Policy Issues and Prospects for Ukraine's Grain Exports

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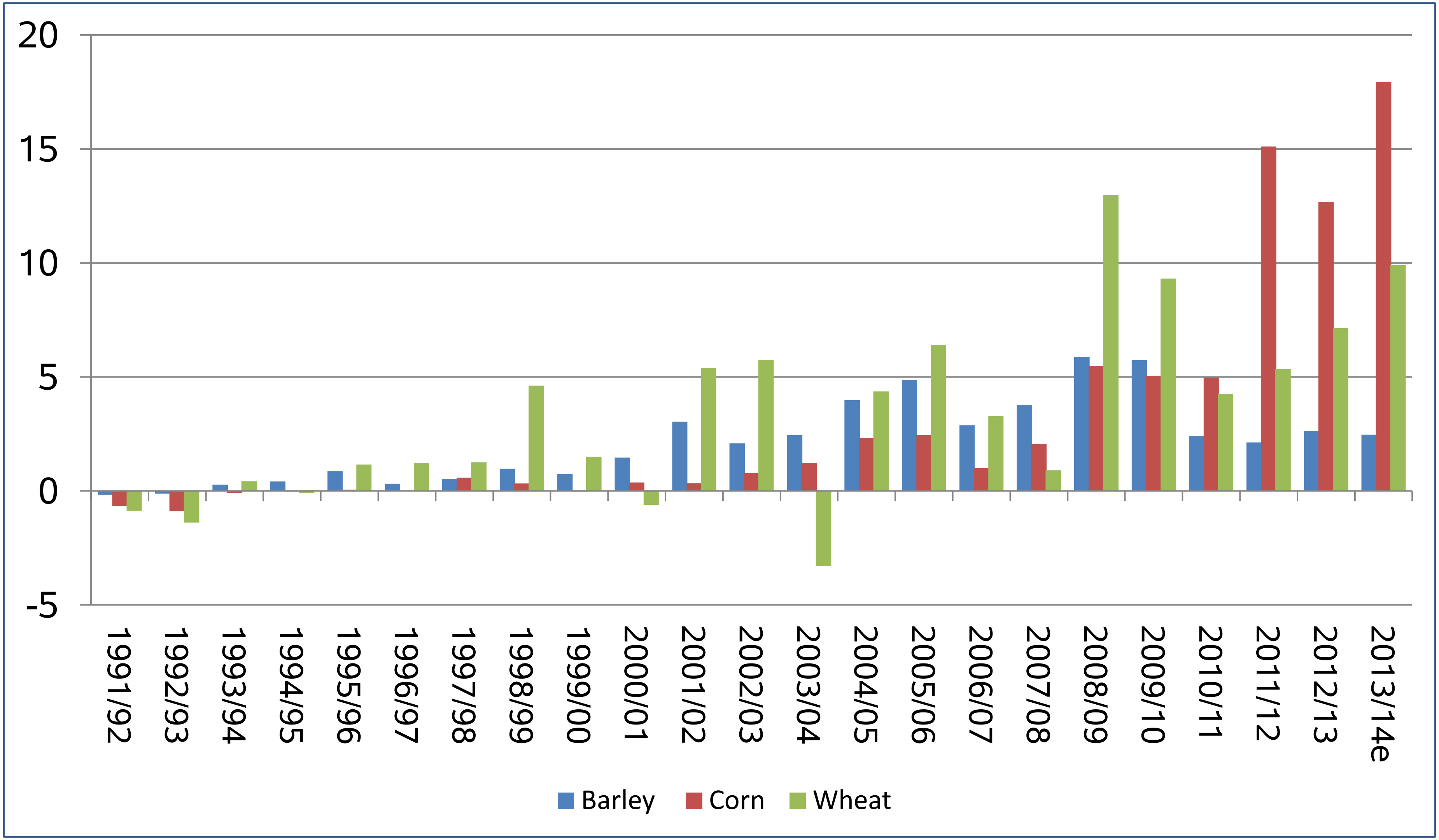
OUTLINE

- Role of Ukraine in World Grain Exports
- Policy Issues
  - Land Reform
  - Farm Structure
  - Agricultural and Trade Policies
  - Infrastructure and Marketing Systems
  - Agricultural Research and Development
  - Role of Corruption
- How does the future look like?

