Agricultural sector and market developments: a special focus on Ukraine, Russia and Kazakhstan

Workshop proceedings

Thomas Fellmann and Olexandr Nekhay

2012
Agricultural sector and market developments: a special focus on Ukraine, Russia and Kazakhstan
- Workshop Proceedings -

Thomas Fellmann and Olexandr Nekhay

Disclaimer:
The views expressed are those given and presented at the workshop and may not in any circumstances be regarded as stating an official position of the European Commission or of the other institutions that participated at the workshop.
Preface

This report presents a summary and the presentations of the expert workshop "Developments in agricultural commodity markets: a special focus on Ukraine, Russia and Kazakhstan", organised by the Institute for Prospective Technological Studies (IPTS) of the European Commission's Joint Research Centre (JRC), in close cooperation with the European Commission's DG Agriculture and Rural Development. The workshop took place in Kiev on 26-27 October 2010.

Major objectives of the workshop:

- give an overview on short/medium term perspectives of European agricultural markets in the context of world market development, focussing in particular on Ukraine, Russia and Kazakhstan;
- a special focus was given to the potential and constraints of agricultural production in Ukraine, Russia and Kazakhstan;
- outline the reasons behind observed and prospected market developments;
- present expert knowledge from agri-business and market analysts;
- provide a forum for discussion and for drawing conclusions on key factors for agricultural market development in Ukraine, Russia and Kazakhstan.

Special focus: production potential and constraints in Ukraine, Russia and Kazakhstan

- Production and export potential of the agricultural sector in Ukraine, Russia and Kazakhstan
- Import potentials
- Infrastructure and organisation of the (regional) agricultural markets
- Domestic agricultural policy and government regulations
- Regional transportation/infrastructure (roads, railways, etc.)
- Financing of the agricultural sector
- Sustainability issues

The information gathered at the workshop served as valuable input to further IPTS projects, like for example the extension of the agro-economic model AGMEMOD towards Ukraine and Russia, and specific reports on the current situation and market outlooks for the agri-food sectors in Ukraine and Russia.
Acknowledgements

This report is based on the workshop "Developments in agricultural commodity markets: a special focus on Ukraine, Russia and Kazakhstan". We would like to thank the contributions made by all participants and their consent to sharing their knowledge and ideas:

Victor ANDRIEVSKY Agrarian Market Development Institute, Ukraine
Sergey CHERNYSH SWAP-RURAL Project, Ukraine
Jacques DELINCÉ European Commission, JRC-IPTS, Spain
Serhiy DEMYANENKO Agrarian Confederation, Ukraine
Yuliya DUBINYUK FAS/USDA, U.S. Embassy, Ukraine
Andriy DYKUN Milk Producers Association, Ukraine
Alina FEDYAY Bunge, Ukraine
Sergey FEOFILOV Ukragroconsult, Ukraine
Taras GAGALYUK Association Ukrainian Agribusiness Club, Ukraine
Natalya KORCHAKOVA European Union, Delegation to Ukraine
Leonid KOZACHENKO Agrarian Confederation, Ukraine
Olga KOZAK Institute of Agrarian Economics, Ukraine
Vera MATUSEVICH World Bank Moscow, Russia
John MCCORMACK SWAP-RURAL Project, Ukraine
Olga MELYUKHINA OECD, France
Ann E. MURPHY FAS/USDA, U.S. Embassy, Ukraine
Serhiy NALYVKA Consulting Agency AAA, Ukraine
Dangiris NEKRASIUS European Commission, DG AGRI, Belgium
Dauren OSHAKBAYEV ACEPAS, Kazakhstan
Rakhim OSHAKBAYEV ACEPAS, Kazakhstan
Vladimir PAK ACEPAS, Kazakhstan
Olga RAMAZANOVA APK-Inform Agency, Ukraine
Dmitri RYLKO IKAR, Institute for Agricultural Market Studies, Russia
Eugenia SEROVA FAO Investment Centre, Italy
Alexander SHOKHOV Strategic Consultancy, Ukraine
Andrey SIZOV SOVECON, Russia
Roman SLASTON Association Ukrainian Agribusiness Club, Ukraine
Evgeny SMIRNOV Russian Dairy Union, Russia
Ludwig STRIEWE Toepfer International, Ukraine
Elisabeth SVYATKIVSKA Association Ukrainian Agribusiness Club, Ukraine
Andriy TALAMA J&L Consulting, Ukraine
Alexander TARASSEVYCH FAS/USDA, U.S. Embassy, Ukraine
Andriy TOVSTOPYAT Investment Capital Ukraine LLC, Ukraine
Joerg ZIMMERMANN Ag Growth International, Canada
Table of Contents

Preface........................................................................................................................................I
Acknowledgements.................................................................................................................. II
Table of Contents ...................................................................................................................III
Workshop Agenda................................................................................................................... V
Acronyms ................................................................................................................................IX

Summary........................................................................................................................ 1
1. Production potential and constraints in the region ......................................................... 1
2. Agricultural policy in Ukraine, Russia and Kazakhstan .................................................. 16
3. Milk and meat markets ................................................................................................. 23
4. Cereal markets ............................................................................................................... 32
5. Oilseeds and biofuels markets ...................................................................................... 38
6. Agricultural production and commodity market development in Ukraine, Russia and
   Kazakhstan: Status quo, possibilities, challenges, and risks ......................................... 43

Workshop Presentations ................................................................................................... 47

Introduction and background of the workshop
Jacques Delincé, Thomas Fellmann, Olexandr Nekhay (JRC-IPTS).................................. 48

EU Assistance to Ukraine in the field of Agriculture, Food Safety and Rural
Development
Natalya Korchakova (Delegation of the EU to Ukraine, Ukraine)....................................... 49

Farm structure and agricultural landscape in the region
Dmitri Rylko (IKAR, Russia) ................................................................................................. 51

The role of agriculture for rural development
John McCormack (SWAP-RURAL Project, Ukraine)............................................................ 55

Land markets in Ukraine
Andriy Talama (J&L Consulting, Ukraine)........................................................................... 57

Implications of a possible bilateral trade agreement between Ukraine and the EU
Olexandr Nekhay (JRC-IPTS, Spain)..................................................................................... 59

Financing of the agricultural sector of Ukraine
Andriy Tovstopyat (Investment Capital Ukraine LLC, Ukraine)........................................... 61

Transport infrastructure of the grain market of the Azov and Black Seas region
Olga Ramazanova (APK-Inform Agency, Ukraine)................................................................. 63

Distribution channels and organisation of the regional agricultural markets
Ludwig Striewe (Toepfer International, Ukraine)................................................................. 65

General overview on domestic agricultural policy and government regulations
in Ukraine, Russia, Kazakhstan and comparison with OECD countries
Olga Melyukhina (OECD, France)......................................................................................... 67

Overview on domestic agricultural policy and government regulations in Kazakhstan
Rakhim Oshakbayev (ACEPAS, Kazakhstan)....................................................................... 68

Overview on domestic agricultural policy and government regulations in Ukraine
Serhiy Demyanenko (Institute for Agribusiness and Rural Development, Ukraine)........... 71
Overview on EU and world milk and meat markets
   Thomas Fellmann (JRC-IPTS, Spain) ........................................................................... 72
Milk and dairy markets in Ukraine
   Olga Kozak (Institute of Agrarian Economics, Ukraine) ........................................... 75
Milk and dairy markets in Russia
   Evgeniy Smirnov (Russian Dairy Union, Russia) ....................................................... 77
Milk and meat markets in Kazakhstan
   Vladimir Pak (ACEPAS, Kazakhstan) ......................................................................... 78
Meat markets in Ukraine
   Elisabeth Svyatkivska (Association Ukrainian Agribusiness Club, Ukraine) .......... 80
Meat markets in Russia
   Dmitri Rylko (IKAR, Russia) .................................................................................... 82
Overview on EU and world cereal markets
   Dangiris Nekrasius (DG AGRI, Belgium) ................................................................. 83
Cereal markets in Kazakhstan
   Rakhim Oshakbayev (ACEPAS, Kazakhstan) ............................................................ 85
Cereal markets in Ukraine
   Sergey Feofilov (Ukragroconsult, Ukraine) ............................................................... 87
Cereal markets in Russia
   Andrey Sizov (SOVECON, Russia) ........................................................................... 90
Overview on EU and world oilseeds and biofuels markets
   Dangiris Nekrasius (DG AGRI, Belgium) ................................................................. 92
Oilseeds markets in Kazakhstan
   Dauren Oshakbayev (ACEPAS, Kazakhstan) ............................................................. 94
Oilseeds and biofuels markets in Ukraine
   Alina Fedyay (Bunge, Ukraine) .................................................................................. 96
Oilseeds markets in Russia
   Andrey Sizov (SOVECON, Russia) ........................................................................... 98
**Workshop Agenda**

**Workshop on**
"Developments in agricultural commodity markets: a special focus on Ukraine, Russia and Kazakhstan"

26/27 October 2010

**Venue:**
President Hotel
Hospitalna Street 12
Kiev, 01023, Ukraine

Organisers: Institute for Prospective Technological Studies
Thomas Fellmann, Olexandr Nekhay, Jacques Delincé, Robert M'barek, Anna Atkinson

<table>
<thead>
<tr>
<th>AGENDA - DAY 1 - 26 OCTOBER 2010</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>09:00</strong></td>
</tr>
</tbody>
</table>
| **09:15** | Welcome. Presentation of participants. Background of workshop  
- Jacques Delincé (JRC-IPTS, Spain) |
| **09:45** | Address of welcome. Agriculture and political dialogue  
- Natalya Korchakova (Delegation of the EU to Ukraine, Ukraine) |
| **10:00** | SESSION 1: PRODUCTION POTENTIAL AND CONSTRAINTS IN THE REGION  
(12 min presentations)  
- Farm structure and agricultural landscape in the region  
  - Dmitri Rylko (IKAR, Russia)  
- Role of agriculture for rural development  
  - John McCormack (SWAP-RURAL Project, Ukraine)  
- Land markets  
  - Andriy Talama (J&L Consulting, Ukraine) |
| **11:15 – 11:45** | Coffee break |
| **11:45** | SESSION 1 (continued)  
(12 min presentations)  
- Implications of a possible bilateral trade agreement between Ukraine and the EU  
  - Olexandr Nekhay (JRC-IPTS, Spain)  
- Financing of agricultural companies in Ukraine  
  - Andriy Tovstopyat (Investment Capital Ukraine LLC, Ukraine)  
- Transport infrastructure  
  - Olga Ramazanova (APK-Inform Agency, Ukraine)  
- Distribution channels and organisation of the regional agricultural markets  
  - Ludwig Striewe (Toepfer International, Ukraine) |
| **13:15 – 14:30** | Lunch break |
Workshop Agenda (Day 1 continued)

Organisers: Institute for Prospective Technological Studies
Thomas Fellmann, Olexandr Nekhay, Jacques Delincé, Robert M'barek, Anna Atkinson

AGENDA - DAY 1 - 26 OCTOBER 2010 (CONTD.)

14:30
SESSION 2: AGRICULTURAL POLICY IN UKRAINE, RUSSIA AND KAZAKHSTAN
(12 min presentations)

- Chair: Natalya Korchakova (Delegation of the EU to Ukraine, Ukraine)
- General overview on domestic agricultural policy and government regulations in Ukraine, Russia, Kazakhstan & its comparison with OECD countries
  - Olga Melyukhina (OECD, France)
- Overview on domestic agricultural policy and government regulations: Kazakhstan
  - Rakhim Oshakbayev (ACEPAS, Kazakhstan)
- Overview on domestic agricultural policy and government regulations: Ukraine
  - Serhiy Demyanenko (Institute for Agribusiness and Rural Development, Ukraine)
- Overview on domestic agricultural policy and government regulations: Russia
  - Vera Matusevich (World Bank Moscow, Russia)
- Discussion
  - All Participants

16:00 – 16:30 Coffee break

16:30
SESSION 3: MILK AND MEAT MARKETS
(10 min presentations)

- Chair: Ann E. Murphy (FAS/USDA, Ukraine)
- Setting the scene and overview on the EU
  - Thomas Fellmann (JRC-IPTS, Spain)
- Milk and dairy markets in Ukraine
  - Olga Kozak (Institute of Agrarian Economics, Ukraine)
- Milk and dairy markets Russia
  - Evgeniy Smirnov (Russian Dairy Union, Russia)
- Milk and meat markets Kazakhstan
  - Vladimir Pak (ACEPAS, Kazakhstan)
- Meat markets in Ukraine
  - Elisabeth Svyatkivska (Association Ukrainian Agribusiness Club, Ukraine)
- Meat markets in Russia
  - Dmitri Rylko (IKAR, Russia)
- Discussion
  - All Participants

18:00 End of day 1
# Workshop Agenda (Day 2)

Organisers: Institute for Prospective Technological Studies  
Thomas Fellmann, Olexandr Nekhay, Jacques Delincé, Robert M'barek, Anna Atkinson

