



Bi-weekly Bulletin

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UKRAINE

Ukraine is one of the major grains and oilseeds producers in the world. As such, Ukraine has the potential to affect the markets for agricultural commodities as it did in 2001 and 2002 when world wheat prices were unexpectedly pressured by a substantial amount of low priced wheat from Ukraine. Since then, commodity traders have been careful not to overlook the potential for a similar occurrence when formulating their price forecasts. This issue of the *Bi-weekly Bulletin* looks at the situation and outlook for Ukraine's grains and oilseeds sector, and examines the implications for Canada's grains and oilseeds sector.

BACKGROUND

Economy

Ukraine is well positioned in terms of its endowment of natural resources and the potential for exploiting those resources. Specifically, it is the rich farmlands that characterize its steppe that have long been considered the "breadbasket" of Eastern Europe, producing much of the wheat, corn, barley, rye, and sunflowers grown in the region.

Ukraine also holds large reserves of minerals and important sources of power for its well-developed industrial base. Some of the best known products of its industrial sector include machinery, steel, rolled metal, farm equipment, building materials, fertilizers, and other agricultural chemicals. Western Ukraine is largely agricultural, but it has significant oil reserves in the areas around Drohobych and Boryslav, natural gas near Dashava, and coal deposits in the area near Novonolynsk. To accommodate some of Ukraine's transportation needs, Odesa is the primary port located on the Black Sea for receiving and dispatching marine shipments.

The collapse of the Soviet Union in 1991 was largely responsible for the dramatic and catastrophic decrease in Ukraine's economic well-being during the 1990s. Between 1990 and 1999, Ukraine's Gross Domestic Product (GDP) fell by about 60%, with the largest annual decrease occurring in 1994 when GDP fell by about 23%. The first evidence of economic recovery appeared in 2000, and the Ukrainian economy has since experienced several consecutive years of positive growth, with GDP growth peaking at a record 12% in 2004. The improvement in Ukraine's economic performance is largely attributed to the ability of Ukrainian

enterprises to adapt to the realities and demands of a market economy.

However, Ukraine's economic performance ranks well below that of other central European countries. In 2003, Ukraine's real per capita GDP was estimated at US\$5,200; half of that in neighboring Poland and well below that in Russia, Turkey and Kazakhstan. Ukraine's low level of per capita GDP is suspected of being at least partially offset by the existence of a significant "unofficial" economy.

Ukraine's exports contribute to about 40% of its economic activity, which is incidentally similar to the situation in Canada. Although there is some vulnerability associated with Ukraine's dependence on foreign markets, as in Canada, the possibilities for growth are virtually limitless.

Agriculture

Traditional industrial activity continues to contribute to Ukraine's economy, but it is agriculture that has performed particularly well in recent years. For 2004, the growth in the agricultural sector is estimated at 20%, exceeding the growth in the construction sector of 18%.

There are some restrictions to Ukraine's ability to realize economic and financial efficiency for its agricultural sector. For instance, the number of functioning tractors, combines, and field implements continues to fall short of what is required. Furthermore, artificially depressed prices for farm commodities, a product of government policy, have resulted in increased farmer debt loads and this has made it difficult for many farmers to purchase the equipment they need for production efficiency.

A longer-term consequence of persistently low prices is that much of the land currently held by small farmers could fall under the ownership of large scale operators as small farmers are forced to sell off their land to pay down debt. The ban on buying and selling land is scheduled to be lifted in 2005.

There is also a concern that, should Ukraine be successful in gaining membership to the World Trade Organization (WTO), it might not reap nearly the full benefits they expect from acquiring that status. Detractors argue that, since 1994 when it first applied for membership in the WTO, Ukraine has done little to adjust its primary production and processing activities to meet world quality standards.

CANADA/UKRAINE TRADE

In 2004, bilateral trade between Canada and Ukraine was CAN\$218 million (M), up from CAN\$144M in 2003. During this period, Ukrainian exports to Canada more than doubled to CAN\$161M, while Canadian exports to Ukraine decreased slightly to CAN\$57M. The largest increase in Ukraine's exports to Canada was that of flat, hot-rolled products of iron and non-alloy steel. Some of the major Canadian exports to Ukraine are textile fabrics, motor vehicles, frozen fish, farm equipment, and poultry products.