Dynamics of the Ukrainian **net exports** of major grains, mln tons



Source: USDA, December 2013

Land Reform

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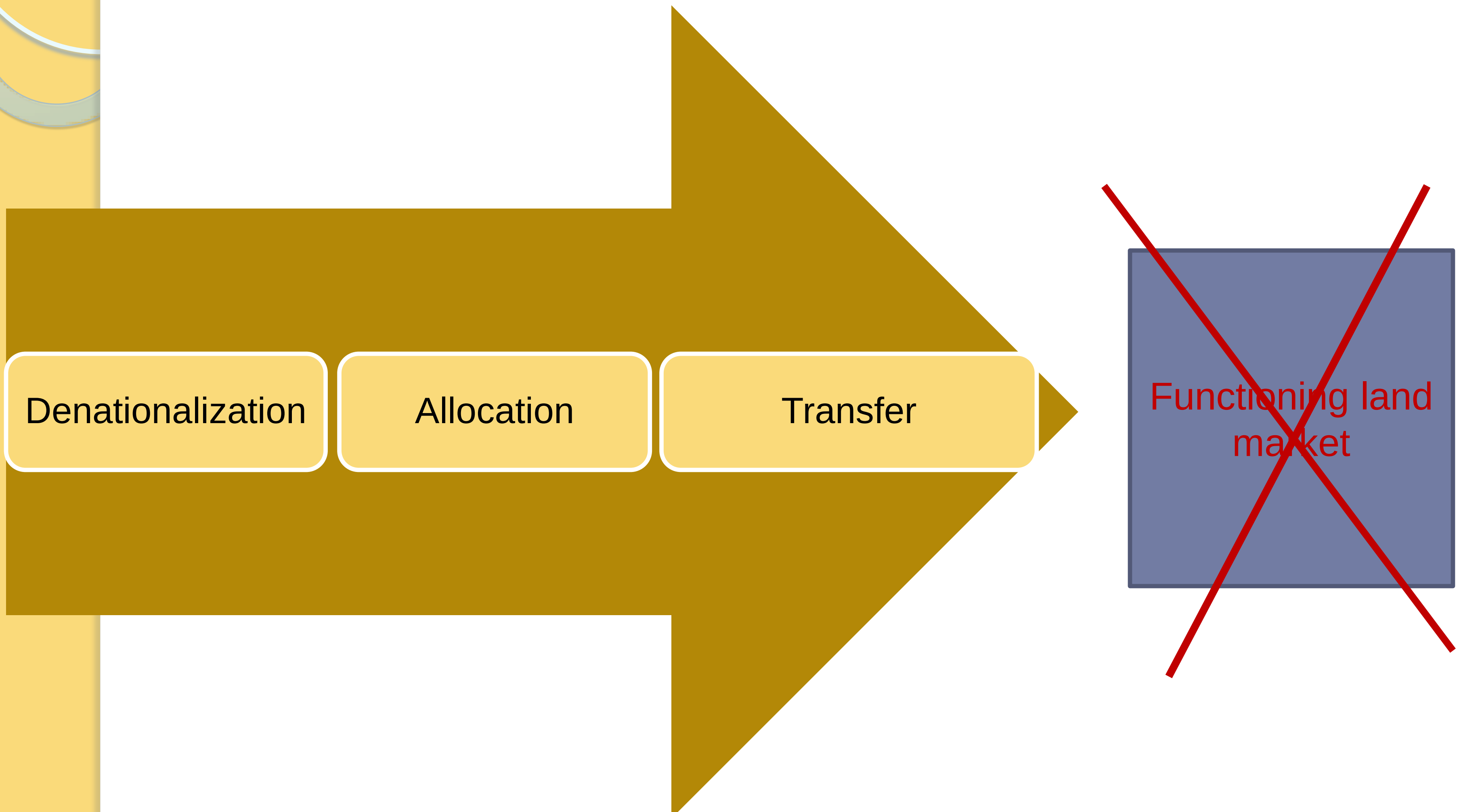
Land Reform Evolution



Land ownership constraints

Land ownership

- Moratorium on purchase and sale of agricultural land in place
  - For the first time moratorium was introduced in 1992 as a part of the Land Code
  - In 2001 it was introduced as a separate law till January 2005
  - However, since 2004, it has been extended for every 2-3 years. In 2012 it was extended until 2016.

Land leasing

- Lease model is simple and functions effectively;
- Terms typically range from 2 to 25 years; average is 5-15 years; under the law lease term cannot exceed 49 years;
- Annual lease rates typically range from $40-$100/ ha, often paid in kind (crops) (2009 est.)

