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New Measures Governing Export of Grain and Oilseeds

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Approved By:

Ann E. Murphy

Prepared By:

Yuliya Dubinyuk

Report Highlights:

The Government of Ukraine announced it will require all export contracts to be registered at the State designated Exchange starting February 1, 2011. Grain traders fear this is another move to restrict exports and an escalation of restrictions into the oilseed sector.

General Information:

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The Government of Ukraine (GOU) announced on January 18, 2011 that starting February 1, all export contracts for a variety of agricultural commodities including wheat, corn, barley, soybeans, sunflower seeds and oil, rapeseeds, and others (See Appendix 1 for a complete list of commodities) must be registered with the GOU in order to be concluded. This announcement names the Agricultural Exchange or designated exchanges as the authority for registration of export contracts. The Agricultural Exchange was created by Cabinet of Ministers Resolution #1285 dated December 26, 2005.

The Government of Ukraine has restricted grain from leaving ports since late summer 2010 when the GOU began requiring new and unprecedented steps for certifying that actual physical grain loaded on vessels in ports of Ukraine matched corresponding contract specifications. That requirement was replaced by quantitative restrictions on October 18, 2010 when the first export quota was announced for wheat, barley, corn, rye, and buckwheat. A total of two official quota announcements were issued to date and allocations of quotas were distributed (See GAIN Report UP1026, GAIN Report UP1028, GAIN Report UP1033, and GAIN Report UP1101).

In addition, in the last few weeks media quoted GOU officials, the Minister of Agrarian Policy and Food (MinAg) in particular, saying that the grain export quota quantities may be increased in the coming month and that the quota regime may be abolished as of April 2011. The latest projection for quota increase according to Minister Prysiazniuk is for an additional 1 million metric tons (MMT) of wheat and 1.7 MMT of corn.

According to grain traders, they suspect that the latest GOU announcement about the mandatory registration of export contracts at the state controlled Agricultural Exchange and its designees is another threat to their ability to freely engage in export activities in Ukraine. The list of commodities which are subject to registration is much longer than the list of commodities declared to be subject to grain export quotas in Ukraine this year.

Moreover, Director of the State enterprise Khlyb Investbud - Robert Broudi – informed the public at a press conference on January 26, 2011 that the company intends to export over 2 MMT of grain by current Marketing Year end. Grain would be exported under the intergovernmental agreements to Belorussia (600,000 Metric Tons), Russia (500,000 MT), Armenia (300,000 MT), and Georgia (150,000 MT) and some would be exported under private contracts. He also indicated that the company has over 2 MMT of grain in stock (no specifics as to the kind of grains and quantities were released).

Khlyb Investbud is becoming an active trading division of a larger State-run enterprise State Food and Grain Corporation of Ukraine (established by Resolution #764 of the Cabinet of Ministers of Ukraine, dated August 10, 2010, to replace the failing state grain procurement enterprise Khlyb Ukraini). Earlier, at the grain export quota distributions Khlyb Investbud obtained 22.4% share of wheat quota (224,048.05 MT out of 1,000,000 MT), and 21.8% share of corn quota (653,023.91 MT out of 3,000,000 MT). Also, it was recently announced that Khlyb Investbud is seeking financing in the amount of $125 million for its grain operations. This financing would come as loans from State operated banks, while collateral would be grain stocks held by the Agrarian Fund.

Finally, it has been reported by the media that the GOU is asking grain traders to partially finance the new grain production campaign in Ukraine. It is said that the Ministry of Agrarian Policy and Food of Ukraine is holding a meeting with traders at the end of January to discuss various possibilities for financing agricultural production of grains and oilseeds. It is reported that one possible scenario is implementation of futures contracts between traders and grain producers in Ukraine. This idea is considered by the MinAg as means for supporting Ukrainian agricultural producers this year. As a 'reward' the GOU would 'promise' grain traders a comparable share of the next year's export quota. Grain traders are reportedly asking for better and more precise deliverables (quotas in the current MY) from MinAg.

The MinAg estimated that grain and oilseed production campaigns this year require almost $3 billion, of which, 20% will be financed with loans and about 40% with state budget and regional agricultural production support programs. The remaining 40% (about $1.15 billion) needed for this planting season would come from producers' own funds. It is estimated that to date producers were able to make sales for about $0.125 billion or roughly 11% of the amount needed.

On January 27, 2011 a roundtable meeting is planned by European Bank for Reconstruction and Development, MinAg, and grain industry representatives. At this event the prospects for investment in Ukrainian agriculture will be discussed. The public image of Ukraine and its climate for investment has been greatly affected by the situation with grain trade restrictions this season. International audiences view Ukraine as a riskier and less transparent place to invest because exports are a key to this sector's profitability.

At present, grain export from Ukraine is restricted with quotas set at 3 MMT for corn, 1 MMT for wheat, 0.2 MMT for barley, and 0.001 MMT for buckwheat and 0.001 MMT for rye. Since the beginning of Marketing Year (MY) 2010/11 Ukraine exported about 1.8 MMT wheat, roughly 1.2 MMT corn, and almost 1.9 MMT barley versus 5.3 MMT wheat, 3.3 MMT corn, and almost 3.5 MMT barley for the same period in MY 2009/10. For a more detailed breakdown of exports from Ukraine see GAIN Report UP1101.

Sales are minimal on the domestic market with farmers holding stocks in the hopes for a better market when the quotas expire. It is reported that the domestic (EXW – goods sold at the seller's premises) price of corn was about $190 per MT in mid January, while at Chicago Board of Trade (CBT) corn traded near $260 per metric ton for the same period. Ukrainian 2nd Grade wheat domestically was sold on average at $205 a MT (EXW), while at the same period CBT wheat was valued at about $290.

The winter crop is reportedly in good condition throughout Ukraine. Weather forecast for the near term shows moderate below-freezing point temperatures with snow in some regions in the country. Winter plantings in the fields stay protected by the accumulated snow cover which at this point indicates good prospects for the new year's crop.

Apendix 1: Agricultural Commodities the Prices of Which are State Regulated in Ukraine

1. wheat
2. grain mixture of wheat and rye (meslyn)
3. corn
4. barley
5. rye
6. peas
7. buckwheat
8. millet
9. oats
10. soybean
11. sunflower seeds
12. rapeseed
13. flaxseed
14. hop cones
15. sugar beet
16. wheat flour
17. rye flour
18. meat and offal of slaughtered animals and poultry
19. milk powder
20. butter
21. sunflower oil