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UKRAINE

Ukraine is not a major importer of grains and oilseeds but it does export, on average, about one-quarter of its annual production of major field crops. Over the longer term, it has the potential to become a major exporter in the grains and oilseeds markets. This issue of the *Bi-weekly Bulletin* examines the situation and outlook for Ukraine's grains and oilseeds sector and explores implications for Canada's agriculture and agri-food sector.

BACKGROUND

Economy

Macroeconomic indicators in recent years have pointed toward continued economic expansion for Ukraine and, with that, an increase in personal incomes. As an example, per capita income increased from US\$1,790 in 2005 to an estimated US\$2,291 in 2006. Ukraine is the second largest consumer market in Eastern Europe and, as disposable incomes increase, that market continues to grow. Consumer spending is estimated to have increased in 2006 by 32% from 2005.

Ukraine's dependence on oil and gas from Russia, combined with its resistance to structural reform following independence from the Former Soviet

Union (FSU), have made its economy vulnerable to external shocks. For example, following a dispute with Russia in 2005, on whom it relies for three-quarters of its annual oil and gas requirements, Ukraine agreed to a deal in early 2006 that resulted in a doubling of the price it pays for Russian gas. With natural gas accounting for about 80% of the cost of fertilizer, farmers reduced application rates accordingly, resulting in lower crop yields.

Despite the setbacks associated with higher energy costs, and numerous other disruptions, Ukraine's Gross Domestic Product (GDP) grew by an estimated 8% in 2007, largely on the strength of its steel sector and growing domestic consumption fuelled by higher pensions and wages. However, the agricultural

machinery industry has not kept pace with the other sectors in the sense that Ukraine continues to produce poor quality machinery which cannot compete with imports from Russia and Germany.

Agriculture

Agriculture contributes about 9% to Ukraine's GDP and provides employment for one-quarter of its population, which is estimated at 47 million (M) people. Prior to achieving independence from the FSU in 1991, Ukraine supplied the FSU with about one-fourth of its food needs in addition to providing substantial amounts of meat, milk, grain and vegetable to the other republics. During the early to mid-1990s, Ukraine's crop production dropped off sharply as farmers cut back on the use of key inputs such as fertilizer. Production has since recovered significantly.

An abundance of fertile soil provides Ukrainian farmers with a distinct advantage. However, that advantage has not been exploited to the extent it might have been in more technologically advanced countries. Nevertheless, Ukraine's agricultural sector continues to experience modest growth. Some of this growth can be attributed to a range of government agricultural programs, some of which are price distorting, but none of which are particularly efficient.

Grain Policy

Shortly after a new coalition government was formed in August 2006, agricultural policy moved toward more government intervention and reduced market access. The imposition of export quotas and licensing requirements, which occurred on very short notice, left many grain traders unable to meet their contractual

UKRAINE: MAJOR FIELD CROPS* SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....million tonnes.....							
Carry-in Stocks	5.6	5.9	2.9	5.4	4.9	3.6	4.9
Production	41.1	23.7	44.1	42.4	40.0	34.4	46.0
Imports	<u>1.0</u>	<u>3.5</u>	<u>0.1</u>	<u>0.1</u>	<u>0.1</u>	<u>0.4</u>	<u>0.2</u>
Total Supply	47.7	33.2	47.0	48.0	45.0	38.5	51.0
Exports	10.9	3.9	11.2	13.6	10.7	3.7	14.3
Feed Use	13.4	11.2	13.5	11.4	12.1	12.6	13.5
Crush/Food	<u>17.4</u>	<u>15.2</u>	<u>16.8</u>	<u>18.1</u>	<u>18.5</u>	<u>17.4</u>	<u>17.6</u>
Total Use	41.8	30.3	41.6	43.1	41.3	33.6	45.3
Carry-out Stocks	5.9	2.9	5.4	4.9	3.6	4.9	5.7

* Rapeseed, soybeans, sunflowerseed, wheat, corn, barley, and oats

Numbers may not add due to rounding.

f: forecast, AAFC (oilseeds) and USDA (grains)

Source: USDA (FAS)

obligations which, in turn, led to heavy financial losses as they were unable to market the grain.

Revenue losses to grain traders, as a result of the export quota policy, have been estimated by the World Bank at US\$300M. Losses due to demurrage charges and non-execution of export contracts are estimated at US\$100M. The export quota was removed in February 2007, for all grains, except wheat.

However, in response to soaring food prices, which represent more than half of annual family expenditures, export limitation measures were re-imposed during the 2007-2008 crop year to ensure that adequate quantities would be available domestically. More recently, due largely to its World Trade Organization (WTO) commitments, Ukraine removed its export quota on corn, but extended export licences for wheat and barley until the end of April 2008.