Moratorium on Land Sale

Differences in land reform implementation in the Eastern European countries

Country	Small farms dominated before the USSR	Land restitution to former owners	Land distribution to farm workers	Land market functioning as of 2005	Land market restrictions as of 2005
Albania	yes	no	yes	yes	moderate
Belarus	no	no	no	no	substantial
Bosnia & Herzegovina	no	yes	no	yes	moderate
Bulgaria	yes	yes	no	yes	minimal
Croatia	no	yes	no	yes	minimal
Czech Republic	no	yes	no	yes	minimal
Estonia	yes	yes	no	yes	minimal
FYROM	no	yes	no	yes	moderate
Hungary	no	yes	yes	yes	minimal
Latvia	yes	yes	no	yes	minimal
Lithuania	yes	yes	no	yes	minimal
Moldova	no	no	yes	yes	moderate
Montenegro	no	yes	no	yes	moderate
Poland	no	yes	no	yes	minimal
Romania	no	yes	yes	yes	minimal
Russian Federation	no	no	yes	yes	moderate
Serbia	yes	yes	no	yes	moderate
Slovak Republic	no	yes	no	yes	minimal
Slovenia	no	yes	no	yes	minimal
Ukraine	no	no	yes	no	significant

Source: Compiled by the authors from Wegren (1998), Lerman et al. (2004), Mathijs and Swinnen (2000), and Gerber and Giovarelli (2005)

Farm Structure

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Agricultural Enterprises by Number and Size, 2005 – 2008 - 2011

	Total, 2011	%, 2011	% change from 2008	% change from 2005	Total area sown (1,000 ha), 2011	%, 2011	% change from 2008	% change from 2005
Total number of enterprises	44,919	100.0	-6.43	-11.03	19,493.5	100.0	0.17	5.85
Including:								
Area < 50	24,464	54.5	-8.49	-14.56	536.9	2.8	0.39	-3.57
50 –100	4,236	9.4	1.46	7.68	309.7	1.6	0.98	6.61
100,01–250,00	4,582	10.2	-6.42	-5.78	749.3	3.8	-6.65	-6.36
250,01–500,00	3,199	7.1	-6.97	-10.92	1153.9	5.9	-6.58	-10.96
500,01–1000,00	2,901	6.5	-5.69	-20.54	2091.9	10.7	-5.67	-20.51
1000,01–2000,00	2,777	6.2	-6.81	-18.28	3976.9	20.4	-6.04	-17.99
2000,01–3000,00	1,322	2.9	-3.86	-2.29	3215.9	16.5	-4.26	-2.36
> 3000,00	1,438	3.2	3.20	35.02	7459.0	38.3	10.15	58.78

Source: State Statistics Committee of Ukraine, 2011

Agroholdings

- Agroholdings – large corporate farms that often cover above 100,000 ha of agricultural land and are vertically integrated with processors and/or exporters.
- Agroholdings in Ukraine differ in their location (monoterritorial vs. distributed), degree of vertical integration (the most integrated ones are in sugar industry), and number of integrated enterprises.
- The share of agroholdings in total agricultural production amounted to 17.2% in 2010

Indicator	June 2010	July 2011
Number of holdings	58	79
Land use, 1000 ha	4005	5200
Average size, 1000 ha	69	66
Source: UCAB study: “Largest agricultural companies of Ukraine”		

Why did agroholdings emerge?

- Vast availability of cheap fertile land
- Sufficient level of infrastructure development
- Productive and relatively cheap labor
- Preferential terms of agricultural enterprise taxation
- Upward trend in international commodity prices
- Institutional deficiencies

- A recent study by Deninger et al. (2013)

Nibulon's story

- Has 36 branches in 11 regions of Ukraine, and tills over 70 thousand ha of farmland from 25 thousand renters
- Production (2009/10): 100,000 MT of wheat, 110,000 MT of corn, and 20,000 MT of barley
- Owns transport and grain storage facilities of the capacity of about 1 million MT in 11 regions on Ukraine
- Nibulon's share in Ukrainian grain exports in 2009/10 accounted for 25% for corn, 17% for barley and for wheat.
- Over 18 years of existence, Nibulon has invested in the Ukrainian economy over 545 million USD
- In 2008/09 it launched a new investment process that aims at **reviving river transport in Ukraine**. Its goal is the construction of 8 inland silos and river terminals and increase company's storage capacity to 2 mln tons