<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>09:15</td>
<td>Opening remarks for day 2</td>
</tr>
<tr>
<td>09:30</td>
<td><strong>SESSION 4: CEREAL MARKETS</strong></td>
</tr>
<tr>
<td></td>
<td>- Chair: Jacques Delincé (JRC-IPTS, Spain)</td>
</tr>
<tr>
<td></td>
<td>12 min presentations</td>
</tr>
<tr>
<td></td>
<td>- Setting the scene and overview on the EU</td>
</tr>
<tr>
<td></td>
<td>- Dangiris Nekrasius (DG AGRI, Belgium)</td>
</tr>
<tr>
<td></td>
<td>- Cereal markets in Kazakhstan</td>
</tr>
<tr>
<td></td>
<td>- Rakhim Oshakbayev (ACEPAS, Kazakhstan)</td>
</tr>
<tr>
<td></td>
<td>- Cereal markets in Ukraine</td>
</tr>
<tr>
<td></td>
<td>- Sergey Feofilov (Ukragroconsult, Ukraine)</td>
</tr>
<tr>
<td></td>
<td>- Cereal markets in Russia</td>
</tr>
<tr>
<td></td>
<td>- Andrey Sizov (SOVECON, Russia)</td>
</tr>
<tr>
<td></td>
<td>12 min presentations</td>
</tr>
<tr>
<td>11:00</td>
<td>Coffee break</td>
</tr>
<tr>
<td>11:30</td>
<td><strong>SESSION 5: OILSEEDS AND BIOFUELS MARKETS</strong></td>
</tr>
<tr>
<td></td>
<td>- Chair: Thomas Fellmann (JRC-IPTS, Spain)</td>
</tr>
<tr>
<td></td>
<td>12 min presentations</td>
</tr>
<tr>
<td></td>
<td>- Setting the scene and overview on the EU</td>
</tr>
<tr>
<td></td>
<td>- Dangiris Nekrasius (DG AGRI, Belgium)</td>
</tr>
<tr>
<td></td>
<td>- Oilseeds markets in Kazakhstan</td>
</tr>
<tr>
<td></td>
<td>- Dauren Oshakbayev (ACEPAS, Kazakhstan)</td>
</tr>
<tr>
<td></td>
<td>- Oilseeds and biofuels markets in Ukraine</td>
</tr>
<tr>
<td></td>
<td>- Alina Fedyay (Bunge, Ukraine)</td>
</tr>
<tr>
<td></td>
<td>- Oilseeds markets in Russia</td>
</tr>
<tr>
<td></td>
<td>- Andrey Sizov (SOVECON, Russia)</td>
</tr>
<tr>
<td></td>
<td>12 min presentations</td>
</tr>
<tr>
<td>13:00</td>
<td>Lunch break</td>
</tr>
<tr>
<td>14:30</td>
<td><strong>SESSION 6: FINAL DISCUSSION</strong></td>
</tr>
<tr>
<td></td>
<td>- Chair: Jacques Delincé (JRC-IPTS, Spain)</td>
</tr>
<tr>
<td></td>
<td>12 min statements</td>
</tr>
<tr>
<td></td>
<td>- Status quo, possibilities, challenges, and risks</td>
</tr>
<tr>
<td></td>
<td>- Rakhim Oshakbayev (ACEPAS, Kazakhstan)</td>
</tr>
<tr>
<td></td>
<td>- Victor Andrievsky (Agrarian Market Development Institute, Ukraine)</td>
</tr>
<tr>
<td></td>
<td>- Dmitri Rylko (IKAR, Russia)</td>
</tr>
<tr>
<td></td>
<td>12 min statements</td>
</tr>
<tr>
<td>16:00</td>
<td>Concluding remarks</td>
</tr>
<tr>
<td>16:15</td>
<td>End of day 2</td>
</tr>
</tbody>
</table>


Agricultural sector and market developments in Ukraine, Russia and Kazakhstan
### Acronyms

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>ACEPAS</td>
<td>Analytical Centre of Economic Policy in Agricultural Sector (Kazakhstan)</td>
</tr>
<tr>
<td>CAP</td>
<td>Common Agricultural Policy</td>
</tr>
<tr>
<td>CIF</td>
<td>Cost, Insurance and Freight</td>
</tr>
<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
</tr>
<tr>
<td>DDA</td>
<td>Doha Development Agenda</td>
</tr>
<tr>
<td>DG AGRI</td>
<td>Directorate General 'Agriculture and Rural Development'</td>
</tr>
<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
</tr>
<tr>
<td>EC</td>
<td>European Commission</td>
</tr>
<tr>
<td>EU</td>
<td>European Union</td>
</tr>
<tr>
<td>EU-12</td>
<td>12 EU Member States of the 2004 and 2007 enlargements</td>
</tr>
<tr>
<td>EU-15</td>
<td>15 EU Member States before May 2004</td>
</tr>
<tr>
<td>EU-25</td>
<td>25 EU Member States after 2004 enlargement</td>
</tr>
<tr>
<td>EU-27</td>
<td>27 EU Member States after 2007 enlargement</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agriculture Organization of the United Nations</td>
</tr>
<tr>
<td>FAS/USDA</td>
<td>Foreign Agricultural Service (of the U.S. Department of Agriculture)</td>
</tr>
<tr>
<td>FOB</td>
<td>Free On Board</td>
</tr>
<tr>
<td>FSU</td>
<td>Former Soviet Union</td>
</tr>
<tr>
<td>FTA</td>
<td>Free Trade Agreement</td>
</tr>
<tr>
<td>GAFTA</td>
<td>Grain and Feed Trade Association</td>
</tr>
<tr>
<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
</tr>
<tr>
<td>GMO</td>
<td>Genetically Modified Organism</td>
</tr>
<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>ha</td>
<td>Hectare</td>
</tr>
<tr>
<td>IFC</td>
<td>International Finance Corporation (of the World Bank)</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standard</td>
</tr>
<tr>
<td>IGC</td>
<td>International Grains Council</td>
</tr>
<tr>
<td>IPTS</td>
<td>Institute for Prospective Technological Studies</td>
</tr>
<tr>
<td>JRC</td>
<td>Joint Research Centre</td>
</tr>
<tr>
<td>KAZ</td>
<td>Kazakhstan</td>
</tr>
<tr>
<td>mio.</td>
<td>million</td>
</tr>
<tr>
<td>MMT</td>
<td>million metric tonnes</td>
</tr>
<tr>
<td>MSME</td>
<td>Micro, Small and Medium Enterprises</td>
</tr>
<tr>
<td>NAO</td>
<td>New Agricultural Operators</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Co-operation and Development</td>
</tr>
<tr>
<td>PSE</td>
<td>Producer Support Estimate</td>
</tr>
<tr>
<td>RUK</td>
<td>Russia, Ukraine, Kazakhstan</td>
</tr>
<tr>
<td>RUS</td>
<td>Russia</td>
</tr>
<tr>
<td>SALR</td>
<td>State Agency of Land Resources of Ukraine</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
</tr>
<tr>
<td>---------</td>
<td>-----------------------------------</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-Sized Enterprises</td>
</tr>
<tr>
<td>TRQ</td>
<td>Tariff Rate Quota</td>
</tr>
<tr>
<td>UAH</td>
<td>Ukrainian hryvnia</td>
</tr>
<tr>
<td>UKR</td>
<td>Ukraine</td>
</tr>
<tr>
<td>USD</td>
<td>U.S. Dollar</td>
</tr>
<tr>
<td>USDA</td>
<td>U.S. Department of Agriculture</td>
</tr>
<tr>
<td>WTO</td>
<td>World Trade Organization</td>
</tr>
</tbody>
</table>
Summary

The former Soviet Union countries are important producers and consumers of agricultural products and especially Russia, Ukraine, and Kazakhstan (RUK) are among the key players on various international markets for agricultural commodities. This report presents a summary and the presentations of the expert workshop "Developments in agricultural commodity markets: a special focus on Ukraine, Russia and Kazakhstan". The workshop was organised by the Institute for Prospective Technological Studies (IPTS) of the European Commission's Joint Research Centre (JRC), and took place in Kiev on 26-27 October 2010. In the workshop specific sessions covered developments and perspectives of the most important agricultural commodity markets (cereals, oilseeds, biofuels, milk and meat). A special focus was given to the potential and constraints of agricultural production in the three countries. In order to outline the reasons behind observed and prospected market developments, specific topics like domestic agricultural policies and government regulations, infrastructure and organisation of the regional agricultural markets, farm structure, sustainability, and issues regarding the financing of the agricultural sector in Ukraine, Russia and Kazakhstan were also discussed. The workshop gathered around 35 participants, including representatives of the OECD, World Bank, DG AGRI, the delegation of the EU to Ukraine, the FAS/USDA, agricultural research institutions as well as representatives of private intuitions dealing with the agricultural sector of Ukraine, Russia and Kazakhstan.

The proceedings follow the general structure of the workshop. A summary of the presentations on production potential and constraints in the region is given in section 1 and on agricultural policy and legislation in the three focus countries in section 2. The overview presentations on milk and meat markets are summarized in section 3, followed by cereal markets (section 4) and oilseeds and biofuels markets (section 5). A brief summary of the workshop discussions is given in the final section “Agricultural production and commodity market development in Ukraine, Russia and Kazakhstan: status quo, possibilities, challenges, and risks” (section 6).

1. Production potential and constraints in the region

This section gives a summary of the workshop presentations on several different issues regarding the production potential and constraints in Ukraine, Russia and Kazakhstan. In the workshop, most issues presented were exemplified on rather specific examples in one of the
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

three focus countries, which gave ground for the discussion on the issue in the regional context.¹

**Farm structure and agricultural landscape in the region**

Dmitri Rylko (IKAR, Russia) gave a presentation on “Farm structure and agricultural landscape in the region”. Rylko highlighted problems of independent collective farms, which often seem to suffer from lacks of (i) ownership and control, (ii) efficient management, and (iii) legal and administrative protection. Furthermore, the vertical supply chain in the region suffers from several developments, like (i) the fragmentation and disappearance of traditional input and service institutions and supply channels to and from agriculture, (ii) the absence/weakness of a strict ‘rule of contract law’ (or probably a wring contract legislation), (iii) the lack of commodity market price volatility protection, and (iv) high open market transaction costs. As a regional solution to the problems of collective farms and the vertical supply chain, Rylko especially commented on the role of “New Agricultural Operators” (NAOs) or so-called “agroholdings”. These agroholdings can be seen as a combination of a new organization of the vertical supply chain and farming, and they are actually shaping the landscape in the three countries with respect to grain production output. However, the relative importance of agroholdings varies within the three counties. While in Kazakhstan a clear dominance of agroholdings can be observed, with 20 big companies producing about 80% of the country’s grain output, in Russia 200 companies control about 25% of the country’s grain output, and Ukraine experiences a quick emergence of agroholdings (cf. Figure 1).

**Figure 1: Importance of agroholdings in the three focus countries**

<table>
<thead>
<tr>
<th>Country</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Kazakhstan</td>
<td>20 companies capture about 4/5 of the grain output</td>
</tr>
<tr>
<td>Russia</td>
<td>200 NAOs control 1/4 of grain output</td>
</tr>
<tr>
<td>Ukraine</td>
<td>Growing fast since the second half of the 2000’s</td>
</tr>
</tbody>
</table>

Source: slightly adapted from the presentation of Rylko (IKAR)

Rylko sees agroholdings as a speedy way of re-industrialization of domestic agriculture, expanding much faster than average farms. Compared to smaller farms, advantages for agroholdings can be seen especially with regard to attracting investments, negotiating

¹ The summary in this section 1 does not strictly follow the order of the presentations as given during the workshop and includes parts of presentations presented in other sessions during the workshop.
discounts for input purchases (mega-deals) and the possibility to impose higher prices for their outputs through ‘in-house’ marketing and more professional commodity sales. On the other hand, Rylko highlighted a lack of agricultural experience and also questioned the long-term technical and managerial efficiency of agroholdings. Nonetheless, as long as farm land is undervalued and respective markets in RUK are not complete and efficient, agroholdings may most likely continue to expand and probably fully absorb independent collective farms.

**Role of agriculture for rural development**

John McCormack (SWAP-RURAL Project, Ukraine) pointed out that the background from which Ukraine, Russia and Kazakhstan emerge clearly has an effect on the process of agricultural and rural development in the three countries, and this background comprises its own set of unique challenges and opportunities. Key points for such transitional economies are:

- **Agrarian structures**: process of change from collective to individual, from public to private (plots, farms, corporate enterprises).
- **Role of the state**: from directing input and output to providing basic public goods and a regulatory framework to free market economy.
- **Agricultural policy objectives**: from food security and social services to a framework that facilitates food safety, quality and competitiveness.
- **Heterogeneity**: high level of heterogeneity across countries and within countries.

Although the share of income derived from agriculture in the rural economy is usually high, McCormack highlighted that agricultural development is not the same as rural development; however there is overlap and linkage between agricultural development and its impact on rural development. Agricultural development focuses on primary production, food security, and improved productivity that assists poverty alleviation, land access and capitalization. Rural development aims to achieve sustained growth of the rural economy (which includes agriculture), diversification and the provision of non-farm sector opportunities. Therefore rural development focuses on rural livelihoods and poverty reduction, societal welfare, rural services provision and infrastructure.

The rural sector is multidimensional and cross sectorial by nature, with agriculture being an important part of it, but also comprising social and human capital, natural resources, social and physical infrastructure, communities and community development, civil society and their engagement as well as an important role for public private partnership. Agriculture can be a
lead sector for development, but there are several other important functions of agriculture in rural areas, including (i) being a source of livelihoods (poverty reduction, social buffer, and with regard to cultural, heritage, way of life, and environment issues), (ii) food security, (iii) on-farm and rural diversification, rural SME and MSME\(^2\) development, and (iv) rural community development.