The government, through the Agrarian Fund, also uses grain market interventions to limit price fluctuations and to ensure adequate grain supplies, although not nearly as effectively as the quota system.

Biofuel Policy

In December 2006, Ukraine introduced a program aimed at energy independence, specifically the production of biodiesel from rapeseed. To encourage rapeseed production, the government established subsidies of US\$20 per hectare (/ha) for winter rapeseed and US\$13/ha for spring rapeseed. The higher subsidy on winter rapeseed compensates for losses often experienced due to winterkill, which ranges from 30 to 40% of the seeded area.

Ultimately, the goal was to increase rapeseed production from 0.6 Mt in 2006, to 2.0 Mt in 2007, and to 7.5 Mt by 2010, of which 75% was to have been used for biofuel production. However, rapeseed production and crush for biofuel have fallen well short of those early projections. In 2007-2008, Ukraine produced a record 1.1 Mt of rapeseed, on a record 0.9 Mha of land, and most of that production was exported to the EU, rather than being crushed domestically and being used to produce biofuel.

Trade

A recent USDA Foreign Agricultural Service report described Ukraine's agricultural trade policy as unpredictable, non-transparent and driven by protectionist interests. Ukraine maintains relatively high import duties, particularly on goods that are already produced domestically in significant amounts. It also has non-tariff barriers which also add to the final cost of many imported products. Ukraine maintains both an ad valorem and a fixed minimum per kilogram duty for most food products, and imposes the higher rate of the two.

Ukraine has a free trade agreement with countries within the Commonwealth of Independent States (CIS), in particular Russia, which gives the CIS countries an advantage in Ukraine's import markets. Ukraine is a major exporter of grains and oilseeds primarily to countries in the Near East, Eastern Europe and the EU.

Inspections

Agricultural and food products are subject to sanitary testing, compulsory certification, veterinary and/or phyto-sanitary inspections, regardless of any health certificate that might already accompany a shipment. Customs clearances and inspections, because of the fees associated with these actions, are seen as a source of revenue and sometimes more than one agency conducts the same test. Furthermore, because some procedures take up to seven days, the import of highly perishable products is very difficult, if not impossible. Recognizing some of these impediments to trade, Ukraine is

modifying its sanitary and phyto-sanitary standards to comply with international standards as a requirement for accession to the WTO which came into effect on May 16, 2008

Preferences in Ukraine's Consumer Market

Consumer preferences are an important consideration when assessing market potential in any country and these preferences often differ significantly depending on income and age. In Ukraine, young consumers are more willing to try new products, while middle-aged and elderly consumers are more conservative in their taste preferences and often look at new products with caution. Most consumers, however, are patriotic in the sense that they will not buy an imported product if a domestically produced product is available.

In Ukraine, biotech products are generally perceived in a negative light. Although labelling is compulsory, the absence of labelled products may be due to insufficient legislation and enforcement mechanisms, which are reportedly still in development. It must be noted that Ukraine's accession to the WTO is predicated on the establishment of a fully functioning approval and regulatory framework for biotech products.

Consumers examine ingredients in food products with great care, and they are suspicious of products with preservatives, stabilizers, colorants and flavour enhancers. However, it appears that they pay less attention to fat, sugar and protein content. Except for wealthier

UKRAINE: WHEAT SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....million tonnes.....							
Carry-in Stocks	3.0	3.3	1.1	2.6	2.4	1.4	2.2
Production	20.6	3.6	17.5	18.7	14.0	13.9	20.0
Imports	<u>0.8</u>	<u>3.4</u>	<u>0.0</u>	<u>0.1</u>	<u>0.1</u>	<u>0.4</u>	<u>0.1</u>
Total Supply	24.3	10.2	18.7	21.4	16.5	15.7	22.3
Exports	6.6	0.1	4.4	6.5	3.4	0.7	6.0
Feed Use	4.0	0.4	2.1	2.9	2.1	3.1	3.2
Food Use	<u>10.5</u>	<u>8.6</u>	<u>9.6</u>	<u>9.6</u>	<u>9.6</u>	<u>9.7</u>	<u>9.8</u>
Total Use	21.1	9.1	16.1	19.0	15.1	13.5	19.0
Carry-out Stocks	3.3	1.1	2.6	2.4	1.4	2.2	3.3

Numbers may not add due to rounding.

f: forecast, USDA

Source: USDA (FAS)

consumers living in cities, who can afford more expensive products, the diets of many Ukrainians are not balanced nutritionally and there appears to be little interest in healthier food consumption. About one-third of Ukraine's population lives in rural areas, their income is quite low, and many of them rely on household plots for their staple foods.