Agricultural and Trade Policies

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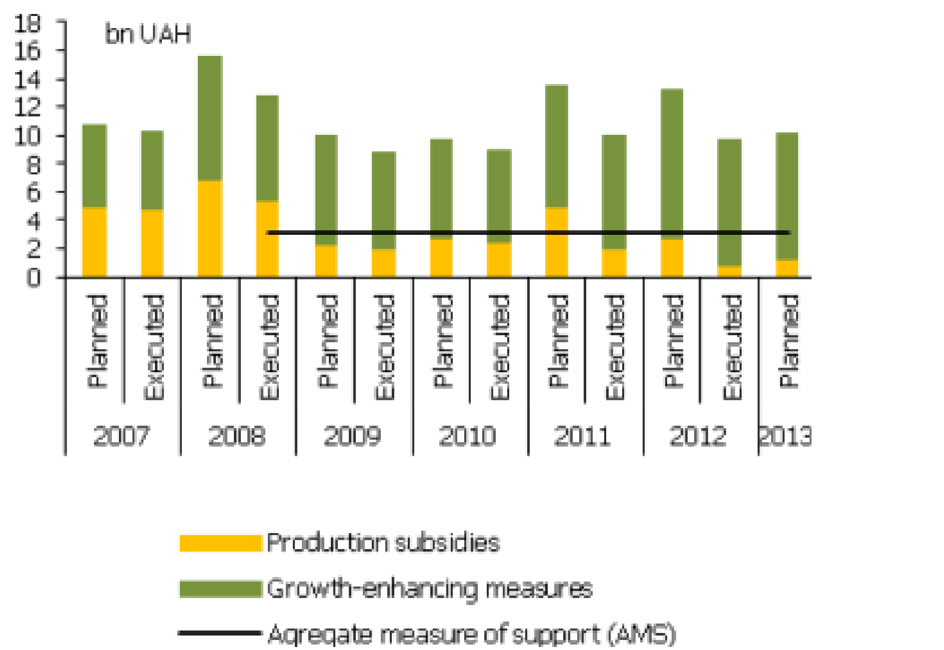
Budget transfers

Figure 1. State support to agricultural sector of Ukraine



Source: own estimation based on State Treasury Reports on State Budget Execution (2008, 2009, 2010, 2011, 2012)

Mechanisms of support

- per hectare payments
- partial reimbursements for the costs of domestically produced machinery and fertilizer
- partial reimbursement of interest rates
- reduction in the cost of insurance premiums

Comparison of estimates of support to agriculture in Ukraine, Brazil, USA and EU, 2008-10 average

	Ukraine	Brazil	USA	EU
Producer support estimate (PSE), %	7	5	9	22
Nominal Protection Coefficient, ratio	1.01	1.03	1.01	1.07
Nominal Assistance Coefficient, ratio	1.07	1.05	1.09	1.28
Producer Support Estimate as % of GDP	1.45	0.41	0.20	0.69

Source: OECD, 2011

Grain Export Policies

Decision	Period	Wheat	Barley	Corn
10/11/2006	10/17/2006-12/31/2006	400	600	600
12/08/2006	12/14/2006-06/30/2007	3	600	500
02/13/2007	02/15/2007-06/30/2007	3	606	30
02/22/2007	02/26/2007-06/07/2007	3	Quotas cancelled	Quotas cancelled
05/22/2007	05/22/2007	Quotas cancelled	-	-
06/20/2007	07/01/2007-10/31/2007	3	3	3
09/26/2007	01/01/2008-03/31/2008	200	400	600
03/28/2008	04/01/2008 – 04/30/2008	200	400	Automatic licensing
04/23/2008	04/2008-07/01/2008	1,200	900	Automatic licensing
05/21/2008	05/21/2008	Quotas and licenses are cancelled		
10/06/2010	10/20/2010-12/2010	500	200	2,000
12/08/2010	12/2010 – 02/2011	1,000	200	3,000
03/30/2011	04/04/2011 – 07/01/2011	1,000	200	5,000
05/2011	05/2011	Quotas are cancelled		
05/2011	05/2011-01/2012	Tariffs are introduced		
10/2011	10/2011	Tariffs cancelled, except for barley (01/01/2012)		
10/10/2011	07/01/2011 – 06/30/2012	Ministry of Agricultural Policy and Food of Ukraine signed a Memorandum of Understanding with the grain exporters; amount of allowed exports established at 24.76 mmt of grain		
07/2012	07/01/2012 – 06/30/2013	Memorandum of Understanding was extended for 2012-13 marketing year, amount of allowed exports established at 24.76 mmt of grain		
11/2012	11/2012 – 06/30/2013	Export amounts under the Memorandum of Understanding were increased by 1.5 mln. tons (for corn only)		
06/2013	07/01/2013 – 06/30/2014	Memorandum of Understanding was extended for 2013-14 marketing year		

Source: UkrAgroConsult (2013); Kobuta *et al.* (2012); FAO-EBRD (2010).