**Figure 2: Potential of agriculture for development: improved livelihood pathways**

McCormack concluded that agriculture can contribute to rural development in Russia, Ukraine and Kazakhstan especially through key elements of policy and operational programming. Key policy issues for agriculture include (i) improvement of the rural investment climate by reducing the risk from policy changes and policy reversals, and by improving competitiveness and farm modernization, (ii) improvement of market access by aligning regulations regarding food safety, standards and certification, and by reducing barriers to regional trade, (iii) support of institutions (e.g. advisory services, credit, tenure security, markets), (iv) investment in core public goods (research and development, infrastructure), (v) reducing the environmental footprint from agriculture and (vi) fostering broader rural development through engagement of private and civil society sectors.

Raising competitiveness and value added of agriculture is important for rural areas, but rural development goes beyond the agricultural sector, and stimulating rural non-farm income growth and exit opportunities from agriculture, rural SME and MSME development, finance

---

\(^2\) SME: Small and Medium Enterprises; MSME: Micro, Small and Medium Enterprises
and investment need to be key elements for rural development policies in Russia, Ukraine and Kazakhstan.

**Land markets in Ukraine**

Andriy Talama (J&L Consulting, Ukraine) first gave some background information on the land reform in Ukraine. As of January 1992 all land in Ukraine was in the state ownership. The initial stage of land reform suggested a de-nationalisation of land, i.e. a transfer of land from state ownership into possession of collective agricultural enterprises (former kolkhoz and sovkhoz). The second stage of land reform in Ukraine was launched at the end of 1999 by a Decree of the President, establishing a rule that land certificates should be converted into land titles with physical allocation and land demarcation. Following this requirement, some fundamental steps in land reform were made. As of October of 2010, almost 6.3 million rural residents have received their land titles confirming private ownership of land in former collective enterprises, which represents already 92% of the total amount to be received.

Experts usually distinguish three main components of land markets, namely purchase-and-sales market, mortgage market, and rent market. However, since 2001 there is a moratorium on alienation of land shares (pai) imposed in Ukraine. Under the moratorium, the sale, purchase and other forms of alienation of most types of agricultural land (as well as changes in ‘zoning’, i.e. designation of use, of agricultural land plots) are prohibited in Ukraine by law. The moratorium is applicable to both state and privately owned agricultural land. Thus, from the components of land markets, at the moment only the rent market can be made use of in Ukraine.³

In October 2010 there were 17.36 million ha of rented farmland in Ukraine (under registered contracts for lease of land shares). The fee for rented land varies across the country, with the average rent fee in Ukraine being about 300 UAH per ha and year.⁴ Regarding duration of the lease contracts, the bulk (47%) of the rent agreements has a duration of 4-5 years, while 9% are rented for 1-3 years, 33% for 6-10 years and only about 11% for a period longer than 10 years. Historical data on rent agreement duration shows that since 2005 there is a clear trend

---

³ For background information on the land moratorium in Ukraine see e.g. State Agency of Land Resources of Ukraine (www.dazru.gov.ua) and Center for Land Reform Policy in Ukraine (www.myland.org.ua).

⁴ Since 2010, average rent per ha increased and amounted to 443 UAH/year in the first quarter of 2012 (State Agency of Land Resources of Ukraine, 2012).
with increasing shares of rent agreements for a period of 6-10 years on the expense of a decreasing share of 4-5 years rent period.\(^5\)

**Figure 3: Average shared land plot in Ukraine per region (ha)**

![Map showing average shared land plots in Ukraine per region](image)

Source: Presentation Talama (J&L Consulting, Ukraine); primary source: State Land Committee of Ukraine

The land moratorium was actually imposed for a transitional period (until January 1, 2005), however it was extended several times and in 2007 the moratorium expiry term was made dependent on the readiness of the relevant regulatory-legal framework. Talama pointed out several arguments in favour and against of an abolishing of the land moratorium. As main pros for abolishing the land moratorium he highlighted:

- Moratorium hinders the productive utilization of the land, its improvement and development.
- Possibility to redistribute land assets in favor of more efficient forms of farming.
- Possibility to mortgage land, which would give the possibility to attract long-term funds.
- Profitable financial terms cannot be secured without the right to own land. Private local investors are frightened to invest into something they cannot possess, while foreign investors consider agriculture an area too risky to put their money in.
- Possibility for land owners to exercise their rights to dispose freely their property.

---

\(^5\) In the first quarter of 2012 duration of the lease contract was divided as follows: 1-3 years: 5.5%, 4-5 years: 42.2%, 6-10 years: 39.1%, more than 10 years: 13.2% of the total number of contracts (State Agency of Land Resources of Ukraine, 2012).
As main cons for abolishing the land moratorium Talma highlighted:
- Farmers do not seem to be ready to dispose their land, do not know the value of the land and thus might sell their land well below the actual market value.
- The legal framework that could prevent such distortions is still missing.

Thus, before the land moratorium is lifted it is necessary that institutional arrangements are put into place in Ukraine that enable an efficient recording, circulation, control, and enforcement of land property rights, i.e. the legal framework for regulating the land market and the creation of an official land cadastre. The majority of experts suggests that the new law "On the State Land Cadastre" has to settle the following disputable issues:
- Procedural aspects of land registry (cadastral zoning, surveying, cadastral land identification).
- Procedure for correcting errors in cadastral documentation.
- Legal status of electronic documents.
- Terms of publicity and access to inventory data with keeping private information as confidential.
- Rules for registration of land use restrictions.
- Rules for sectoral cadasters (water, forest, urban, etc.).

Regarding limitations of ownership of farm land, drafts of the law “On Land Market” suggest that foreign legal entities and citizens might not be allowed to own farm land in Ukraine, i.e. rules might be established that only citizens of Ukraine may be able to own farm land.⁶

Land market in Kazakhstan

Commenting on land market issues in Kazakhstan, Rakhim Oshakbayev (ACEPAS, Kazakhstan) highlighted that private ownership of land designated for commercial agricultural production can be granted to private legal entities and residents of the Republic of Kazakhstan. Land designated for commercial agricultural production is not available to foreign citizens, non-residents and foreign legal (non-government) entities. According to the Land Code in Kazakhstan, agricultural land users are:
- citizens of the Republic of Kazakhstan;

---

⁶ Latest information on the state of play regarding the land market in Ukraine can be obtained e.g. from the websites of the State Agency of Land Resources of Ukraine (www.dazru.gov.ua) and the Center for Land Reform Policy in Ukraine (www.mylan.org.ua).
legal entities established in accordance with the laws of the Republic of Kazakhstan, including enterprises with foreign participation.

Non-state legal entities may be subject of private property rights and land rights of non-agricultural land. Legal entities with foreign participation can have agricultural land in private ownership or get land-use rights.

**Implications of a possible bilateral trade agreement between Ukraine and the EU**

Olexandr Nekhay (JRC-IPTS, Spain) presented preliminary results of a modelling exercise on the potential effects on agricultural markets and farmers revenues of a bilateral free trade agreement (FTA) between Ukraine and the European Union.\(^7\)

Ukraine and the EU are currently negotiating a deep and comprehensive free trade agreement. Such a FTA would bring a further liberalization of trade policies between the two trading partners, with corresponding opportunities as well as challenges for agricultural markets. For the modelling exercise the dynamic, partial equilibrium model AGLINK-COSIMO has been adapted and applied. The analysis focuses on the bilateral trade positions and not on the effect on other countries, i.e. no reactions of other regions (trade diversion) are considered. The simulation of a potential FTA between the EU and Ukraine was done through the elimination of import tariffs for main agricultural commodities. Results of the simulation indicate a positive change in producer revenue in both Ukraine and the EU, implying that such a FTA would entail benefits for the agricultural sectors of both trading partners. However, simulation results show that the potential gains from a FTA would not be distributed homogeneously and would vary significantly among commodities. Not covered by the analysis were possible effects of the necessity that Ukraine’s agricultural producers would have to comply with the quality and sanitary standards of the EU in case of a FTA between Ukraine and the EU.

Nekhay emphasized that the modelling exercise was not related to the current negotiation process on a FTA between Ukraine and the EU.

Financing of the agricultural sector in Ukraine

In order to highlight possibilities and complications of financing the agricultural sector in the region, Andriy Tovstopyat (Investment Capital Ukraine LLC, Ukraine) gave a presentation on the financing of the agricultural sector in Ukraine. Tovstopyat presented information on several different sources for financing agriculture in Ukraine, in particular own capital, bank loans (which can be national or foreign currency denominated), particular financing of the large agro corporations (with sizeable loans by IFC or EBRD, syndicated loans, Eurobonds, stale placement), leasing (commercial and state) and specific state programs.

In a survey held by APK-inform among agricultural producers, 27% of them planned to make capital expenditures in 2010, using the following sources of capital: 72% stated to rely only on their own resources, 3% were ready to use free of state subsidy bank loans, 10% wanted to use bank loans with partial interest compensation, 1% preferred to use equipment-producers financing programs, and 14% leasing, rent and other sources. Thus, almost 3/4 of the Ukrainian primary agricultural producers’ prefer to avoid taking debts and are willing to finance their projects from own profit.

If it is not possible to rely on own resources, bank loans remain the most common sources to attract capital for agricultural entities. However, interest rates in 2009 and 2010 were still high (about 20-25%), and lower rates denominated in UAH are rather exceptional. Interest rates for agriculture are generally broader compared to the industry (including food production) (cf. Figure 4).

Figure 4: Interest rates of bank loans in Ukraine (denominated in Hryvnia)

![Interest rates of bank loans in Ukraine](image)

Source: Presentation Tovstopyat (Investment Capital Ukraine LLC, Ukraine); primary source: National Bank Ukraine

Regarding loan period, short-term credits have a share of 40%, mid-term credits 50%, and long-term credits 10%. Foreign currency loans have lower interest rates (10-15%), but have
only limited accessibility. Newly issued loans in 2009 and 2010 amounted for about 2 billion UAH in Hryvnia and about 0.5 billion UAH in other currencies, with UAH denominated loans showing an increasing, whereas USD/EUR denominated loans showing a decreasing trend.

The situation seems to be different for large agro corporations. Large agro corporations in Ukraine have for example the possibility to receive sizable loans by the International Finance Corporation of the World Bank (IFC) and the European Bank for Reconstruction and Development (EBRD), both having capacious programs for Ukraine and both have already financed a number of Ukrainian projects. Criteria of financing by the IFC or the EBRD are that a large-scale business is already developed, loan volume needs to be between 5 million and 50 million USD or EUR, mid-term maturity, interest rates according to LIBOR+, and the loan should cover no more than 30-50% of the total project expenses.

Apart from IFC and the EBRD, the biggest Ukrainian agroholdings also attract finance from various groups of European banks, sharing funds and risks of particular projects. Key characteristics of such loans are a loan volume between 50 million and 300 million USD or EUR, long-term with attractive interest rates (LIBOR+). Some of the biggest agroholdings also attract funds by issuing Eurobonds, with the total number of such borrowers being about ten. These Eurobonds comprise a bond volume of 100 million to 300 million USD, with a maturity of usually five years, and the requirement to follow accounting practices according to International Financial Reporting Standard (IFRS) and an audit. Stake placement offers another option for financing large agro corporations. Andriy Tovstopyat pointed out that there were five full size initial public offerings made at the main court of London and Warsaw stock exchanges as well as a number of less sizable private placements for the last five years. Key characteristics of such stake placement are that these are non-repayable funds, having a free float of at least 20%, and the requirement to follow accounting practices according to IFRS and an audit for the last three years.

State leasing programs can also be a source of financing. Apart from the national state leasing operator Ukragroleasing there are also some private leasing companies. However, during and after the financial crisis leasing schemes have lost their positions. For the third quarter of 2010, the state operator concluded contracts for about 190 million UAH. State programs have the advantage of a partial compensation of the interest rate, and compensation of 50% of the capital expenditure for newly built animal farms.
**Transport infrastructure**

One of the crucial issues for the developments in the agricultural sectors in Ukraine, Russia and Kazakhstan is the transport infrastructure. In her presentation, Olga Ramazanova (APK-Inform Agency, Ukraine) gave specific information on the “Transport infrastructure of the grain market of the Azov and Black Seas region” (see Figure 5).

