the enterprise, such as the establishment of a vertically integrated full-cycle company along with sharp price drop of crude oil in 2015 – one of the major component of costs structure – have a positive impact on gross profit margin from 17.8% in 2013 to 33.4% in 2017.

Net income margin has been rising steadily over the last years. An increase in marketing expenses from 10.6% of total revenue in 2016 to 18.4% in 2017 affects heavily the bottom line of the company in 2017 representing a drop of net income margin down from 21.6% to 8.4%. Such a decision by the company's management may be the consequence of the dissemination of implausible information on the brand that occurred in 2016. The fact is that the public organization "Ukrainian Consumer Rights Protection Association" posted on its website an article entitled "The Butter – Benefit and Damage, Facts and Myths about the Product", which stated that the butter "Organic" of the company Ethnoproduct, 73% of fat, does not meet the requirements of the regulator. The analyses revealed non-dairy fat, the use of which is prohibited. The company filed a lawsuit against the Association, as a result of which the court recognized the information posted as inaccurate and not corresponding to reality, as well as humiliating Ethnoproduct's business reputation (YOU CONTROL 2016). Even though the public organization was obliged to disprove the inaccurate information about the company by the results of the lawsuit, only falsified articles remained on the web without any further references to refutation on the Association's website.

Other operating income like income from changes in the value of assets measured at fair value or gain on initial recognition of biological assets and agricultural products is volatile and constitutes 39.9% of the revenue in 2014 down to 14.1% in 2015. However, it enables the company to cover its operating expenses and ensure a two-digit net income margin during 2015-2017.

Profitability ratios such as ROA and ROE show how effectively assets and equity generate a net profit of the company. Ethnoproduct has the peak of return in 2015, with corresponding stabilization in 2017.

The financial health of the company is measured by current and quick ratios showing a company's short-term liquidity and ability to generate enough cash to pay off all debts should they become due at once (Folger 2019). Those ratios have positive dynamics improving steadily from 2013.

While the abovementioned profitability ratios assess the ability of the company to generate net profit, asset turnover shows how effectively Ethnoproduct generates revenue. This indicator improves gradually from 0.8 in 2013 to 1.09 in 2017, making more sales per 1 UAH of assets.

The quick ratio also measures the liquidity of a company by measuring how well its current assets could cover its current liabilities.

Management of the company attracts external capital at the level of 2.2 million UAH in 2017 to finance the acquisition of property, plant, and equipment and expand current operations. Therefore, 2017 Debt to Assets as well as Debt to Equity ratios are of 0.06 and 0.13 correspondingly.

Table 3. Key financial ratios of Ethnoproduct

		2013	2014	2015	2016	2017
Profitability	Gross profit margin	17.8%	19.1%	38.0%	41.7%	33.4%
	Net income margin	0.4%	2.6%	35.4%	44.8%	26.2%
	ROA	0.3%	2.2%	28.1%	23.5%	11.4%
	ROE	8.9%	38.7%	83.9%	51.4%	23.2%
Liquidity	Current ratio	0.64	0.56	0.87	1.37	1.58
	Quick ratio	0.48	0.26	0.40	0.48	0.69
Efficiency ratios	Asset turnover	0.80	1.07	1.46	0.90	1.09
Solvency ratios	Debt/Assets	0.00	0.00	0.00	0.00	0.06
	Debt/Equity	0.00	0.00	0.00	0.00	0.13

2.5. PEST analysis

Political factors. Organic farming was stated as one of the priority areas within the 2015-2020 strategy document for agriculture and rural development issued by the Ministry of Agrarian Policy and Food (Ministry of Agrarian Policy and Food of Ukraine 2019).

Moreover, organic exporters from Ukraine benefit strongly from the Association Agreement signed in June 2014 between the EU and Ukraine, the further implementation of which has reduced the trade barriers for Ukrainian exporters enable them to become core suppliers of eco-friendly products to European markets.

Recently, the Law of Ukraine No. 2496 "On the Basic Principles and Requirements for Organic Production, Handling and Labelling of Organic Products" came into force protecting bona fide organic producers from those who unreasonably add "eco" and "bio" prefixes to promote their goods as natural or organic.

Economic factors. Signed Association Agreement between the EU and Ukraine is also a cornerstone of facilitating and promoting trade and foreign direct investment in manufacturing of eco-labeled goods and environmental products as well as modernization of agriculture practices through addressing the related non-tariff barriers (EapGREEN Partnership for Environment and Growth n.d.).

Organic exports to the EU – the major Ukrainian partner – offer higher price premiums and a stable source of revenue generation for organic producers.