Draft law “on agriculture” 1/2012

- “The key element of the Draft Law is the system of so-called agricultural passports.
- Individual agricultural passports are developed for five years and contain agricultural production standards as well as the five-year planned production and other targets.”
- “Essentially the system of agricultural passports is a return to the principles of central planning of the Soviet era.” Yulia Ogarenko, APD
- Good news – was not implemented

Strategy for the Agricultural Sector Development until 2020

Infrastructure

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State of Ukrainian infrastructure in 2010-13

Railways	Roads	Ports	Storage facilities (both grain and oilseed silos)
• 21,705 km of rail lines • 6 local railways networks • all rail lines are owned by the state company "Ukrzaliznytsya"	• 97.9% of roads are paved • Many roads are in unsatisfactory condition	• Capacity: 30 million tons annually • 10 large and mid-size ports on the Black Sea • 3 ports on the Sea of Azov • 3 Dnieper ports • 3 other river ports • a number of smaller ports along Ukraine's waterline	• Capacity: 36 million tons annually • 15% of the country's silos are state-owned • Storage facilities are not proportionally distributed across the country

Source: Compiled by the authors from Deloitte (2012); World Bank (2013); FAO-EBRD (2010).

Corruption in the marketing chain

Tariffs	Official	Non-official
Government inspection services in agriculture		
Transportation quality certification (inside the country)	$0.4/mt	$1/mt
Transportation quality certification (outside the country)	$0.2/mt	$1/mt
Storage quality certification	$0.07/mt	$2/mt
Veterinary and phytosanitary inspection services		
Phytosanitary certificate	$6/mt	$1-2/mt
Quarantine certificate	$6.5/mt	
International veterinary certificate for feed grains	$1.85/mt	
Regional governments		
Request to transport grain outside of the region (Vinnytsya and Dnipropetrovsk regions)	-	$0.5-1/mt
Trade Department		
Grain origin certificate	-	$1/mt
Department of Motor Vehicles		
Grain transportation	-	$0.5 – 1.5/mt
Rail Services		
Obtaining a rail car		$3-5/mt
	Total	**$10 – 14.5/mt**

In 2012/13 Ukraine exported 22.5 mln tons of grain → $225-326.26 mln.