**Figure 5: The Azov and Black Seas region**

Ramazanova highlighted that the port capacities of Ukraine and Russia are the key links in the logistic chain of export grain supplies to the countries of the Middle East and North Africa. Sea ports' handling facilities in Ukraine and Russia were insufficient, especially for the increased grain production since the end of the 1990s. However, since the early 2000s infrastructure was improved by private owners that brought investments, modern equipment and new management. The transshipment capacities of grain terminals and ports in the Azov and Black Sea regions of Ukraine are given in Figure 6 and those of Russia in Figure 7.
### Figure 6: Transhipment capacities of grain terminals and ports of the Azov and Black Sea basin of Ukraine

<table>
<thead>
<tr>
<th>Region</th>
<th>Port/complex</th>
<th>Volumes of simultaneous storage, thousand tonnes</th>
<th>Annual capacity of transhipment, million tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Odessa port elevator (public)</td>
<td>Odessa port elevator (public)</td>
<td>133.3</td>
<td>3.5</td>
</tr>
<tr>
<td>Odessa commercial sea port</td>
<td>Odessa commercial sea port: Ukrelevat Prom (Alfred Toepfer International Group (ACTI Group, Gamburg)</td>
<td>168.0</td>
<td></td>
</tr>
<tr>
<td>Odessa Ukrelevatorprom, Inzernoexport (Odessa), port elevator (Kiev)</td>
<td>Odessa Ukrelevatorprom, Inzernoexport (Odessa), port elevator (Kiev)</td>
<td>18.0</td>
<td></td>
</tr>
<tr>
<td>Odessa Olympey-Cupe</td>
<td>Odessa Olympey-Cupe</td>
<td>130.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Sea Commercial Port of Illichivsk: Transbulk terminal (Kernel Group)</td>
<td>Sea Commercial Port of Illichivsk: Transbulk terminal (Kernel Group)</td>
<td>200.0</td>
<td>4.2</td>
</tr>
<tr>
<td>Illichivsk terminal (Gencore)</td>
<td>Illichivsk terminal (Gencore)</td>
<td>116.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Illichivsk sea fishing port (public)</td>
<td>Illichivsk sea fishing port (public)</td>
<td>18.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Belgorod Dnestrovsky sea trading port (public)</td>
<td>Belgorod Dnestrovsky sea trading port (public)</td>
<td>36.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Yuzhny sea trading port: Transinvestsrvs</td>
<td>Yuzhny sea trading port: Transinvestsrvs</td>
<td>380.0</td>
<td>3.5</td>
</tr>
<tr>
<td>Botvice</td>
<td>Odessa Olympey-Cupe</td>
<td>126.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Total Odessa</td>
<td></td>
<td>1,325.8</td>
<td>17.6</td>
</tr>
<tr>
<td>Seaports and river ports of</td>
<td>Nikolaev Sea Trade Port (public)</td>
<td>50.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Nikolaev oblast</td>
<td>Nikolaev port elevator (public)</td>
<td>69.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Nikolaev river trading port –</td>
<td>Nikolaev river trading port – GISC Grain trading company &quot;Allseeds Ukraine</td>
<td>86.0</td>
<td>1.0</td>
</tr>
<tr>
<td>GISC Grain trading company &quot;Allseeds Ukraine&quot;</td>
<td>Nikolaev Sea Trade Port: Nikolaon</td>
<td>130.0</td>
<td>1.7</td>
</tr>
<tr>
<td>Nikolaev Sea Trade Port: GISC-Nika-Terra (Group of companies Nika-Terra)</td>
<td>Nikolaev Sea Trade Port: GISC-Nika-Terra (Group of companies Nika-Terra)</td>
<td>140.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Total Nikolaev</td>
<td></td>
<td>477.0</td>
<td>7.7</td>
</tr>
<tr>
<td>Crimea ports</td>
<td>Kerch sea trading port (public)</td>
<td>5.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Feodosia sea trading port (public)</td>
<td>Feodosia sea trading port (public)</td>
<td>8.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Sevastopol sea trade port – GISC-Steverdoring company Avlita (Ukrainian industrial-transport company)</td>
<td>Sevastopol sea trade port – GISC-Steverdoring company Avlita (Ukrainian industrial-transport company)</td>
<td>100.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Kerch sea fishing port: ABS Terminal (Pole-Port Ltd)</td>
<td>Kerch sea fishing port: ABS Terminal (Pole-Port Ltd)</td>
<td>35.0</td>
<td>0.8</td>
</tr>
<tr>
<td>Total Crimea</td>
<td></td>
<td>148.4</td>
<td>3.7</td>
</tr>
<tr>
<td>Dnieper ports</td>
<td>Kherson sea commercial port (public, management of grain terminals by Dnipro Cargo Ltd)</td>
<td>20.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Kherson port elevator (W.J. Grain)</td>
<td>Kherson port elevator (W.J. Grain)</td>
<td>100.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Skadovsky sea trading port (public)</td>
<td>Skadovsky sea trading port (public)</td>
<td>5.7</td>
<td>0.1</td>
</tr>
<tr>
<td>Dnieprovoz storage complex (Nortech-Azot and Azot-Trans Ltd)</td>
<td>Dnieprovoz storage complex (Nortech-Azot and Azot-Trans Ltd)</td>
<td>8.5</td>
<td>0.2</td>
</tr>
<tr>
<td>Grain terminal “UkrKazExportAstyk” (Kholding Kzaoaportastyk, Kazakhstan)</td>
<td>Grain terminal “UkrKazExportAstyk” (Kholding Kzaoaportastyk, Kazakhstan)</td>
<td>20.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Total Dnieper</td>
<td></td>
<td>154.2</td>
<td>2.7</td>
</tr>
<tr>
<td>Azov Sea ports</td>
<td>Berdyansk sea trading port (public)</td>
<td>10.7</td>
<td>0.6</td>
</tr>
<tr>
<td>Mariupol Sea Commercial Port (public)</td>
<td>Mariupol Sea Commercial Port (public)</td>
<td>37.8</td>
<td>0.6</td>
</tr>
<tr>
<td>Ukrtransagro (Ukrainian industrial-transport company)</td>
<td>Ukrtransagro (Ukrainian industrial-transport company)</td>
<td>50.0</td>
<td>2.0</td>
</tr>
<tr>
<td>Berdyansk sea trading port: South-Eastern grain terminal Ltd (international industrial-transport consortium “Novaya Khortitsa”)</td>
<td>Berdyansk sea trading port: South-Eastern grain terminal Ltd (international industrial-transport consortium “Novaya Khortitsa”)</td>
<td>18.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Total Azov Sea</td>
<td></td>
<td>116.5</td>
<td>4.2</td>
</tr>
<tr>
<td>Danube river ports</td>
<td>Izmail (public)</td>
<td>14.4</td>
<td>0.2</td>
</tr>
<tr>
<td>Reni/Reni-Line (Rudis Group)</td>
<td>Reni/Reni-Line (Rudis Group)</td>
<td>20.0</td>
<td>0.5</td>
</tr>
<tr>
<td>Ust-Dunaysk (public)</td>
<td>Ust-Dunaysk (public)</td>
<td>2.0</td>
<td>0.4</td>
</tr>
<tr>
<td>Total Danube river</td>
<td></td>
<td>36.4</td>
<td>1.1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,258.2</td>
<td>36.4</td>
</tr>
</tbody>
</table>


In general, transport capacities in both Ukraine and Russia are growing and Ramazanova emphasized that many new sea port terminals will be opened in both countries due to further investments of private companies. In the context of port facilities development and relative demand for transportation, participants of the workshop highlighted the need for ports in the Black Sea region to increase cargo throughput of container terminals, increase complexes for handling vessels, and create high-efficiency terminals for bulk cargoes. The provision of environmental protection and healthcare for people was also mentioned. Moreover, it was emphasized that creating export infrastructure (i.e. developing optimal routes to target markets, raising the capacity of grain terminals, etc.) is seen as one of the primary targets for investments in RUK. All three countries need to improve their logistics and infrastructure, as
increasing grain production is impossible without increasing the infrastructure for their delivery to world markets. Specifically discussing the case of Kazakhstan, participants of the workshop pointed out that in principle there is especially demand for Kazakhstan’s wheat in Central Asia, Afghanistan and Iran. However, one of the great obstacles for Kazakhstan when exporting its grain is the lack of necessary infrastructure in the direction of the demand, as well as the shortage of railway wagons. Furthermore, the capacity of the Caspian Sea port of Aktau, where the products to be exported come into railway wagons, is rather limited. A further route for exporting Kazakhstan’s grain is via the Black Sea and the Baltic Sea through Russia, but transit through Russia is rather costly.

Figure 7: Transhipment capacities of grain terminals and ports of the Azov and Black Sea basin of Russia

<table>
<thead>
<tr>
<th>Region</th>
<th>Port/ complex</th>
<th>Volumes of simultaneous storage, thou tonnes</th>
<th>Annual capacity of transshipment, mln tonnes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Black Sea ports</td>
<td>JSC Novorossiysk port and grain products plant</td>
<td>160</td>
<td></td>
</tr>
<tr>
<td></td>
<td>JSC Port Tuapse</td>
<td>102</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>JSC Novorossiysk grain terminal</td>
<td>120</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>JSC Portholding</td>
<td>-</td>
<td>1.5</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>372</td>
<td>14.5</td>
</tr>
<tr>
<td>Azov Sea ports</td>
<td>Azov Port Elevator Ltd</td>
<td>48</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>JSC Port Azov</td>
<td>14</td>
<td>0.4</td>
</tr>
<tr>
<td></td>
<td>JSC Taganrog shipyard</td>
<td>43</td>
<td>0.6</td>
</tr>
<tr>
<td></td>
<td>JSC Priaazovye (Taganrog)</td>
<td>3</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>JSC Port Temryuk</td>
<td>4.5</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>JSC Port Caucasia</td>
<td>12</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>JSC Port Yeyk</td>
<td>30</td>
<td>0.8</td>
</tr>
<tr>
<td></td>
<td>JSC Yeyk port elevator</td>
<td>126</td>
<td>0.78</td>
</tr>
<tr>
<td></td>
<td>Yeisk-Priaazov-port Ltd</td>
<td>2</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Directoria-New-seaport Ltd</td>
<td>0.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td>JSC Azov shiprepairing company</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>283</td>
<td>7</td>
</tr>
<tr>
<td>River ports of the Volga and Don</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Port grain Ltd</td>
<td>40</td>
<td>1.5</td>
</tr>
<tr>
<td></td>
<td>JSC Kalachevskiy port</td>
<td>-</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Ilovatskij grain-collecting station</td>
<td>50</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Nikolaevskij grain-collecting station</td>
<td>120</td>
<td>0.3</td>
</tr>
<tr>
<td></td>
<td>Kamyshevskiy elevator</td>
<td>100</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Dubovskiy elevator</td>
<td>80</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Volgodonskij elevator</td>
<td>80</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Kalach-on-Don grain-collecting station</td>
<td>60</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Other terminals</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Bagaevskij grain products plant / Bagaevskaya</td>
<td>15</td>
<td>0.2</td>
</tr>
<tr>
<td></td>
<td>Bagaevskij Grain Terminal “Rosagrein”</td>
<td>30</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>Semikarakorskiy grain products plant /</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Semikarakorsk</td>
<td>100</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>Grain Terminal YugRusi Agro</td>
<td>200</td>
<td>1.5-3.0</td>
</tr>
<tr>
<td></td>
<td>Terminal AIC.Aston</td>
<td>100</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Grain Terminal Cargill</td>
<td>30</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>Grain Terminal Rostov grain terminal Bunge</td>
<td>30</td>
<td>0.5</td>
</tr>
<tr>
<td></td>
<td>Grain Terminal Rostov grain products plant, IGC</td>
<td>150</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1285</td>
<td>8.2</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>1490</td>
<td>29</td>
</tr>
</tbody>
</table>

Distribution channels and organization of the regional agricultural markets

Drawing on the difference between an efficient market organization and an inefficient one, Ludwig Striewe (Toepfer International, Ukraine) exemplified that the better the logistics and the lower transaction costs and risks are in a country, the higher is the farm gate price. For example a panmax vessel with the grain capacity of 50,000 to 60,000 tonnes costs on average about 30,000 USD per day. In 2002, the lay-time of ships in Ukrainian ports was about six days, which meant costs of about 3.6 USD per tonne. In 2010, lay-time of ships was decreased to about two days, which translates into costs of 1.3 USD per tonne. At a crop shipment of about 40 million tonnes per year, this decrease in lay-time for ships translates into a yearly benefit to farmers of approximately 100,000 million USD.

With respect to quality requirements, additional requirements in Ukraine seem to become very complicated. International quality requirements are usually determined by private contracts and the specific requirements of the import countries; and the sampling and analysis is done according to the rules of the Grain and Feed Trade Association (GAFTA). However, additional analyses are required in Ukraine, Russia and Kazakhstan in order to comply with the GOST standards. While the required GOST standards are proven in the CIS countries, they are not in line with international standards. The additional tests that were recently required could take two days, or (more than) 1.5 USD per tonne of grain.

Striewe pointed out a lack of institutions and organizations as a further issue hindering the export of agricultural commodities. Contract enforcement is rather difficult and time-consuming in both Ukraine and Russia, as contracts seem to be commonly regarded as promises but not as obligations. Thus, contract default risk is very high, and for example increasing commodity prices can lead to defaults of 20-40%, comprising high losses for the trade companies involved (losses can amount to 80-120 USD per tonne or 5 million USD for a Panmax vessel). Main implications for agriculture of the lack of contract enforcement in the region are that (i) the number of forward contracts is low (only with very reliable partners), which has also an adverse effect on the financing abilities of agriculture as forward contracts are widely used for securing loans, (ii) long term price fixation is impossible, which is negative for millers and livestock producers, and (iii) risk is calculated as costs, which leads to lower farm gate prices.
In addition, Striewe highlighted that trade companies also suffer from direct government interference in the RUK countries, like recurring export restrictions. In Russia export of wheat and coarse grains was banned until summer 2011, and Kazakhstan followed with a similar policy. Ukraine established new custom requirements that slowed down or blocked wheat shipments (with 20 to 30 vessels being blocked in the ports). After that, Ukraine officially introduced quotas on grain exports in October 2010. Such ad hoc export restrictions lead to severe losses for both trading companies and grain producers (cf. Figure 8).