Agricultural Trade with Canada

Ukraine's trade with Canada in agricultural commodities has averaged CAN\$19.7M during the past 10 years. This trade peaked at CAN\$35.7M in 2003 when Canada exported CAN\$27.1M worth of grain to Ukraine. This is direct contrast to 2002 when Ukraine exported an unprecedented CAN\$26.3M worth of grain to Canada, primarily wheat, due to a combination of drought in western Canada and record wheat production in Ukraine. Despite Canada's trade deficit of CAN\$26.3M in 2002, Canada's trade surplus has averaged CAN\$4.5M during the past ten years, peaking at a record CAN\$25.6M in 2007 when Canada exported a near record CAN\$22.2M worth of seafood to Ukraine.

SITUATION: 2007-2008

Ukraine's **production** of its major field crops (rapeseed, soybeans, sunflowerseed, wheat, corn, barley and oats) is estimated at 34 million tonnes (Mt), down from 40 Mt in 2006-2007. The decrease is attributed to a combination of lower harvested area and reduced yields, as poor growing conditions contributed to a higher-than-normal abandonment rate. Regions in

UKRAINE: CORN SUPPLY AND DISPOSITION							
	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....thousand tonnes.....							
Carry-in Stocks	940	832	844	1,324	922	1,069	1,789
Production	4,180	6,850	8,800	7,150	6,400	7,400	8,000
Imports	<u>23</u>	<u>0</u>	<u>14</u>	<u>12</u>	<u>24</u>	<u>20</u>	<u>25</u>
Total Supply	5,143	7,682	9,658	8,486	7,346	8,489	9,814
Exports	811	1,238	2,334	2,464	1,027	1,000	2,500
Feed Use	2,800	4,900	5,300	4,400	4,500	5,000	5,200
Food Use	<u>700</u>	<u>700</u>	<u>700</u>	<u>700</u>	<u>750</u>	<u>700</u>	<u>700</u>
Total Use	4,311	6,838	8,334	7,564	6,277	6,700	8,400
Carry-out Stocks	832	844	1,324	922	1,069	1,789	1,414

Numbers may not add due to rounding.
f: forecast, USDA
Source: USDA (FAS)

southern Ukraine are reported to have experienced some of the worst drought in decades.

The exceptions to a general decrease in harvested area in 2007-2008 are rapeseed, wheat and corn, whose area increased, although some of those increases were offset by lower yields. Supplies are at the lowest level since 2003-2004, **carry-out stocks** are forecast at 4.9 Mt, up from 3.6 Mt in 2006-2007.

Wheat

Production decreased as lower yields, due to poor growing conditions, more than offset higher seeded area. The majority of the wheat grown in Ukraine is of the hard red winter variety, and about

80% is considered milling quality by Ukrainian standards. In recent years, Spain, Israel, Tunisia, Italy and Korea have been the major markets for Ukrainian wheat. With lower **supplies**, **exports** are expected to decrease considerably. **Carry-out stocks** are forecast to increase slightly.

Corn

Production increased due to a combination of higher seeded area, lower harvest losses, and a small improvement in yields. Despite higher **supplies**, **exports** are forecast to remain at 1.0 Mt. The temporary removal of the export quota during the crop year had a minimal effect on corn exports. **Feed use** and **carry-out stocks** are expected to increase.

Barley

Production decreased to 6.0 Mt, from 11.4 Mt in 2006-2007, due to lower seeded area and yields. Spring barley seeded area, which accounts for about 85% of total barley production, due to the uncertainty regarding future export quotas. In the past, export quotas have caused large amounts of unsold stocks to accumulate on farms and at the elevators. Faced with such uncertainty, farmers would then be inclined to sow crops such as sunflowerseed, peas and soybeans because they are easier to market.