Source: newspaper "Ukrainska Pravda", 11/2013

Agricultural Research and Development

Research intensity ratio (RIR)= agricultural R&D/agricultural GDP

RIR Ukraine = **0.31%**

Average RIR in Eastern Europe and former USSR = **0.51%**

Lowe middle income countries = **0.39%**

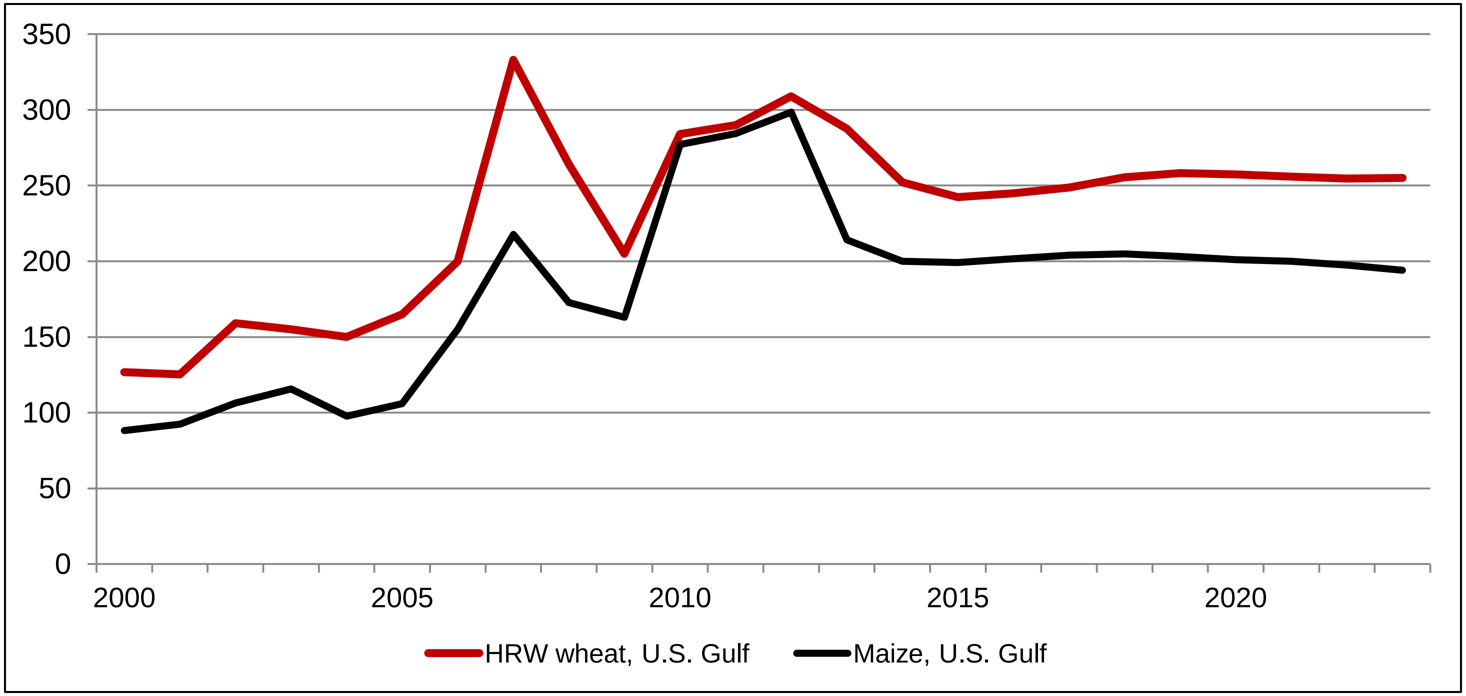
Brazil = **1.52 %**

HOW DOES THE FUTURE LOOK LIKE?

New Status Quo

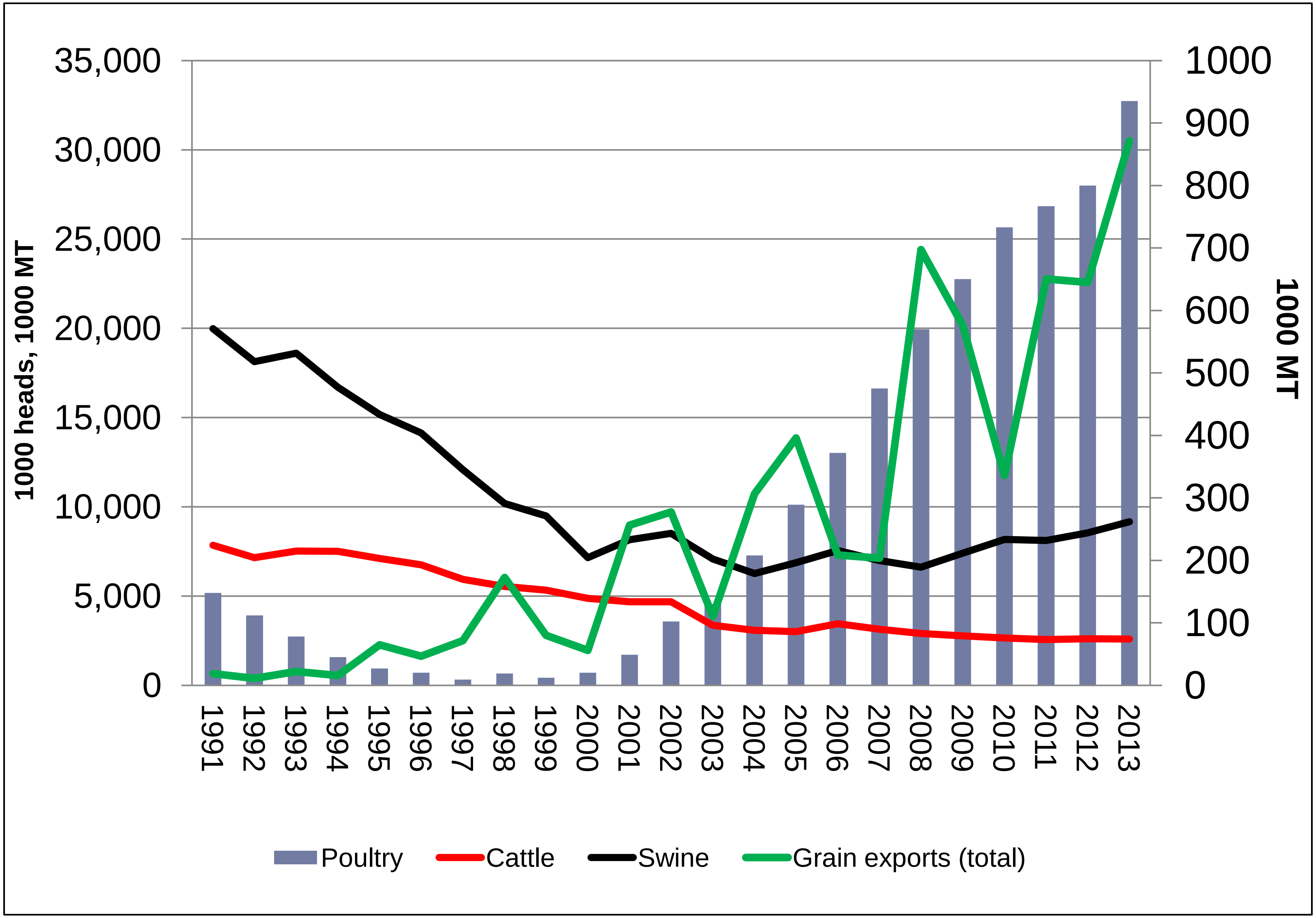
- The market environment - Higher price and price volatility