**Figure 8: Farmers burden on grain market regulation**

![Grain market regulation chart](chart)

Source: Presentation Striewe (Toepfer International, Ukraine); primary source: UkrAgroConsult.

Summing up his presentation, Striewe acknowledged that there are impressive investments in grain infrastructure, with the competition among the trading companies becoming stronger every year, which is certainly a positive development for the agricultural sector. However, market institutions and organisation are still weak in the region, and a good investment climate and more reliable government actions could for example certainly boost grain production in the focus countries, which would also have beneficial consequences for the world market with respect to food security.

---

8 GOST standards are a set of technical standards maintained by the Euro-Asian Council for Standardization, Metrology and Certification (EASC), a regional standards organization that is operating under the support of the Commonwealth of Independent States (CIS).
2. Agricultural policy in Ukraine, Russia and Kazakhstan

This section gives a brief summary of the overview presentations on agricultural policy issues in Ukraine, Russia and Kazakhstan.

Overview of domestic agricultural policies in Ukraine, Russia and Kazakhstan and comparison with OECD countries

A general overview on domestic agricultural policy and government regulations in Ukraine, Russia, Kazakhstan and its comparison with OECD countries was given by Olga Melyukhina (OECD, France). Melyukhina highlighted several policy concerns that actually drive domestic agricultural policy and the different weight that is given to specific issues in the focus countries compared to OECD countries. One of the primary policy concerns officially stated in Ukraine, Russia and Kazakhstan is domestic food security, whereas for OECD countries food security is more a concern in the international context. While low agricultural income is an important concern in the focus countries and also in OECD countries, the latter seem to address the issue more specifically in focusing on specific segments and areas. Also the condition of rural areas has higher relevance in the focus countries as the rural-urban gap is much smaller in OECD countries. On the contrary, issues of environmental sustainability, food safety, consumer satisfaction, resources and climate change are mayor policy concerns in OECD countries but not explicitly in the focus countries (cf. Figure 9).

Figure 9: Mayor policy concerns in the focus countries compared to OECD countries

<table>
<thead>
<tr>
<th>Focus countries</th>
<th>OECD countries</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food security</td>
<td>A concern, but more in an international dimension</td>
</tr>
<tr>
<td>Low agric. income</td>
<td>A concern, but more for specific segments/areas</td>
</tr>
<tr>
<td>Condition of rural areas</td>
<td>A concern, but rural-urban gap is much smaller</td>
</tr>
<tr>
<td>Not an explicit concern</td>
<td>Environmental sustainability – very high concern</td>
</tr>
<tr>
<td>Not an explicit concern</td>
<td>Food safety, consumer satisfaction</td>
</tr>
<tr>
<td>Not an explicit concern</td>
<td>Climate change, resource scarcity</td>
</tr>
</tbody>
</table>

Source: Presentation Melyukhina (OECD, France).
The collapse of the Soviet Union led to a sharp drop in support to agricultural production in Ukraine, Russia and Kazakhstan. Support started to rise again in the late 1990s, and in 2005-2007 Producer Support Estimate (PSE) as percentage of producer gross receipt reached an average of about 10% in Ukraine and 12% in Russia. For comparison, according to the OECD the average PSE of the EU is around 30% (Figure 10).

**Figure 10: Level of support**

The distribution of producer support per sector or commodity is similar in Russia and Ukraine, with poultry, sugar, pig meat, beef and veal, and eggs being the agricultural commodities most supported in both countries. Additionally, in Russia milk production is also supported, and while in Ukraine dairy farmers receive payments based on output, market price support for milk is actually negative in Ukraine. In Kazakhstan, beef production receives most support, whereas producer support for milk and wheat is actually negative (Figure 11).

In OECD countries the reduction of aggregate policy interventions has been a result of reforms, whereas the dramatic reduction of policy transfers in the focus countries was a consequence of the collapse of the Soviet Union; however, support levels in the focus countries tend to rise. While in OECD countries important changes in the ways support is provided can be observed (decoupling of payments from production and input constraints tied to support), the majority of support in the focus countries is provided in the form of output and input subsidies.

Source: Presentation Melyukhina (OECD, France); primary sources: OECD, World Bank for Kazakhstan
Overview on domestic agricultural policy and government regulations: Kazakhstan

Rakhim Oshakbayev (ACEPAS, Kazakhstan) presented an overview on agricultural policy and government regulations in Kazakhstan. He pointed out that main objectives of the government program “Sustainable development of agricultural sector in Kazakhstan for 2009-2011” are (i) sustainable development of sectors of agriculture, (ii) ensuring food security, (iii) development of national competitive advantages domestic products, and (iv) adaptation of agricultural production to WTO accession. The new government program “Development of agro-industrial complex for 2010-2014” added new approaches, namely (i) a transfer to new types and mechanisms of subsidies that should become an incentive for advanced technologies introduction, (ii) regional specialization based on priority agricultural sectors, and (iii) the implementation of master plans designed for eight priority sectors. In addition, the president of Kazakhstan set several formal objectives in his annual address to the nation in 2010. With regard to labor productivity growth the objective was set to increase productivity per person employed in agriculture 2-fold by 2014, and at least 4-fold by 2020. In order to ensure food security in the country, the objective is that domestic food products constitute over 80% of the internal food market by 2014. Furthermore, the formal objective to increase export capacity of the agricultural sector was set to an increase from 4% to 8% by 2015.

In Kazakhstan the share of state support in agricultural GDP in 2008 was 9.69%, and the share of state support in gross agricultural output was 5.79%. The economic functions of the...
Ministry of Agriculture of Kazakhstan belong to the national holding "KazAgro". These economic functions include loan provision to agricultural producers, implementation of state leasing programs, government procurement of grain, insurance in crop production, and financing of agricultural cooperatives. The legislation framework for agriculture in Kazakhstan is presented in Figure 12.

Rakhim Oshakbayev highlighted several specific ways in which the government supports the agricultural sector in Kazakhstan. For example tax incentives for the agricultural sector in Kazakhstan are expressed in the form of a reduction of the tax burden through alternative methods of taxation or the provision of tax rebates to pay. There are two special tax treatments for agricultural producers:

- Special tax regime for small farmers on the basis of a single land tax, which depends on the amount of land and does not exceed 0.5% of the appraised value of agricultural land.
- Special tax regime for legal entities/producer s of agricultural products: 70% discount is provided for corporate income tax, value added tax, property tax, and tax on vehicles.

Further instruments of government support in Kazakhstan are

- subsidization (of sectors of high priority);
- provision of different types of loans/leasing through KazAgro;
- market intervention through KazAgro (Food Contract Corporation);
- public services mostly in the crop and livestock sectors;
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

- insurance for crop production;
- financing of research and development and veterinary control;
- development of rural areas and market interventions;
- import duties.

The agricultural sector in Kazakhstan generally suffers from a lack of competitiveness, and Oshakbayev emphasized that key challenges for improving competitiveness comprise:
- Facilitating structural change in terms of land ownership and management.
- Facilitating technical change through provision of essential public services (including advisory services, research and extension, provision of market information, sanitary and phytosanitary inspection and veterinary services).
- Irrigation and drainage rehabilitation and establishment of financially sustainable management arrangements.
- Credit and insurance provision.
- Facilitating investment in wholesale and retail marketing and distribution facilities and agro-processing.
- Preparing for climate change.

However, in the light of these key challenges, the subsidies paid to the agricultural sector in Kazakhstan are commented to be rather counterproductive, mainly because they delay structural transformation, distort production decisions, do not bring technical transformation, do not necessarily increase output (e.g. sugar beet), encourage production on economically unprofitable land, support the least competitive production when linked to import dependence, and not all benefits reach farmers (and leak outside the agricultural sector instead).

Overview on domestic agricultural policy and government regulations: Ukraine

Serhiy Demyanenko (Institute for Agribusiness and Rural Development, Ukraine) highlighted the following issues as major current problems in Ukrainian agricultural policy:
- Absence of a clear strategy in agricultural policy.
- Absence of a functioning agricultural land market (moratorium on selling and buying of agricultural land: policy verses economy; absence of necessary land legislation; imperfection of agricultural land lease market).
Problems in agricultural science and education (the qualification of agricultural workers is very low, agricultural education and advanced agricultural research are separated and consequently the advanced findings are not reaching the education process; relationship between agricultural science and education on one side and agribusiness on the other side, with agribusiness requiring one type of specialists, but universities are preparing students with other knowledge – which consequently leads to a sensible lack of highly skilled specialists; there are more agricultural universities than requirements of Ukrainian agriculture, and due to the quantity, universities sometimes seem to lack quality).

Administrative pressure on market agents (corruption, state taxation and support, licensing and certification, agricultural product quality control, regulation of food safety in the context of WTO agreements, quotas on grain for export);

Mix of measures for agricultural development and rural development (agricultural policy versus rural development and social policy, agriholdings versus small private farms, no direct taxation of farms, market infrastructure).

As directions for an adequate agricultural strategy in Ukraine, Demyanenko emphasized the necessity to ensure the production of high quality agricultural products, the development of market infrastructure and competitive agricultural commodities markets, as well as the development of the agricultural land market. Furthermore, extension services have to be developed and state management needs to be improved. Agricultural science and education in Ukraine needs also improvement and the agricultural sector needs to contribute to preserving nature and landscape.

**Overview on domestic agricultural policy and government regulations: Russia**

Vera Matusevich (World Bank Moscow, Russia) pointed out that in 2009, Russian agriculture accounted for about 10% of total employment and about 4% of national GDP. Such a disproportion between the shares of agriculture in total GDP and total employment suggests that the labour productivity of Russia's agriculture is below the average productivity level across all sectors. The share of investment to Russian agriculture is also low compared to other sectors of the economy. Matusevich sees corruption as one of the mayor problems worrying potential investors. Furthermore, foreign investments in agriculture seem to be not sufficiently protected.

The focus of government support for Russian agriculture is on improving agricultural efficiency, including assistance into capital and technological improvements. Between 2006
and 2010 federal programmes have been implemented that emphasize sustainable farming, rural development quality of agricultural labour, and living conditions in rural areas. For the period 2008-2010 the Programme for Development of Agriculture and Regulation of Markets of Agricultural Production, Inputs and Food was launched. Within this programme a significant increase in public spending is planned for the agricultural sector, and the government expects that the programme helps to considerably increase agricultural production in Russia and helps to increase the country’s self-sufficiency rate for food. The federal programme has three subprograms: (i) sustainable development of rural territories, (ii) establishing conditions for a better functioning of agriculture, and (iii) development of priority sectors in agriculture. Several subsectors of livestock (pedigree breeding, reindeers, horses, sheep and goat) and of the crop sector (elite seeds, flax, rapeseed, and wine) are considered as priority sectors. Furthermore, for the period 2010-2012, a specifically targeted funding programme for the development of poultry production in Russia has been launched.

Main agricultural policy support measures in Russia are subsidies for variable inputs and investments, including interest rate subsidies. However, the distribution of subsidies seems to be unevenly distributed with about 500 agricultural organizations receiving approximately 50% of all subsidies. Matusevich also highlighted the increasing gap between rich and poor agricultural producers (regional disequilibrium) as an important problem that should be targeted by agricultural policy in Russia.
3. Milk and meat markets

In this section the workshop presentations of the milk and meat markets session are summarized, starting with a brief overview on the situation in world and EU markets, followed by specific information on milk and dairy markets and then the meat markets in the three focus countries.

World and EU milk and meat markets

Thomas Fellmann (JRC-IPTS, Spain) set the scene for the milk and meat market session, presenting an overview of the projected developments on the respective world and EU markets. World market developments show still a strong demand for meat, with annual growth rates in world meat consumption projected for the period 2009-2020 being bigger than those observed in the period 2000-2009. Production of meat and milk is also growing, however not as fast as consumption. World meat prices in nominal terms are projected to remain above historical levels and the projections show an overall increase of per capita meat consumption, with a preference for poultry meat. The projections for the EU-27 aggregate meat market balances show that with consumption of meat increasing (especially pig meat and poultry) faster than production, the EU is gradually losing its net exporter position. World dairy prices are projected to increase in nominal terms and the declining trend in world dairy prices in real terms is expected to abate. EU cheese demand supports production growth whereas the EU butter market remains stable in the projections until 2020. The EU SMP market is expected to recover gradually until 2020, whereas EU milk production growth will remain below the increase of the EU milk quota.

Milk and dairy markets in Ukraine

Olga Kozak (Institute of Agrarian Economics, Ukraine) gave an overview on the milk and dairy markets in Ukraine. Historical data on the milk and dairy sector in Ukraine shows sharp declines in milk production and number of cows, whereas milk yield (kg/cow/year) was growing significantly (cf. Figure 13). In 2010, milk production of Ukraine was about 11.6 million tonnes, with Ukraine’s biggest producers of milk being located in the regions of Vynnytsa, Poltava and Lviv. The main producers of milk in Ukraine are small households, and with an average of only 1.3 cows per dairy farm the average of the Ukrainian dairy farm size is among the smallest of the world. However a peculiarity of Ukrainian milk production
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

is its dual farm structure with regard to farm size, with very small dairy farms on the one hand (with an average of one cow per household) and very large farms on the other hand (with an average of 124 cows per agricultural enterprise).