Moreover, organic agriculture is more labor-intensive than conventional one thus providing economic benefits to society in the form of a higher rate of employment, especially in rural areas.

Social factors. Rising awareness about the effects of consuming “fast food” and popularization of organic products will assist in the development of a healthier lifestyle as well as establishment a basic understanding of the positive consequences of organic production spreading.

Organic practices provide long-term benefits in the building up of natural capital, particularly in soils through excluding any utilization of chemical fertilizers and ensuring

regular crop rotation. Such organic principles reduce soil erosion and increase soil fertility as well as crop yield. Moreover, an indirect consequence of mainstream adoption of organic agriculture is reduced costs for society in such spheres as water purification or health care.

As it was outlined above, green practices are more labor intensive, so the shortage of human resources might improve labor conditions.

Technological factors. The country's grain storage facilities or transportation networks are designed for conventional agribusiness practices, so that organic producers need to invest heavily in different equipment and special organic infrastructure to meet strict organic standards.

In addition to foreign technology, local organic producers present their domestic techniques such as unique plant protection products, fertilizers as well as innovative agri IT-projects suitable for organic production in Ukraine (BuyOrganic.in.ua 2019).

2.6. SWOT analysis

Strengths. Ukraine has an advantageous geographical location on the global agribusiness map concerning the core organic market – the EU. Moreover, the country is characterized by favorable climatic conditions and access to one of the world's best black earths with historically low levels of pesticide and fertilizer use.

Ukrainians are characterized by a historical propensity for agriculture and a great number of people living in the rural area.

Weaknesses. Organic food and beverages market are characterized by a concentration of demand since more than 84% of sales come from the USA, the EU, and China, where at the rest of the world organic products are still treated as luxury goods. Ukraine's domestic market, in particular, is undeveloped as for now with limited knowledge on the positive impact of consumption of organic products among both farmers and the overall population. Moreover, the prices attached to environmentally-friendly products are higher than that of conventional alternatives creating a financial barrier for potential customers. Ukraine's domestic customers are not ready to pay a higher price for organic

food, which prevents local producers from moving from traditional agriculture to organic practices.

The industry faces an increasing number of compliances. There are over 80 national standards and a higher number of private/voluntary standards for organic agriculture (FiBL & IFOAM – Organics International 2019).

Trade wars and other geopolitical consequences distort market efficiency, preventing goods and services move freely across the globe. For example, exports of agricultural products from the USA to China was suffered due to unstable political relationships between those two countries.

While organic producers from developed countries receive significant support from the government, manufacturers from developing ones still have limited access to capital and instruments hedging them from negative market conditions.

Opportunities. In general, organic goods are sold at a premium preventing domestic buyers from buying local organic food. Therefore, organic food supply is less than the global constantly increasing demand for environmentally-friendly products. It creates a chance for agribusinesses to find prospective vacant market niches. Given the surplus of organic products available at the domestic market, Ukraine has a strong competitive positioning exporting the goods abroad. Moreover, given the trend of negative trade balance of Ukraine, possible currency depreciation creates a favorable momentum for Ukrainian exporters making their goods cheaper and more attractive for foreign consumers.

Leading organic processors in the EU tend to move away from China, India, and South America as sources of organic products, seeking greater product traceability and reliability of imports from European countries (EapGREEN Partnership for Environment and Growth n.d.). This tendency provides an opportunity for Ukraine to become a major source of the EU's organic imports, outperforming its current top organic suppliers such as China, Ecuador, and the Dominican Republic.

Nevertheless, expansion into new markets including Europe, China, the Middle East, and the United States ensures increasing growth in the export potential of agricultural products developing new local businesses and agritourism.

Since organic value chains are labor-intensive comparing to conventional agricultural practices, they drive further rural development generating positive socio-economic benefits.

Moreover, organic agribusinesses create a niche market for restaurants following the green trend and willing to take part in the “value-adding” process further. These practices would stimulate the local tourism industry and provide an opportunity to boost the economy nurturing the concept of organic trade.

Threats. The absence of proper regulation of the organic market till August 2019 prohibiting the utilization of the "eco" and "bio" prefixes on the products without appropriate certification led to customers' distrust of eco-friendly products and the necessity to rebuild organic brand image in their minds.

Since potential customers in foreign markets are not familiar with Ukraine's local brands, it may be difficult for domestic producers to export finished goods with labels unknown for consumers abroad. Therefore, organic manufacturers are faced with the challenge of gaining the loyalty and trust of buyers or building strong marketing networks with foreign partners.