At a meeting in April 2004 between Canada's Ambassador to Ukraine, Andrew Robinson, and Ukraine's Minister of Economy and European Integration of Ukraine, Mykola Derkach, Ukraine emphasized its interest in expanding trade relations with Canada on a bilateral basis, as well as on a multilateral basis, particularly within the framework of the WTO. In preparation for potentially joining the WTO, Ukraine has already signed

25 agreements with member countries on market access.

Ukraine is particularly interested in attracting foreign investment from Canada, especially given that general climate for foreign investment in Ukraine has improved considerably in recent years. On a more negative note, Ukraine has experienced one of the lowest levels of Foreign Direct Investment in Eastern Europe but, with recent positive developments in the Ukrainian economy, there has been increased interest from foreign investors.

Business Environment

Privatization and foreign investment has proceeded slowly, relative to other former communist countries. Ukraine's limited progress is attributed to over-regulation and state interference, most of which is aimed at protecting existing enterprises from domestic competition and foreign ownership. Studies by the International Monetary Fund and the World Bank suggest higher levels of corruption in Ukraine than in any other nearby country.

Ukraine's Seed Market

Ukraine is a net importer of planting seeds, most of which are field crop seeds. Seed import procedures are relatively complex but not insurmountable if properly coordinated. Imports are regulated by several legislative acts including the Laws on Seeds, Plant Quarantine, Protection of Plant Varieties, and Sanitary and Epidemiological Well-being of the Ukrainian Population. One time permits may also be issued for varieties that are not included in the State Register of Plant Varieties.

Ukraine's imports of field crop seeds are, in order of value, corn, sunflower, soft wheat, rapeseed, barley, sorghum, flax, hard wheat, and soybeans. In 2003-2004, Ukraine's

imports of field crop seeds totaled US\$40M, up from US\$18M in 2002-2003. United States (US) suppliers have captured about 9% of this burgeoning seed market by capitalizing on the higher Euro relative to the US dollar. The Ukrainian *hryvnya* is unofficially pegged to the US dollar, which currently makes it easier for the US to compete with European Union (EU) suppliers despite the higher transportation costs the US has relative to its EU competitors. For 2004-2005, Canada's exports of field crop seeds to Ukraine are forecast at well over CAN\$80,000, more than triple the 2003-2004 figure.

SITUATION

For 2004-2005, Ukraine produced, as estimated by the United States Department of Agriculture (USDA), a record 41.5 million tonnes (Mt) of its major field crops, specifically barley, wheat, corn, oats, and sunflower seed. The large crop is attributed to a record harvested area and a near record yield for the 2004-2005 year. Incidentally, Ukraine's total production of major field crops for 2004-2005 is nearly double its 2003-2004 production which was seriously affected by poor growing conditions.

Wheat

Ukraine's *wheat*, which has traditionally been of relatively low quality and typically destined for the feed markets in North Africa, the EU, South Korea, Israel, the Philippines, and Indonesia. But there are exceptions.

For 2004-2005, Ukraine's wheat *production* is estimated at 17.5 Mt, nearly five times the

amount of wheat produced in 2003-2004 when yields and harvested area were dramatically reduced by poor weather. Despite a record yield in 2004-2005, Ukraine's wheat production is significantly less than in 2001-2002 when Ukraine produced a record 21.3 Mt of wheat on a record 6.9 million hectares (Mha) of land.

For 2004-2005, Ukraine's *exports* are estimated 4.2 Mt, following a disastrous year when its exports were virtually non-existent. However, exports for 2004-2005 are still considerably less than in 2001-2002 and 2002-2003 when Ukraine exported 5.5 Mt and a record 6.6 Mt, respectively. *Feed use* for 2004-2005 is estimated at 2.2 Mt, up from 0.2 Mt in 2003-2004, and *carry-out stocks* are estimated at 2.7 Mt, up from 1.1 Mt the previous year.