**Figure 13: Milk production trends in Ukraine (1999-2009)**

The farm gate milk price in Ukraine is usually lower than the world price. The agricultural enterprises produce 2.236 million tonnes, and households produce 9.374 million tonnes. The major part (86%) of milk produced by agricultural enterprises is delivered to milk processors, whereas households consume most of the milk produced on-farm and only deliver 31% of their production to milk processors. The production of milk processors is distributed among cheese (50%), fresh products (35%), butter (13%), and dry milk (2%) (cf. Figure 14).

**Figure 14: The dairy chain in Ukraine**

Source: Presentation Kozak (Institute of Agrarian Economics, Ukraine)
Ukraine exports about 8% of its milk production, with exports to CIS (74.6%, mostly to Russia), Asia (18.3%), Africa (3.9%), Europe (2.5%) and America (0.7%). The 30 biggest dairy companies cover about 78% of return in the Ukrainian dairy industry, with the main players being Unimilk, Milkiland, Milk Alliance, Terra-Food, West Milk Group, Wimm Bill Dann, Rainford, Cheese Club, Lustdorf, and Lactalis. Main trends that can be observed in the Ukrainian dairy industry are a concentration of property, an increasing influence of the top players, a technical modernization of production, the introduction of new technologies, the introduction of new and innovative products, high quality management and marketing system. Regarding future trends, Kozak does not expect big changes for the situation in the Ukrainian milk and dairy market development in the near future. Milk production is estimated to decrease to around 10 million tonnes by 2020, mainly due to production decreases in households. In general, developments in the dairy sector will strongly depend on agricultural policy, with policy risks affecting both producers and consumers.

**Milk and dairy markets in Russia**

The overview on milk and dairy markets in Russia was given by Evgeniy Smirnov (Russian Dairy Union, Russia). Russia is amongst the largest producers of milk in the world; however the country lags behind many developed countries with respect to per capita production and average consumption of dairy products. Russian milk production showed a steady decrease in the 1990s, with this trend coming to halt by 1999; since then, milk production stabilized at about 32 million tonnes per year. The number of cows in the Russian Federation declined by more than 50%, from about 20 million heads in 1990 to about 9 million heads in 2009. While the dairy cow population keeps its decreasing trend, dairy herd’s productivity is steadily rising. Milk yield per cow and year rose from 2502 kg in the year 2000 to about 3700 kg in 2009 (cf. Figure 15).

**Figure 15: Dynamics of milk production in Russia**

<table>
<thead>
<tr>
<th></th>
<th>2000</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010*</th>
<th>2015*</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Milk production</strong> (million tonnes)</td>
<td>32,3</td>
<td>32,0</td>
<td>32,4</td>
<td>32,6</td>
<td>32,5</td>
<td>36,1</td>
</tr>
<tr>
<td><strong>Number of cows</strong> (million heads)</td>
<td>12,7</td>
<td>9,3</td>
<td>9,1</td>
<td>9,0</td>
<td>8,9</td>
<td>8,3</td>
</tr>
<tr>
<td><strong>Milk yield per cow</strong> (kg/cow/year)</td>
<td>2502</td>
<td>3501</td>
<td>3595</td>
<td>3700</td>
<td>3700</td>
<td>4400</td>
</tr>
</tbody>
</table>

Source: Presentation Smirnov (Russian Dairy Union); * figures for 2010-2015 are forecasts
Consumption of milk and dairy products declined sharply during the 1990s, but since 2000 a rather steady increase in per capita consumption can be observed. In 2010, per capita consumption of dairy products reached about 250 kg, which is still far below the consumption in 1990 (386 kg/capita) and also lower than in other European countries.

**Figure 16: Consumption of milk and dairy products in Russia**

![Bar chart showing consumption and rational norm of milk and dairy products in Russia from 1987 to 2010.](chart)

Source: Presentation Smirnov (Russian Dairy Union); primary source: National Statistic Service

Note: * estimate, ** forecasted; rational norm = recommended level of consumption

Average milk production in Russia is small-scale, with more than half of the milk produced on household farms with only one or two cows. Russian self-sufficiency in milk and dairy products remained at about 83% between 2007 and 2009, as Russian growth in demand for dairy products has exceeded production growth, leading to an increase in the share of imports in total consumption.

Among the main problems in the Russian milk and dairy sector is a deficit of quality raw milk, seasonality of milk production, land tenure, and qualified labour. Regarding seasonality of milk production, shortages of milk production in autumn and winter due to low availability of feed are usually followed by milk surpluses in summer, which causes rather high fluctuations in market prices. Problems to level out the unevenness of seasonal milk supplies are related to a lack of skilled farm labour and to the outdated industry structure.

---

The term ‘rational norm’ was used in the Soviet Union, when for all basic products a ‘rational norm’ of consumption was elaborated. The current Russian government uses the term to foster milk and meat consumption.
Milk and meat markets in Kazakhstan

Vladimir Pak (ACEPAS, Kazakhstan) provided an overview on milk and meat markets in Kazakhstan. Expressed in farm gate prices, the estimated value of the meat market of Kazakhstan in 2009 was around 1.8 billion USD. Similarly the value of the market for milk and dairy products was around 2.0 billion USD in farm gate prices. However, these estimates are based on total consumption and in fact should be reduced, because not all goods consumed were actually traded. In terms of agricultural gross product meat and milk & dairy production is estimated at 16% and 19% respectively.

For the last ten years milk production in Kazakhstan has been annually increasing on average by 4.5%, mostly due to an increase of animal numbers. Nowadays, Kazakhstan has one of highest per capita milk consumption rates in the world, and according to FAOSTAT data Kazakhstan is ranked 15th among 177 countries in terms of milk consumption per capita. Regarding meat consumption Kazakhstan is ranked 51st (67.5 kg), with Ukraine (45.0 kg) and Russia (60.9 kg) having lower meat consumption per capita.

Figure 17: Milk and meat production structure in Kazakhstan

Source: Presentation Pak (ACEPAS, Kazakhstan)

Production of meat and milk in Kazakhstan is rather fractured (cf. Figure 17). About 1.6 million households (that can be considered as personal owners) own 85% of the cattle population (2.7 million heads) and produce 80% of meat and 90% of whole milk. Peasant farms, which are usually family farms that own 20-100 cows, and agricultural enterprises (organizations usually created on the basis of kolkhozes owning about 5,000 ha of agricultural
land and about 200-3,000 cows) still play a rather minor role with regard to total meat and milk production in Kazakhstan.

From the total of 4.7 million tonnes milk consumed in 2008, 2.3 million tonnes were packed milk and dairy products (of which 0.9 million tonnes are imported). The rest (i.e. 2.5 million tonnes) is unpacked milk and dairy products, which are self-consumed or used for other purposes. Kazakhstan is a net importer of milk and dairy products, with main import positions being packaged milk, yoghurts, butter, cheese and curds, condensed milk and milk powder. Regarding market supply of meat, red meat imports account for only 2-3% of total meat consumption in Kazakhstan, and while poultry meat still amounts for most of Kazakh meat imports (with most of the poultry meat import originating from the USA and in recent years also from Ukraine), poultry meat imports are gradually decreasing and are partly replaced by increases in domestic production. Recent developments in milk, dairy and meat supply in Kazakhstan are shown in Figure 18. The figure shows that Kazakhstan is almost self-sufficient by ‘red’ meat and the domestic market, with poultry put aside, is near saturation at current price level. Whole milk production is also not far from fulfilling domestic needs.

**Figure 18: Kazakhstan dairy and meat markets: market supply**

Source: Presentation Pak (ACEPAS, Kazakhstan)

Pak highlighted that the major obstacle for extending domestic processing of meat and milk in Kazakhstan is its fractured supply side, with 80% of meat and 90% of milk being produced by households with poor quality and efficiency, unstable supply, and seasonality.

**Meat markets in Ukraine**

The meat markets in Ukraine were presented by Elisabeth Svyatkivska (Association Ukrainian Agribusiness Club, Ukraine). Livestock production in Ukraine experienced a drastic decline during the 1990s. From 2001 onwards, the declining trend was reversed and Ukrainian livestock production increased by about 2% annually (cf. Figure 19).
About 70% of the cattle in Ukraine are concentrated in households. Supply to slaughters consists mostly of the cattle of dairy breeds, and the share of households in cattle sold to slaughters reaches up to 80% (depending on the region). In the beginning of 2010, cattle stock at all categories of farms amounted to 4826.7 thousand heads (cf. Figure 20).

Total pig stock in Ukraine also declined drastically during the 1990s, and then rather stabilized since 2000. In the beginning of 2010 pig population amounted to 7576.6 thousand heads, with about 3307.9 thousand heads (i.e. over 50%) kept at agricultural enterprises.

Poultry production shows a clearly increasing trend since 2000, with poultry stock at all categories of farms amounted to 190.9 million heads in 2010 (with 100.35 million heads...
being kept at agricultural enterprises) (cf. Figure 21). Ukrainian poultry production is expected to further increase significantly, as the sector currently experiences high amounts of investments.

Figure 21: Development of poultry stocks in Ukraine

![Figure 21: Development of poultry stocks in Ukraine](image)

Source: Presentation Svyatkivska (Association Ukrainian Agribusiness Club, Ukraine)
primary source: State Committee of Ukraine on Statistics

The import of livestock products increased significantly in 2008-2009 after a reduction of tariffs upon the accession of Ukraine to the WTO. As a result the Ukrainian government was compelled to have recourses to non-tariff methods of protection of domestic markets, mainly through veterinary checks. As a result of these non-tariff barriers the volume of import decreased in 2009 as compared to 2008. In 2010 veterinary barriers have been supplemented by activities of the State Customs Service aiming at an increase of customs values. The main motive behind that was improvement of state budget proceeds (i.e. 10-15% customs duties and 20% VAT). These attempts resulted in further decreases in imports of meat and meat products.

With regard to further developments, Svyatkivska does not expect major changes in the development of the Ukrainian meat sector. Poultry production will retain its position as the most stable growing sector (with about 5% annual growth). However the future prospects depend considerably on the development of export sales markets. Pig breeding is seen as having also good potential for growth, as larger industrial producers will increase their market share while small and medium farmers with lower efficiency will be leaving the sector. The cattle sector will remain the most problematic one, and is not expected to experience major changes in the near future. Generally it can be expected that the share of poultry and pig
breeding will be further growing on account of a further deterioration of the market share of beef.

**Meat markets in Russia**

Dmitri Rylko (IKAR, Russia) gave an overview on the developments in the meat markets in Russia. Until 2004, the developments in Russia's livestock production were similar to those in Ukraine. Since then, domestic meat policies in Russia became very proactive in terms of domestic producer support via market support (introduction of TRQ) and direct subsidies (within a national priority project). These measures considerably improved the production of pork and poultry and had a stabilizing effect on beef production. However, the policy also provokes higher domestic meat prices, and meets with a stagnant overall consumption during the last years.

Production of meat in Russia increased significantly since 2005 (poultry production almost doubled and pork production increased by about 50 percent). The leaders in meat and poultry production were the following provinces: Belgorod, Moscow and Chelyabinsk oblasts, Tatarstan Republic, Krasnodar, Stavropol and Altay krays. Especially the Russian market of poultry developed dynamically during the last years, with domestic poultry farming developing rapidly with regard to increases in poultry population and poultry production (cf. Figure 22).

**Figure 22: Dynamics of volume and share of domestic production vs. imported poultry and pork meats in Russia**

![Figure 22: Dynamics of volume and share of domestic production vs. imported poultry and pork meats in Russia](image)

Source: Presentation Rylko (IKAR, Russia)

In contrast to the continuously increasing production of poultry and pork meat, Russian beef production is rather stagnating. As beef demand is predicted to grow along with an expanding
middle class, annual beef per capita consumption is set to rise, which will provoke further increases in Russian beef imports.

Rylko emphasized the following issues as main contradictions of Russian meat markets: ambitious goals of "food security" doctrine, signs of market saturation and price affordability problems, WTO accession and associated upper limits of support. Furthermore, the Russian drought in 2010 will have longer term consequences for the sector. As a consequence of the drought, the feed prices went up and forced all categories of livestock farms to decrease the number of animal heads. Thus, due to the circumstances of the drought 2010, the several year governmental support programme for the livestock sector may experience a major setback with regard to its goal of increased self-sufficiency in meat.

4. Cereal markets

Since 1990, the three countries Russia, Ukraine and Kazakhstan have transited from being the world biggest grain importer to being the major grain exporting nations (cf. Figure 23). In this section the workshop presentations of the cereal market sessions are summarized, starting with an overview on the situation in world and EU cereal markets, and followed by specific information on the cereal markets in the three focus countries.

**Figure 23: Net grain exports from Russia, Ukraine and Kazakhstan**

Source: Presentation Dmitri Rylko (IKAR, Russia)
World and EU cereals markets

Dangiris Nekrasius (DG AGRI, Belgium) provided the general overview of the situation in world and EU cereals markets. Nekrasius presented figures on wheat, maize and barley with world balance, stock and prices for historical data from 1999 onwards and also projections until 2020.