Different fraud cases arising in the organic industry may distort the Ukrainian track record as a reliable supplier and lead to an inevitable reputation loss damaging the country's image as a trustworthy organic exporter. Besides, recently elected policymakers are a source of uncertainty and economic instability forcing investors to demand higher returns for associated risks or to abandon investments into Ukrainian projects at all.

Organic producers need to follow various requirements of the EU to comply with standards regarding product quality. Small scale organic producers are faced with the challenge of adhering to these criteria as well as providing evidence to confirm the eligibility of their products for the EU marketplace (EapGREEN Partnership for Environment and Growth n.d.). Moreover, few organic trade unions such as Bioland in Germany and

association Bio Suisse from Switzerland demand organic producers to obtain not only European certificate to enter their markets but also to successfully get through the certification according to the strictest private standards (Arnika Organic 2019).

The most difficult stage for organic companies is a transitional one during the conversion of their land into organic. This transition takes a few years, and products that are already manufactured according to organic standards continue to sell at the old prices until the company is certified. The lack of support from the government or investors may discourage agribusinesses to adopt organic technologies in the future.

Volatility on the FX market and geopolitical tensions could result in a growing exchange rate and interest rate risks. Possible tightening of monetary policy in the country might increase interest rates resulting in appreciation of the national currency and reducing exports. Therefore, local organic goods may become more expensive and less competitive comparing to the peers' products from other countries.

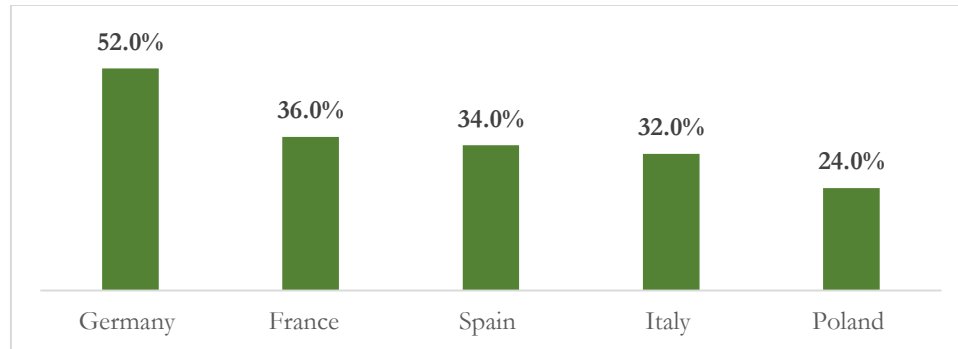
Other possible sources of threats are poor management skills and lack of experience, inefficient working of suppliers, force majeure.

2.7. Driving forces analysis

In general, demand for organic products is consumer-driven. Generational shifts resulted in the growing population of millennials – one of the largest demographic spending groups – and increased ethnic diversity change consumer preferences and fuel the growth of the organic market. The industry is characterized by increasing health concerns regarding the use of inorganic food and raising awareness of health benefits from consumption of functional food, as well as increasing demand for less processed foods, sugar-free and low-calorie products. Also, increasing health consciousness and awareness regarding the harmful effects of pesticides among consumers is expected to boost sales of organic products' producers. High animal welfare standards will also become part of organic expectations (Mintel 2018). It is supported by other influential movements like vegan, vegetarian or flexitarian diets in nutrition launching new products such as vegetable meat and vegetable milk on the market. Moreover, the industry is characterized by brand-loyalty

since more and more consumers are willing to stick to those producers they recognize and trust.

Figure 9. Selected European countries: users who buy organic food and drink products because they think they offer higher animal welfare standards than conventional products (%), 2017



Source: Mintel (2018)

However, the industry is characterized by supply shortages due to the labor-intensive type of production and difficulties in achieving economies of scale. Therefore, increasing investments in R&D for organic farming will enhance organic market growth. Packaging, for example, is one of the key issues that producers are to consider to be consistent with the integrity of the organic concept. Green manufacturers all around the world need to find solutions devoted to replacing conventional plastic packages with ones made from renewable plant-based materials to meet organic consumer's wishes and expectations.

Moreover, the industry is characterized by reliable established regulations and standards as well as a favorable policy environment with different incentives such as subsidy schemes and investments in capacity building projects for further agribusinesses development. Many policymakers in both developed and developing countries have announced their objectives of increasing organic farming practices (FAO 2012). For example, some governments are encouraging schools and government canteens to use organic ingredients (FiBL & IFOAM – Organics International 2019).

Organic products also expand their presence in the foodservice sector, with a constantly increasing number of cafes and restaurants providing an opportunity for the guests to choose environmentally-friendly service options.