Ukraine's main customers for barley are Saudi Arabia, Jordan, Iran and Syria. **Supplies** are expected to be at the lowest level since 1996-1997, and

UKRAINE: BARLEY SUPPLY AND DISPOSITION							
	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....million tonnes.....							
Carry-in Stocks	1.3	1.4	0.6	1.0	1.2	1.0	0.7
Production	10.4	6.9	11.1	9.0	11.4	6.0	10.0
Imports	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>	<u>0.1</u>	<u>0.0</u>
Total Supply	11.7	8.3	11.7	10.1	12.6	7.0	10.7
Exports	2.9	1.5	4.3	4.0	5.1	0.7	4.0
Feed Use	5.5	4.7	4.7	3.2	4.8	3.9	4.3
Food Use	<u>1.9</u>	<u>1.5</u>	<u>1.7</u>	<u>1.7</u>	<u>1.7</u>	<u>1.7</u>	<u>1.7</u>
Total Use	10.3	7.7	10.7	8.9	11.6	6.3	10.0
Carry-out Stocks	1.4	0.6	1.0	1.2	1.0	0.7	0.7

Numbers may not add due to rounding.
f: forecast, USDA
Source: USDA (FAS)

UKRAINE: SUNFLOWERSEED SUPPLY AND DISPOSITION

	2002	2003	2004	2005	2006	2007	2008
	-2003	-2004	-2005	-2006	-2007	-2008	-2009f
.....million tonnes.....							
Carry-in Stocks	0.0	0.0	0.1	0.1	0.0	0.1	0.1
Production	3.3	4.3	3.1	4.7	5.3	4.2	4.3
Imports	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>
Total Supply	3.3	4.3	3.2	4.8	5.3	4.3	4.4
Exports	0.3	0.9	0.0	0.2	0.3	0.2	0.2
Feed Use	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Food Use	<u>2.8</u>	<u>3.2</u>	<u>3.0</u>	<u>4.6</u>	<u>4.9</u>	<u>4.0</u>	<u>4.1</u>
Total Use	3.3	4.2	3.1	4.8	5.2	4.2	4.3
Carry-out Stocks	0.0	0.1	0.1	0.0	0.1	0.1	0.1

Numbers may not add due to rounding.
f: forecast, AAFC
Source: USDA (FAS)

exports are forecast at the lowest level since 2003-2004. Ukraine's barley exports are primarily of feed quality. Despite a general shortage of high quality malting barley for the brewing industry, **imports** have remained relatively low for the past couple of years, about 20,000 tonnes per year. **Carry-out stocks** are expected to be at the lowest level since 2003-2004.

Sunflowerseed

Production decreased due to lower seeded area and yields. As a result, domestic **crush** is also expected to decrease as are **exports** which have also been affected by a restrictive export quota that was imposed during the crop year.

OUTLOOK: 2008-2009

Production of the major field crops is forecast at 46 Mt, up significantly from the estimated 34 Mt in 2007-2008, based on the expectation of record high seeded area and trend yields. With **supplies** expected to increase from an estimated 38.5 Mt in 2007-2008, to a forecast 51.0 Mt, **exports** are forecast at 14.3 Mt, up from 3.7 Mt in 2007-2008. **Carry-out stocks** are forecast at 5.7 Mt, up from 4.9 Mt in 2007-2008, and the highest level since 2002-2003.

For **wheat**, **production** and **supply** are expected to increase due to higher

seeded area and yields. **Exports** are forecast to increase to 6.0 Mt, from 0.7 Mt in 2007-2008.

For **corn**, **production** and **supply** are expected to increase due to higher expected yields. **Exports** are forecast to increase to 2.5 Mt, from 1.0 Mt in 2007-2008.

For **barley**, **production** and **supply** are expected to increase due to higher seeded area and yields. **Exports** are forecast to increase to 4.0 Mt, from 0.7 Mt in 2007-2008.

For **sunflowerseed**, **production** and **supply** are expected to increase slightly due to a small increase in seeded area. **Exports** are expected to increase marginally.

Prospects for Canada

Canada is expected to maintain the current level of agricultural trade with Ukraine in 2008-2009. These opportunities are primarily in the area of seafood and products of animal origin, including food industry waste and residues. Grains and oilseeds exports to Ukraine are highly dependent on the size of the domestically produced crop, given their propensity to consume home grown versus imported, even if the quality is substandard. Canada has a well-established reputation for the quality of its grains and oilseeds

exports, which typically fetch a premium price on world markets.

In addition to the growing demand for farm equipment, genetic materials, agricultural technology and live animals, there are other opportunities to increase exports to Ukraine as incomes and demand for value-added, top quality food products continue to increase. In particular, the packaged food market has shown good growth in the past five years and the trend is expected to continue.

But there are significant challenges to accessing this import market, in particular, strong competition from domestic producers who are able to provide fresh products with no additives, and the fact that Ukraine is increasing imports from nearby CIS, and the EU. High shipping and distribution costs, and import tariffs add to the difficulty of accessing the agri-food market in Ukraine. However, now that Ukraine is a member of the WTO, expectations are that efforts will be made to alleviate some of the difficulties.

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