Hard Red Wheat and Corn prices, U.S. Gulf, $/mt



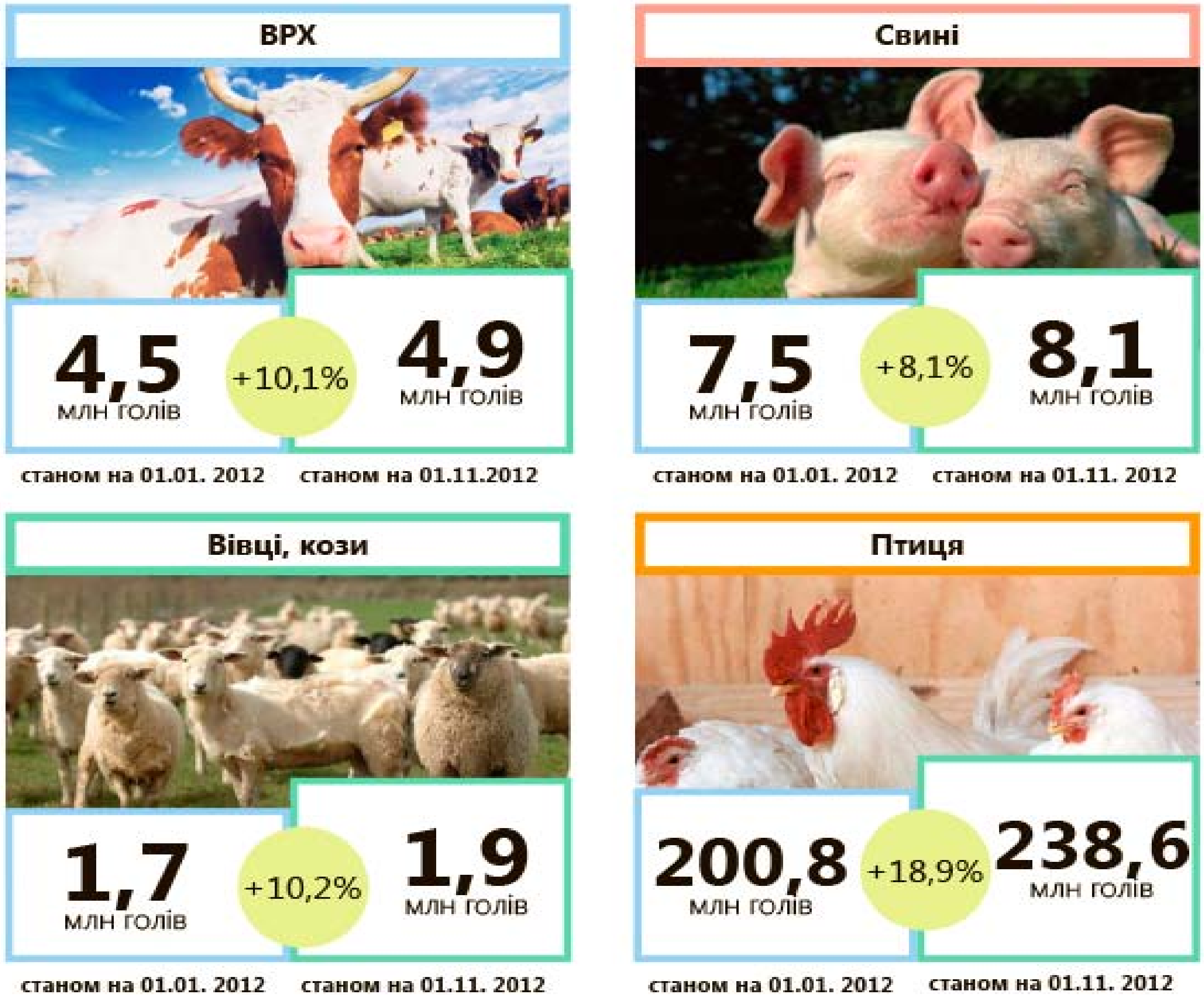
Source: FAPRI-MU baseline update, November 2013