Chapter 3. CONCLUSIONS AND RECOMMENDATIONS

The so-called "green economy" has mainstreamed environment in line with robust economic development and pushed it up on the global agenda. The core issue of this concept is to build such a society dealing with urgent challenges in energy access, waste, agriculture as well as sustainable urbanization. Focusing on one of the above-mentioned aspects, greening the economy with agriculture refers to increasing food security meaning its availability, access, stability, and utilization, while using fewer natural resources, through improved efficiencies throughout the food value chain (FAO 2012).

Investors all over the world are to identify this huge paradigm shift away from culture of consumerism and to follow the global trend concerning an increase in organic food consumption. It is backed by understanding the vital role of green agriculture in powering and supporting global economic growth in the most sustainable way.

The development of organic agriculture in Ukraine is driven by constantly increasing global demand for organic products as well as the high profitability of the sector due to the price premiums granted to eco-friendly products. At the same time, the number of producers operating in organic market of Ukraine is not so concentrated, providing the space for new entrants. Since global demand exceeds supply, domestic agribusinesses are ready to seize the opportunity and increase their presence on the world organic markets such as Germany, the Netherlands, Italy, Poland, the UK, Austria, France, Belgium, and Hungary, as well as the USA, Canada, Australia, and different Asian countries. Moreover, regions with the highest per capita consumption of organic food – Switzerland and Denmark – guarantee a solid market place for Ukrainian organic manufacturers.

While Ukrainian export-oriented enterprises gain the trust of foreign customers to local brands supplying unprocessed goods, other promising areas of investment are devoted to the development of domestic processed organic food and beverages market which is in its infancy now. This potential creates a huge opportunity for agribusinesses to enter the growing market. Therefore, investors in Ukrainian organic market may focus on such sub-categories of the market as: bread and bakery products, baby food, confectionery

products, cereals and snacks, and other packaged foods. This strategic decision will allow agribusiness to establish a solid business model of organic production with high added value and sell not only raw materials but also semi-finished and processed organic goods, with further rapid expansion to foreign markets.

To ensure the stable development of domestic organic market, local agribusinesses may conduct promotional campaigns to educate the public about the benefits of consuming organic products and explain why they are worth the premium price. Moreover, this engaging should focus on schoolchildren rather than adults. Such a strategy is justified by the fact that children are more demanding about the ethics of consumption and preservation of the environment as well as more flexible in changing the pattern of their usual behavior. Furthermore, active marketing efforts of agribusinesses might protect their brand reputation avoiding dissemination of implausible information and further drop in sales.

Continuous investments in R&D are one of the key factors of maintaining the leading position in the organic sector since it allows agribusinesses to react faster than other competitors to the new challenges arising from constantly changing market environment, as well as to benefit from increased operational and capital efficiency.

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APPENDIX A

THE INCOME STATEMENT OF ETHNOPRODUCT, IN THOUSANDS OF UAH

	2013	2014	2015	2016	2017
Revenue	15,330.0	19,491.0	28,223.0	26,357.0	38,556.0
Cost of revenue	(12,600.0)	(15,761.0)	(17,501.0)	(15,374.0)	(25,697.0)
Gross profit	2,730.0	3,730.0	10,722.0	10,983.0	12,859.0
Operating expenses					
Administration expenses	(848.0)	(1,126.0)	(1,172.0)	(1,599.0)	(1,865.0)
Marketing expenses	(1,470.0)	(2,603.0)	(2,546.0)	(3,372.0)	(8,871.0)
Other operating expenses	(5,175.0)	(7,351.0)	(5,565.0)	(4,567.0)	(7,419.0)
Other operating income	4,807.0	7,786.0	3,975.0	5,417.0	9,563.0
Operating income	44.0	436.0	5,414.0	6,862.0	4,267.0
Other income	13.0	8.0	18.0	0.0	0.0
Financial expenses	0.0	0.0	0.0	0.0	(243.0)
Other expenses	0.0	(40.0)	0.0	0.0	0.0
Net income	57.0	404.0	5,432.0	6,862.0	4,024.0

Source: SMIDA (2017)