World market developments are projected to experience a still strong demand for cereals, with an increasing annual rate in world cereal consumption. World cereal production is also projected to grow in the period 2010-2020, but not as fast as demand, and at lower growth rates than those observed in the period 2000-2009. Regarding cereals trade, annual growth rates in trade for the period 2010-2020 are projected to be lower than those experienced in the period 2000-2009 for wheat but higher for coarse grains. The medium-term prospects for the EU cereal markets depict a relatively positive picture with tight market conditions, low stock levels and prices remaining above long term averages. Supply growth in the EU is expected to result mostly from very moderate yield growth (slightly above 0.5% per year on average) with some reallocation between crops in a stable cereal area. The domestic use of cereals in the EU is projected to increase, most notably due to growth in the emerging bioethanol and biomass industry.

Cereal markets in Kazakhstan

The overview on cereal markets in Kazakhstan was presented by Rakhim Oshakbayev (ACEPAS, Kazakhstan). Wheat is the main crop produced in Kazakhstan, representing 82% of Kazakhstan’s total grains production in 2009. Around 70% (11.8 million tonnes in 2009) of wheat are produced by agricultural enterprises. Main production regions for cereals in Kazakhstan are the Northern Kazakhstan, Kostanai and Akmola regions. Cereal production is export oriented, with about 6 million tonnes of cereals being exported in 2008 and 5.5 million tonnes in 2009 (cf. Figure 24).
Figure 24: Production, export and production structure of cereals in Kazakhstan

![Figure 24: Production, export and production structure of cereals in Kazakhstan](image)

Source: Presentation Rakhim Oshakbayev (ACEPAS, Kazakhstan)

There are three key directions of Kazakh cereal exports: Iran, Azerbaijan, Georgia, Turkey (47% of export), Uzbekistan, Kyrgyzstan, Afghanistan, Tajikistan (36% of export) and Europe (10% of export). Transportation is one of the biggest obstacles to Kazakh cereal exports. Kazakhstan is the biggest landlocked country, with no access to the open sea and remoteness from grain terminals on Black, Azov and Baltic seas. Railway transportation of cereals is hindered as Russian exporters have the privilege on Russian railways. Furthermore, exports on southern directions are restricted by railway capacity limits (low capacity of railway tracks) and a lack of grain terminals. Thus, due to higher transportation costs (and also due to lower yields) Kazakh wheat can hardly compete with Russia and Ukraine on the EU market or Australia on the China market. The value chain in the export of one tonne of wheat is depicted in Figure 25.

Figure 25: Value chain in the export of one tonne of wheat (kzt) in Kazakhstan (autumn 2009)

![Figure 25: Value chain in the export of one tonne of wheat (kzt) in Kazakhstan (autumn 2009)](image)

Source: Presentation Rakhim Oshakbayev (ACEPAS, Kazakhstan)
Oshakbayev highlighted several opportunities for cereals production in Kazakhstan:
- Presence of local and foreign players on the market.
- Increase in production due to the expansion of sown areas and the relatively favourable weather conditions.
- Application of moisture-retaining technologies.
- Climatic advantages for growing.
- Improvement and development of infrastructure (for example in early 2010 an agreement to lift the ban on the transit of grain through the territory of China was reached, and construction of a grain terminal with capacity of 500 thousand tonnes on the boarder was started).

Cereal markets in Ukraine

Sergey Feofilov (Ukragroconsult, Ukraine) gave an overview presentation on cereal markets in Ukraine. He illustrated that every 3-4 years a decline in Ukraine’s cereals production can be observed, which can be mainly attributed to weather problems. The most recent example for such declines is 2010, where the drop in production is estimated to be about 15% (cf. Figure 26).

Figure 26: Grain production in Ukraine (mio. tonnes)

Feofilov explicitly highlighted that in Ukraine the production risks related to frosts are much lower than those related to summer droughts. For example in autumn 2007, air temperatures and precipitation were within the usual and even above usual levels in Ukraine, whereas in autumn 2008 there had been a delay in plantings due to hot weather (with temperatures...
between 31-35 degrees Celsius from 1-15 September) and in autumn 2009 a drought like weather in August and September caused that about 50% of the crop areas were planted at a later time than is usually best for sowing in Ukraine.

Feofilov emphasized that nowadays the driver for agricultural development in Ukraine is not technology but the capital markets. The availability of financing is a big problem, and interest rates are usually very high in Ukraine, for example in March 2010 interest rates were between 18-15% for loans with a 12 months duration and about 14-15% for loans with three years duration. Therefore cash prices for crops are the major source of financing for the farmers. As production margins for rapeseed and sunseed are much higher than those for wheat, barley, and corn (cf. Figure 27), farmers might still stick to these crops even though the Ukrainian government recently put a law into place that is actually imposing a 5-year crop rotation. The Ukrainian government would like to limit the area planted with oilseeds (in some regions the share of land planted with sunflower reaches 50%) due to sustainability problems related to missing or insufficient crop rotation.

**Figure 27: Production margins in Ukraine, 2009/2010 (UAH/tonne)**

![Production margins graph](image)

Source: Presentation Feofilov (Ukragroconsult, Ukraine)

UkrAgroConsult has developed the Ukrainian Agricultural Index (UAIndex) as a tool for forecasting capital markets and assessing the value of agricultural companies. The UAIndex reflects the market’s average attitude towards Ukrainian agro-holdings as entities operating in developing markets, i.e. the index assesses the future value of companies against the background of the interaction of current factors. The index is daily adjusted by UkrAgroConsult specialists on the basis of calculated potential revenues from sales of wheat, soybean, sugar, corn, barley and input costs. The calculations of revenues/expenses are based on commodity futures. In mid 2010, the UAIndex went down severely, as a reaction to the drought which affected production output, and the export restrictions announced by the
government. Feofilov concluded that an improving and reliable business climate would drive the interest in Ukrainian agribusiness, and attracting capital for the sector.

Cereal markets in Russia

Andrey Sizov (SOVECON, Russia) mainly presented details on the Russian grain markets in 2010/11. With the 2010 grains harvest progressing more slowly than usual yields decrease over time and about 10 million tonnes will be lost due to the summer drought (cf. Figure 28).

Figure 28: Russian harvest progress in 2009 vs. 2010

![Russian harvest progress in 2009 vs. 2010](image)

Source: Presentation Sizov (SOVECON, Russia)

Estimated grain production in Russia is about 59 million tonnes of which 41 million tonnes are wheat, 8 million tonnes barley and 10 million tonnes maize and mixed grains. These figures indicate a production decrease of about 37 million tonnes compared to the harvest in 2009. Due to high grain prices (even in Kazakhstan) and quotas in Ukraine, imports will be limited to 3.5 million tonnes. Out of the approximately 20 million tonnes of stocks, some 13 will be mobilised to reach the balance. Consumption is expected to decrease due to increased prices and grain exports might fall from 22 to 3 million tonnes. This production decrease will most likely result in a reduced cattle production in Russia (i.e. cattle will be slaughtered) in order to avoid costly feed imports (and meat will instead be imported). Forecasts for sowing of winter grains in Russia amount to 13 million ha, instead of 17 ha actually planned. This might result in a rather serious drop in 2011 wheat production.

Sizov concluded that Russia’s grain balance in 2010/11 will be tight, despite the ban on grain exports. Demand for wheat, including milling wheat from the feed industry is growing fast. For barley and corn the quite tight balance is underpinning fast growing domestic prices. Feed
barley prices, which are now well above milling wheat prices, keep pushing domestic wheat prices. The strong domestic prices are expected to result in heavy slaughter rates and declines in livestock numbers. The reduced livestock numbers will ease domestic demand for feed grains in Russia; nonetheless a sharp growth in Russia’s grains imports looks unavoidable. Russia’s market adaptation capacity to react on the increased grain demand is seriously limited due to climate, missing capital and a rather unpredictable policy environment. Sizov also highlighted that Russia has about 30 million ha of unused potential arable land (offering lower yield) but it would require capital investment to bring this land into production.

5. Oilseeds and biofuels markets

This section provides a summary of the workshop presentations on oilseeds and biofuels markets in the three focus countries. While oilseeds are produced in all three countries, biofuels production is not relevant in Russia and Kazakhstan and is therefore not covered in the respective presentation summaries.

EU and world markets for oilseeds and biofuels

Dangiris Nekrasius (DG AGRI, Belgium) provided a general overview on the developments in EU and world markets for oilseeds and biofuels. Nekrasius presented figures on soybean, rapeseeds and sunflower with world balance, stock and prices for historical data from 1999 onwards and also projections until 2020. World demand and production of oilseeds are projected to both grow in the period 2010-2020, albeit at a lower rate than in the period 2000-2009. The annual growth rate in world trade of oilseeds is projected to be about 2% for the period 2010-2020, compared to about 3.2% between 2000 and 2009. Medium-term prospects for the EU oilseeds markets show an increase in oilseeds supply, resulting mostly from moderate yield growth and to a lesser extent from a slightly expanding oilseeds area, with some reallocation between crops. The expected increase in domestic use of oilseeds in the EU would be driven by growth in the emerging biodiesel and biomass industry following the initiatives taken by EU Member States in the framework of the Renewable Energy Directive (RED). In order to meet biofuels targets in the EU, additional imports will be required, and thus the EU’s trade balance is not expected to improve over the medium term.
Oilseeds markets in Kazakhstan

Dauren Oshakbayev (ACEPAS, Kazakhstan) gave an overview on the oilseeds markets in Kazakhstan. The area suitable for oilseeds production in Kazakhstan is limited, and thus oilseeds area (including sunflower, rapeseed, safflower, cotton seed, soybeans and other oilseeds) represents only about 6% of the total sowing acreage. Compared to the early 1990s production of oilseeds has almost doubled, however the production development has been more extensive than intensive (Figure 29).

Figure 29: Oilseeds production dynamics in Kazakhstan

![Production and Area of Oilseeds in Kazakhstan](image)

Source: Presentation Dauren Oshakbayev (ACEPAS, Kazakhstan); * 3-year averages

Main oilseeds produced in Kazakhstan are sunflower, cottonseed and rapeseed, and yields are rather low (cf. Figure 30). Kazakhstan is exporting rapeseeds (representing 85% of total oilseeds exports in the last three years), mainly to Latvia, Denmark, Finland and Norway. The main imported crop is sunflower (representing 73% of total oilseeds imports in the last three years), which is mainly imported from Russia. Driven by processors in Kazakhstan, imports of soybeans increased considerably in the last years (currently representing 22% of total oilseeds imports).

Regarding oilseeds processing, there are 15 medium and large scale processing companies in Kazakhstan (only two of them remaining from soviet times). Two processing companies are dedicated mainly to soybeans and two to rapeseed. Except the Savola group processing plant, all processing plants are allocated in oilseeds production regions. Current total Kazakh oilseeds processing capacity is estimated to be more than 1.3 million tonnes, however the oil processing plants capacity utilization was 22.6% in 2009. The key players are equipped with modern western production lines, with five plants being able to produce deodorized oil.

10 Production of biofuels in Kazakhstan does not exist. Oshakbayev stated that actually two plants have been built for bioethanol production in Kazakhstan. However, as it was impossible to sell its output both plants switched to the production of vodka.
Rapeseed is mainly processed for food purposes. Each company has its own procurement system, trademarks and wholesale distribution network.

**Figure 30: Oilseeds production structure and yield averages in Kazakhstan**

Regarding export bans, Oshakbayev showed that the Kazakh sunflower seeds and oil export ban from October 2007 and April 2009 as well as the export bans for rapeseed, cotton seed/oil and soybeans between October 2008 and April 2009 had a clearly decreasing effect on domestic prices in Kazakhstan.

Concluding his presentation, Oshakbayev pointed out several limits for oilseeds production in Kazakhstan: while the recommended crop rotation with sunflower is five years, in East Kazakhstan 31% of arable land is under sunflower; for rapeseed (as a water demanding plant), 240-330 mm rainfall is not enough, furthermore rapeseed requires soil fertility and nutrient availability; being drought resistant, safflower is the most unpretentious crop, but it suffers from diseases and pests; soybeans are cultivated on irrigated land which is very limited in Kazakhstan.

**Oilseeds and biofuels markets in Ukraine**

Alina Fedyay (Bunge, Ukraine) highlighted that just about five years ago sunflower covered almost the total oilseeds production in Ukraine (99%). However, nowadays also rapeseed and soybeans are produced. Fedyay presented Bunge Ukraine forecasts for the development of sunflower, rapeseed and soybean production in Ukraine. Regarding sunflower, the forecast shows a yield increase of 8% by 2015/16 and 23% by 2020/21. Harvested area is expected to
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

decrease, which could be explained by the need for crop rotation (as in some east and central Ukrainian regions sunflower crops are produced on about 40% of all agricultural area.

Ukrainian rapeseed production is developing very fast in the resent years. Rapeseed yields are foreseen to further increase 60% by 2015/16 and 96% by 2020/21. Yield growth rates are forecasted to be smaller for soybean production than for the other oilseeds crops, with yield increases of about 4% by 2015/2016 and 13% by 2020/21.

The Ukrainian crushing industry (about 90% is sunseed or multi-crush) is very well developed and highly competitive. Current average usage of crushing capacities is estimated at 92-95%, and increases of crushing facilities are already foreseen for the near future.