Recovery of Meat Production



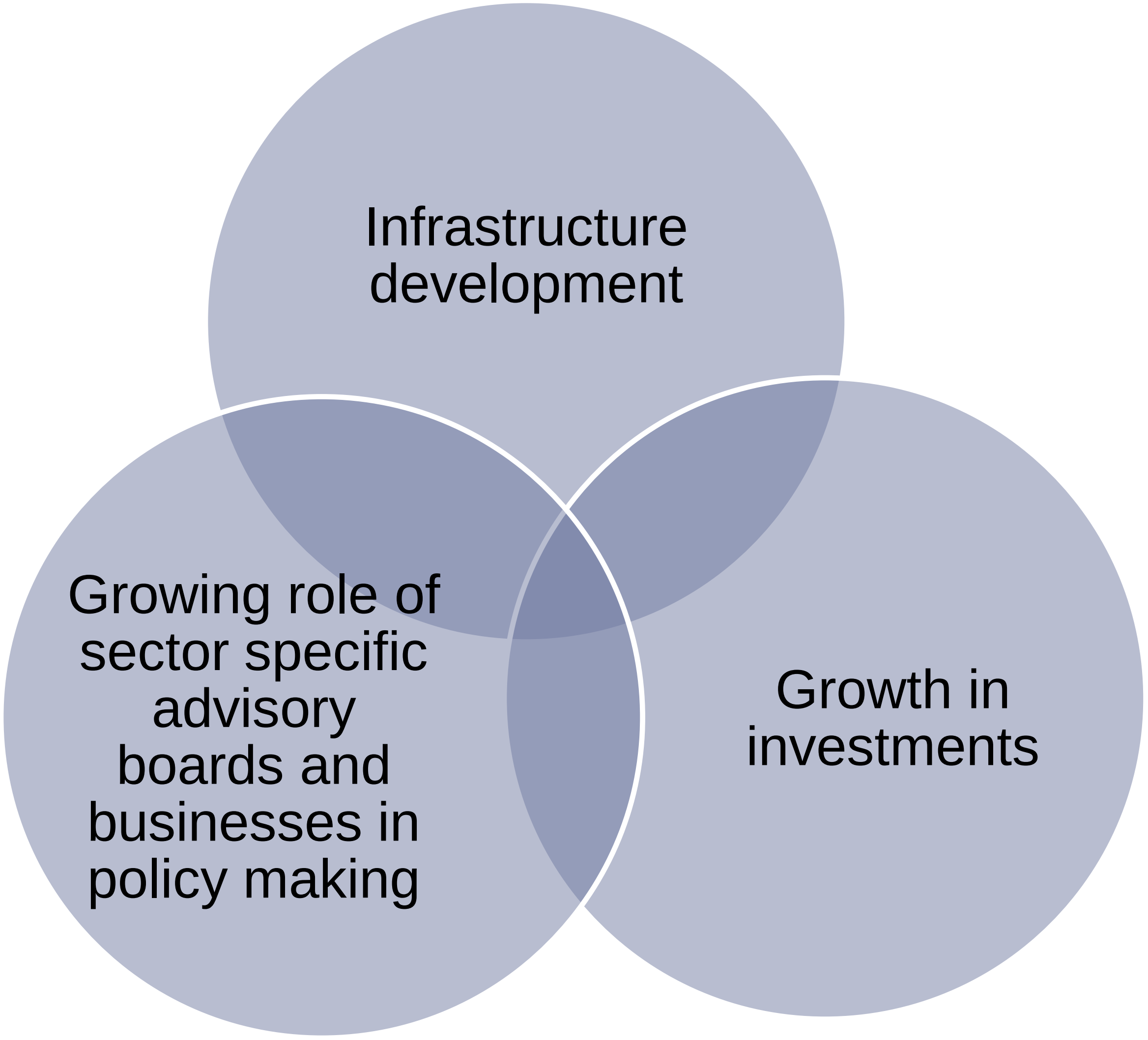
Source: USDA, 2013

Livestock and poultry growth dynamics in 2012



Human capital

(Slow)Positive trends



Old style Kernel grain terminal

Nibulon terminal opened 6/2010

Nibulon River barge Loading 7/2012

November 2013

Thank you!

Questions?