Wheat Exports to Canada

In 2001-2002 and 2002-2003, which were unusually dry years in western Canada, about 70,000 tonnes (t) and 150,000 t, respectively, of Ukrainian wheat were exported to Canada, most of which landed in Quebec. Since then, there have been virtually no exports of Ukrainian wheat to Canada.

UKRAINE: MAJOR FIELD CROPS* SUPPLY AND DISPOSITION				
	2002	2003	2004	2005
	-2003	-2004	-2005	-2006
.....thousand tonnes.....				
Carry-in Stocks	5,315	5,611	2,839	5,534
Production	39,313	22,477	41,450	36,800
Imports	853	3,408	112	142
Supply	45,481	31,496	44,401	42,476
Exports	10,607	3,780	10,655	10,695
Feed Use	13,183	10,546	13,161	11,950
Other	16,080	14,331	15,051	15,670
Total Use	39,870	28,657	38,867	38,315
Carry-out Stocks	5,611	2,839	5,534	4,161

* Barley, wheat, corn, oats, and sunflower seed
Source: USDA-FAS, July 2005

UKRAINE: WHEAT SUPPLY AND DISPOSITION				
July-June crop year	2002	2003	2004	2005
	-2003	-2004	-2005	-2006
.....thousand tonnes.....				
Carry-in Stocks	2,961	3,258	1,131	2,680
Production	20,556	3,600	17,500	18,000
Imports	810	3,365	50	50
Supply	24,327	10,223	18,681	20,730
Exports	6,569	66	4,200	5,000
Feed Use	4,000	225	2,200	3,300
Other	10,500	8,801	9,601	10,000
Total Use	21,069	9,092	16,001	18,300
Carry-out Stocks	3,258	1,131	2,680	2,430

UKRAINE: BARLEY SUPPLY AND DISPOSITION				
October-September crop year	2002	2003	2004	2005
	-2003	-2004	-2005	-2006
.....thousand tonnes.....				
Carry-in Stocks	1,324	1,424	796	1,246
Production	10,364	6,850	11,100	8,500
Imports	19	39	50	80
Supply	11,707	8,313	11,946	9,826
Exports	2,883	1,517	4,300	4,000
Feed Use	5,500	4,500	4,700	3,500
Other	1,900	1,500	1,700	1,500
Total Use	10,283	7,517	10,700	9,000
Carry-out Stocks	1,424	796	1,246	826

Source: USDA-FAS, July 2005

Following discovery of two regulated plant pests (flag smut and dwarf bunt) in three consecutive shipments, the Canadian Food Inspection Agency cancelled in December, 2002 all import permits for Ukrainian wheat entering Canada. In 2004, a team of Ukrainian plant inspectors came to Canada to learn ways and procedures to minimize the risk of pests in grain handling. Government officials continue to work with their Ukrainian counterparts to address this issue.

Barley

For 2004-2005, Ukraine's barley **production** is estimated at a record 11.1 Mt, up considerably from 6.9 Mt in 2003-2004, when barley yields were the lowest in recent history. **Exports** for 2004-2005 are estimated at a record 4.3 Mt, nearly triple the 2003-2004 figure, and **carry-out stocks** are estimated at 1.2 Mt, up from 0.8 Mt in 2003-2004.

Corn

For 2005-2006, Ukraine's corn **production** is estimated at a record 8.8 Mt, up significantly from 6.9 Mt in 2003-2004. The increase is due to a combination of a record yield and record harvested area. As a result of record supplies, **exports** are estimated at a record

2.1 Mt, **feed use** is estimated at a record 5.3 Mt, and **carry-out stocks** are also estimated at a record 1.6 Mt.

Oats

For 2004-2005, Ukraine's oat **production** is estimated at 1.0 Mt, up slightly from 0.9 Mt during the previous year, as improved yields more than offset slightly lower harvested area. With increased supplies domestic **consumption** is expected to have increased accordingly, to 1.0 Mt. Ukraine typically **exports** very little, if any, of oat production.