APPENDIX B

HORIZONTAL ANALYSIS OF ETHNOPRODUCT'S INCOME STATEMENT

	2014	2015	2016	2017	CAGR
Revenue	27.1%	44.8%	(6.6%)	46.3%	25.9%
Cost of revenue	25.1%	11.0%	(12.2%)	67.1%	19.5%
Gross profit	36.6%	187.5%	2.4%	17.1%	47.3%
Operating expenses					
Administration expenses	32.8%	4.1%	36.4%	16.6%	21.8%
Marketing expenses	77.1%	(2.2%)	32.4%	163.1%	56.7%
Other operating expenses	42.0%	(24.3%)	(17.9%)	62.4%	9.4%
Other operating income	62.0%	(48.9%)	36.3%	76.5%	18.8%
Operating income	890.9%	1141.7%	26.7%	(37.8%)	213.8%
Other income					
Financial expenses					
Other expenses					
Net income	608.8%	1244.6%	26.3%	(41.4%)	189.9%

APPENDIX C

VERTICAL ANALYSIS OF ETHNOPRODUCT'S INCOME STATEMENT

	2013	2014	2015	2016	2017
Revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of revenue	82.2%	80.9%	62.0%	58.3%	66.6%
Gross profit	17.8%	19.1%	38.0%	41.7%	33.4%
Operating expenses					
Administration expenses	5.5%	7.3%	7.6%	10.4%	12.2%
Marketing expenses	9.6%	17.0%	16.6%	22.0%	57.9%
Other operating expenses	33.8%	48.0%	36.3%	29.8%	48.4%
Other operating income	31.4%	39.9%	14.1%	20.6%	24.8%
Operating income	0.3%	2.8%	35.3%	44.8%	27.8%
Other income	0.1%	0.1%	0.1%	0.0%	0.0%
Financial expenses	0.0%	0.0%	0.0%	0.0%	1.6%
Other expenses	0.0%	0.3%	0.0%	0.0%	0.0%
Net income	0.4%	2.6%	35.4%	44.8%	26.2%

APPENDIX D

BALANCE SHEET OF ETHNOPRODUCT, IN THOUSANDS OF UAH

	2013	2014	2015	2016	2017
Assets					
Current assets					
Cash and cash equivalents	54.0	70.0	286.0	137.0	89.0
Receivables	2,096.0	1,909.0	2,762.0	4,267.0	4,832.0
Inventories	2,821.0	5,072.0	6,033.0	14,093.0	14,048.0
Deferred expenses	44.0	24.0	104.0	54.0	33.0
Current biological assets	6,644.0	2,459.0	1,932.0	3,176.0	5,807.0
Other current assets	98.0	74.0	5.0	4.0	107.0
Total current assets	11,757.0	9,608.0	11,122.0	21,731.0	24,916.0
Non-current assets					
Property, plant and equipment	4,383.0	4,318.0	4,488.0	3,910.0	4,852.0
Gross property, plant and equipment	6,701.0	7,066.0	7,840.0	8,428.0	10,520.0
Accumulated Depreciation	2,318.0	2,748.0	3,352.0	4,518.0	5,668.0
Intangible assets	38.0	38.0	12.0	10.0	8.0
Gross intangible assets	39.0	39.0	39.0	39.0	39.0
Accumulated Depreciation	1.0	1.0	27.0	29.0	31.0
Long-term biological assets	2,672.0	3,948.0	3,456.0	2,979.0	4,975.0
Gross long-term biological assets	2,672.0	3,948.0	3,456.0	2,979.0	4,975.0
Accumulated Depreciation	0.0	0.0	0.0	0.0	0.0
CapEx in progress	246.0	254.0	236.0	559.0	600.0
Total non-current assets	7,339.0	8,558.0	8,192.0	7,458.0	10,435.0
Total assets	19,096.0	18,166.0	19,314.0	29,189.0	35,351.0
Liabilities and stockholders' equity					
Current liabilities					
Accounts payable	2,021.0	2,057.0	3,799.0	4,557.0	4,700.0
Other current liabilities	16,435.0	15,065.0	9,039.0	11,294.0	11,066.0
Total current liabilities	18,456.0	17,122.0	12,838.0	15,851.0	15,766.0
Non-current liabilities					
Long-term debt	0.0	0.0	0.0	0.0	2,223.0

Total non-current liabilities	0.0	0.0	0.0	0.0	2,223.0
Total liabilities	18,456.0	17,122.0	12,838.0	15,851.0	17,989.0
Stockholders' equity					
Common stock	230.0	230.0	230.0	230.0	230.0
Additional paid-in capital	1,332.0	1,332.0	1,332.0	1,332.0	1,332.0
Retained earnings	(922.0)	(518.0)	4,914.0	11,776.0	15,800.0
Total stockholders' equity	640.0	1,044.0	6,476.0	13,338.0	17,362.0
Total liabilities and stockholders' equity	19,096.0	18,166.0	19,314.0	29,189.0	35,351.0

Source: SMIDA (2017)