Sunflower Seed

For 2004-2005, sunflower seed **production** in Ukraine is estimated at 3.1 Mt, down from 4.3 Mt in 2003-2004, as farmers cut back on area seeded to sunflower seed. With supplies at the lowest level since 2001-2002, 2004-2005 **crush** is at 2.9 Mt, down from 3.2 Mt in 2003-2004. **Carry-out stocks**, as in previous years, are expected to be low.

OUTLOOK

Political and Economic Considerations

The presidential election that occurred in late 2004 is expected to translate into greater political openness and accelerated economic reform in Ukraine. Despite the political and

economic setbacks it has experienced over the past few years, Ukraine has managed to demonstrate its potential as an up and coming world market.

In terms of Ukraine's economic outlook, forecasters are expecting the Ukrainian *hryvnya* to appreciate against the US dollar. Should this occur, depending on the magnitude of the

appreciation, Ukraine's ability to improve its trade balance could be stifled.

Weather Conditions

Crop yields in the major growing areas of Ukraine appear to have been negatively affected by drought, particularly because many of the winter cereal crops were at the critical heading stage at the time of that drought conditions occurred. The situation, however, is not expected to be nearly as serious as weather conditions during the 2003-2004 crop year when crop yields and harvested area were greatly reduced.

Supply, Exports and Feed Use

In Ukraine, feed use is normally about 30% of the available supply of its five major field crops, i.e., wheat, barley, corn, rye and sunflower seed, while exports are about 20%. Historically, exports have decreased to about 10% of the available supply during periods of reduced production.

Feed use for 2005-2006 is forecast at 12.0 Mt, consistent with the 42.5 Mt of available supply of major field crops and lower than the levels recorded in 2004-2005 when supplies were 44.4 Mt.

For 2005-2006, Ukraine is expected to **export** 10.7 Mt of its major field crops, virtually unchanged from the previous year. This is about one-quarter of its total production of major field crops. Of total exports for 2005-2006, wheat and barley are expected to account for about 50% and 40%, respectively.

In addition to lower feed use due to lower available supplies, **carry-out stocks** are also forecast to decrease to 4.2 Mt, from 5.5 Mt in 2004-2005.

UKRAINE: CORN SUPPLY AND DISPOSITION

October-September crop year	2002 -2003	2003 -2004	2004 -2005	2005 -2006
.....thousand tonnes.....				
Carry-in Stocks	940	832	844	1,554
Production	4,180	6,850	8,800	5,500
Imports	23	0	10	10
Supply	5,143	7,682	9,654	7,064
Exports	811	1,238	2,100	1,100
Feed Use	2,800	4,900	5,300	4,400
Other	700	700	700	700
Total Use	4,311	6,838	8,100	6,210
Carry-out Stocks	832	844	1,554	854

UKRAINE: OATS SUPPLY AND DISPOSITION

October-September crop year	2002 -2003	2003 -2004	2004 -2005	2005 -2006
.....thousand tonnes.....				
Carry-in Stocks	85	72	40	35
Production	943	925	1,000	800
Imports	0	2	0	0
Supply	1,028	999	1,040	835
Exports	6	9	5	5
Feed Use	800	800	850	650
Other	150	150	150	150
Total Use	956	959	1,005	805
Carry-out Stocks	72	40	35	30

Source: USDA-FAS, July 2005

UKRAINE: SUNFLOWER SEED SUPPLY AND DISPOSITION

	2002 -2003	2003 -2004	2004 -2005	2005 -2006
.....thousand tonnes.....				
Carry-in Stocks	5	25	28	19
Production	3,270	4,252	3,050	4,000
Imports	1	2	2	2
Supply	3,276	4,279	3,080	4,021
Exports	338	950	50	590
Feed Use	83	121	111	100
Crush	2,800	3,150	2,870	3,270
Other	30	30	30	40
Total Use	3,251	4,251	3,061	4,000
Carry-out Stocks	25	28	19	21

Source: USDA-FAS, July 2005

UKRAINE: INTERNATIONAL DEVELOPMENT

Ukraine is a priority country for AAFC's international development activities. Canada was a significant contributor to election observation missions in 2004. Ukraine is also one of the 25 priority countries identified by the Canadian International Development Agency (CIDA) in April 2005.

AAFC undertook a needs assessment study in Ukraine in October, 2004, identifying a broad range of opportunities for capacity building and technical assistance from Canadian expertise, which are currently being reviewed. Two projects are already underway. The Saskatchewan Trade and Export Partnership is working with AAFC, with funding from CIDA's Facility for Agriculture Reform and Modernization program to provide irrigation assistance. Secondly, AAFC is developing a generic training module for Business Risk Management support, and Ukraine is being used as a case study to help develop that module.

CIDA is also supporting a Grain Quality and Handling Project, involving the Canadian Grain Commission, which is intended to improve grain quality in Ukraine and to implement a system of cash advance loans, through warehouse storage receipts, in order to allow for small farmers and large-scale producers to compete on the international market and to expand domestic markets. It is valued at \$3.215 million and running from 2003 to 2007.

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Wheat

For 2005-2006, Ukraine's wheat **production** is forecast by USDA at 18.0 Mt, up slightly from 17.5 Mt in 2004-2005, as increased harvested area more than offsets lower yield forecasts. Projections for higher **carry-in stocks** further contribute to the increased wheat supply expected in 2005-2006.

Exports are forecast at 5.0 Mt, up from 4.2 Mt in 2004-2005, and **feed use** is forecast at 3.3 Mt, up from 2.2 Mt in 2004-2005. **Carry-out stocks** are forecast at 2.4 Mt, down from 2.7 Mt in 2004-2005.

Barley

For 2005-2006, barley **production** is forecast at 8.5 Mt, due to significantly lower harvested area and yields. The lower production figure is expected to more than offset high **carry-in stocks**, resulting in a relatively low supply of barley for 2005-2006. However, **exports** are forecast to decrease marginally from 4.3 Mt in 2004-2005, to 4.0 Mt in 2005-2006. **Feed use** is forecast at 3.5 Mt, down from 4.7 Mt in 2004-2005 and **carry-out stocks** are forecast at 0.8 Mt, down from 1.2 Mt in 2004-2005.

Ukraine's **barley** exports are primarily feed quality. In fact, Ukrainian malt producers have often complained about shortages of high quality malting barley required to meet the industry's strict malt specifications. This offers some explanation as to why a near record 80,000 t of barley is expected to be imported by Ukraine in 2005-2006, at a time when its barley exports are at a near record 4.0 Mt. Ukraine's primary customers for its barley are: in order of importance, Saudi Arabia; the Middle East (Israel, Syria,

Jordan); North Africa; Japan; the EU; Iran; and Former Soviet Union countries.

Corn

For 2005-2006, corn **production** is forecast at 5.5 Mt, down from 8.8 Mt in 2004-2005, due to significantly lower harvested area and a decline in yields. With lower supplies expected for 2005-2006, **exports** are forecast at 1.1 Mt, down from 2.1 Mt, and **feed use** is forecast at 4.4 Mt, down from 5.3 Mt. **Carry-out stocks** for 2005-2006 are forecast at 0.9 Mt, down from 1.6 Mt in 2004-2005.

Oats

For 2005-2006, oat **production** is forecast at 0.8 Mt, down from 1.0 Mt in 2004-2005, due to a combination of lower harvested area and a decline in yields. With a significantly lower supply of oats forecast for 2005-2006, **feed use** is forecast at 0.7 Mt, down from 0.9 Mt in 2004-2005, but **carry-in stocks** are expected to remain virtually unchanged at 0.03 Mt.

Sunflower Seed

For 2005-2006, sunflower seed **production** is forecast at 4.0 Mt, up from 3.1 Mt in 2004-2005 and the 5-year average of 3.3 Mt. With the expected increase in supplies in 2005-2006, **exports** are forecast at 0.6 Mt, up dramatically from 0.05 Mt in 2004-2005. **Domestic use** is forecast at 3.4 Mt, up from 3.0 Mt in 2004-2005, and **carry-out stocks** are expected to remain virtually unchanged from previous years.

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