Figure 31: Crush capacity and crop deficit in the Ukrainian crushing industry

With respect to total oilseeds production in Ukraine, the forecasts show an increase in production of more than 50% and a doubling of Ukrainian oilseeds exports by 2020. About 90% of the oilseeds exported will be rapeseed.

Regarding the Ukrainian biofuels market, the market situation differs greatly between biodiesel and bioethanol. There are about 42 simple machineries and mini-plants for biodiesel in Ukraine, operating with a total capacity of 500000 tonnes, and producing 50-70 kmt of biodiesel annually. The poor performance of biodiesel production in Ukraine is not surprising, as according to a rough calculation of Fedyay, the current cost of biodiesel production in Ukraine is about 9758 UAH/mt, whereas the price of conventional diesel is about 7900 UAH/mt. Thus, under these conditions there is no perspective for biodiesel production in
Ukraine. The situation is different for bioethanol. In 2009, Ukraine produced almost 12 kmt bioethanol. In the same year six Ukrainian distilleries were reconstructed for bioethanol production with a total annual capacity of 120 kmt. Further investments in bioethanol are foreseen, as for example Ukrros (a Ukrainian agroholding) is going to invest 30 million USD into the reconstruction of a sugar plant, with the target of an annual capacity 110 kmt of bioethanol.

Fedyay highlighted two major issues that need to be resolved if Ukraine wants to realize its great potential for further development in bioethanol: a functional incentive program for domestic bioethanol consumption (the current programme does not seem to work), and improvement of the legislative framework (more than 10 different laws/decrees were passed since 2000, but amendments are needed).

Oilseeds markets in Russia

Andrey Sizov (SOVECON, Russia) mainly presented details on the Russian oilseeds markets in 2010/11. The areas sown with sunflower was at a record high in 2010. However, due to the summer drought the estimated sunseed output was expected to be lower than in previous years. Compared to 2009, the sunseed output was lower in all Russian regions except Siberia (where production was stable but very low). Rapeseeds and soybeans also reached record highs with respect to area sown in 2010 (0.878 mio. ha rapeseeds and 1.178 mio. ha soybeans). Contrary to the estimates for sunseed, rapeseeds and soybeans output was expected to be higher than in previous years. Therefore total oilseeds output for 2010 was expected to be lower than in the two previous years but still above the level of 2007.

Figure 32: Total oilseeds and sunseeds output in Russia

Source: Presentation Andrey Sizov (SOVECON, Russia); Note: 2010 is a forecast
Sizov concluded that the sharp decline in sunflower production results in a tight oilseed balance in Russia despite the record high output of other oilseeds. The high domestic oilseeds prices bust a steady growth in domestic vegetable oils prices. These high domestic prices for vegetable oils have the effect that Russia's sunflower oil exports will be uncompetitive and will limit Russia's sunflower oil exports in 2010/11, thus Russian sunflower oil producers will focus on the domestic market.

6. Agricultural production and commodity market developments in Ukraine, Russia and Kazakhstan: Status quo, possibilities, challenges, and risks

In this section we present a summary of the workshop discussions. First some comments on the main challenges for the agricultural production and commodity market developments in the three focus countries as given by Dmitri Rylko (Russia), Victor Andrievsky (Ukraine) and Rakhim Oshakbayev (Kazakhstan) are presented. After this the major points of the discussions throughout the workshop sessions are summarized.

Commenting on Russia's big challenges in the agricultural sector, Dmitri Rylko (IKAR, Russia) highlighted the world economic crisis, high export tariffs in Russia and the 2010 drought as the most unfavourable external conditions with which the Russian agribusiness currently has to deal with. High interest rates make the financing of agricultural enterprises very difficult and the world financial turmoil has the effect that Russian agriculture had (and still faces) even more difficulties with respect to getting the needed financing for production inputs and machinery. Effects of the 2010 drought will still be felt during the next 2-4 years, especially with regard to the livestock sector, and are expected to lead to further regional differences in Russia’s agricultural sector.

Victor Andrievsky (Agrarian Market Development Institute, Ukraine) highlighted financing, infrastructure, the land market, and a coherent agricultural policy as the most important challenges for Ukraine's agriculture. He sees the necessity of a vital dialog between agricultural producers and policy makers, and that people with profound knowledge of the domestic agricultural sector need to be involved in decision making. Small Ukrainian farmers may be the ones most negatively affected by the accession of Ukraine to the WTO, and the question is how to assist them during the period of structural change in the agricultural sector.
Rakhim Oshakbayev (ACEPAS, Kazakhstan) emphasized Kazakhstan’s remoteness, and the associated difficulties to reach new markets due to distance, absence of open sea access, lack of railways and transit possibilities as the major challenges for the development of the agricultural sector in the country. He specifically highlighted the importance of international knowledge exchange and transfer, and in this respect appreciated very much meetings like the present workshop.

Throughout the workshop sessions, participants discussed the role of big agricultural enterprises (agroholdings) and small households in the development of agricultural production in the three focus countries. In all three counties there is a dichotomy with regard to farm size, with some big agroholdings on the one side and many small scale and subsistence farmers on the other side. While the latter are large in number and have an important role to play for rural development, they are usually very small in size and individual production output. Smallholders typically suffer under a lack of access to equipment and production input, and therefore often rely on local collective farms with respect to inputs. Workshop participants pointed out that for example a great part of fodder used by individual household farms comes from local collective farms. Furthermore, rents are often paid in kind by the big agricultural enterprises to households. As these free inputs are not accounted for in statistics, small farms might actually not be as productive as suggested by statistics. The nature of such relationships and dependence may also at least partly explain how individual household farms can survive even though they are obviously not really viable in terms of agricultural productivity.

Limits with respect to farm size have also been discussed during the workshop, and participants reported that management problems can certainly occur if agroholdings are getting too big, with such problems hampering efficiency and productivity of the agroholdings. It was also stated that there is a general lack of qualified farm labor and qualified and experienced agricultural managers in all three focus countries.

In general, sustainability of agricultural production seems to be a challenge for all three countries. Workshop participants expressed their concerns that some investors and new cooperate owners seem to exploit land with the objective of maximum short-term production and profit, and with rather little concern for long-term consequences and sustainability. Investors also may sometimes not be very bonded to the regional countryside and the rural population, implying a lack of understanding of existing institutions, structures, and practices. Workshop participants agreed that stable rules for long-term rent of land and private property on land are important prerequisites for both enhancing sustainability in production and
improve output, and they are needed in order to attract investments in agriculture. Activation of the land market in Ukraine remains an uncertainty and it is not clear when and under which regulation the moratorium on the agricultural lands selling will be lifted. It was highlighted that about 7 million citizens of Ukraine are owner of land, and for many of them rent of farm land is a major source of income. Therefore transparency of the land market is crucial (not only in Ukraine) and must be obligatory for all participants, so that people who sell shares know the appropriate price of their land. Consequently, Ukraine needs to put institutional arrangements into place that enable an efficient recording, circulation, control, and enforcement of land property rights, i.e. a proper legal framework for regulating the land market and an official and functioning land cadastre should be established before the land moratorium in Ukraine is lifted.

Participants also discussed issues regarding the quality of official statistics in the three focus countries. It was stated that official statistics seem to tend towards more favorable figures, which might be also a reason that for example in 2010 the Russian government realized rather late that the domestic cereals harvest will be very low. Unreliable statistics form a serious handicap for policy decision makers and improving statistics in the focus countries represents an issue that might need more attention.

One of the most crucial issues for the further development of the agricultural sectors in Ukraine, Russia and Kazakhstan is improvement of logistics and infrastructure (e.g. developing optimal routes to target markets, raising the capacity of grain terminals, etc.). This comprises both private and public investments. It was acknowledged that there are already considerable investments in grain infrastructure, for example in Ukraine, with the competition among the trading companies becoming stronger every year. However, market institutions and organization of the markets are still weak in the region, and contract enforcement is often rather difficult and time-consuming, with contract default risk being high. A lack of contract enforcement implies not only difficulties for grain traders but also adverse effects for producers, especially with regard to financing abilities.

Experts at the workshop emphasized the difficulties implied when governments impose ad hoc export restrictions. Ad hoc export restrictions, like those applied in 2010 for grain exports in all three focus countries, do not only have adverse effects on world grain markets but also constitute a great risk for traders and threat domestic farm gate prices. However, it was also mentioned that while grain export restrictions comprise losses for the exporting sectors, they might be beneficial for the domestic livestock sectors as they imply lower feed prices. In any
case, if export restrictions are planned to be imposed it was deemed important that the market participants are informed well in advance by the government.

Throughout all discussions in the workshop sessions, participants of the workshop highlighted that stable, transparent and reliable regulatory frameworks, with stable rules for long-term contracts for rented farm land and private property, coherent agricultural policies, and a crack down on corruption are crucial for the further development of the agricultural sector in the focus countries and would be a prerequisite to attract the needed domestic and foreign investments into agriculture and infrastructure. This, together with a vital dialogue between market participants, science and the government, would certainly further boost production in the focus countries.
Workshop Presentations
Introduction and background of the workshop
Jacques Delincé, Thomas Fellmann, Olexandr Nekhay (JRC-IPTS)

Introduction

Workshop on “Developments in agricultural commodity markets: a special focus on Ukraine, Russia and Kazakhstan”

Jacques Delincé, Thomas Fellmann, Olexandr Nekhay

European Commission
Joint Research Centre
IPTS – Institute for Prospective Technological Studies
Sevilla – Spain

The JRC is a Directorate-General of the European Commission

JRC – Robust science for policy making

The Mission as a Directorate-General of the European Commission
- Provide customer-driven scientific and technical support for the conception, development, implementation and monitoring of EU policies.
- As a service of the European Commission, the JRC functions as a reference centre of science and technology for the European Union.
- Close to the policy-making process, it serves the common interest of the Member States, while being independent of special interests, whether private or national.

The Vision
- Be a trusted provider of science-based policy options to EU policy makers to address key challenges facing our society, underpinned by internationally recognised research.

The Structure of the JRC

7 institutes in 8 Member States (2700 staff in 340 M€ budget + 60 M€ turnover)

- Institute for Health and Consumer Protection: Public health, food safety, consumer protection
- Institute for Energy: Energy efficiency and renewable energy
- Institute for Sustainable Development and气候变化: Climate change, energy efficiency
- Institute for the Environment: Environment and biodiversity
- Institute for Research on Food, Nutrition and Health: Food, nutrition, health
- Institute for the Information Society: Information society, technologies
- Institute for the Security and Defence: Security and defence
- Institute for the integrated Analysis of Agro and Food Systems: Agriculture and food systems

The Structure of the JRC-IPTS

JRC-IPTS: five core policy fields
- Competitiveness and sustainability
  - focusing on the economics of resilience, policies relating to the manufacturing, energy and transport sectors.
- Climate change
  - focusing on the economics of climate change.
- Knowledge for growth
  - focusing on the contribution of policy and its interplay with related policies, especially innovation, industrial development
- Integration society
  - focusing on the policies to integrate Europe’s take-up of the information society, and to improve the competitiveness of Europe’s ICT industry.
- Agriculture and rural development
  - focusing on the economics and social policies of agriculture and food policies

AGRITECH: Technical economics of GM crops in EU
EUTRACE: Economic analysis of farm sustainability
AGTRACED: Model-based analysis of CAP and markets

The JRC-IPTS has developed a new approach to design integrated platforms for modelling tools and market analysis to support EU policy-making.

- Modelling of the Common Agricultural Policy
- Projections of agricultural commodity markets in Europe
- Analysis of international agro-food trade patterns
- Improvement of data quality and availability

Integrated Agro-Economic Modelling Platform (IMAP)
- Partial equilibrium models: CAPRI, EBSN, ASHIN, AGMEMOD
- General equilibrium models: GTAP, GLOD
- Data management tool

Background

- JRC-IPTS in cooperation with DG AGRI has built up an integrated platform for modelling tools and market analysis to support EU policy-making.
- The Platform is designed to provide an integrated approach to the modelling tools used to support EU policy-making on agricultural commodity markets and provide a critical perspective on the policy context.

- Different orientations: emphasis on the exchange of views, comparison of different methodologies and analysis of market outlook

- Present and improve the yearly outlook: “Prospects for agricultural markets and income in the EU” (which is based on modelling results and market expert validation)

- JRC-IPTS is highly involved in the preparation of the EU market outlook and in the impact assessment of CAP reform 2013
- Planned improvements of the modelling tools used at JRC-IPTS include improvements of the AGMEMOD model and further automation of the modules for Russia and Ukraine
- Build a stand-alone model for Kazakhstan in AGMEMOD
- Improve market expertise and modelling tools

Major objectives of the workshop

- Give an overview on short/medium term perspectives of agricultural markets in the context of world market developments, focusing in particular on Ukraine, Russia and Kazakhstan
- Special focus is given to the potential and constraints of agricultural production in these three countries
- Outline the reasons behind observed and expected market developments
- Present expert knowledge from agro-business and market analysis
- Provide a forum for discussion and for drawing conclusions on key factors for agricultural market development in Ukraine, Russia and Kazakhstan.
### EU Assistance to Ukraine in the field of Agriculture, Food Safety and Rural Development

Natalya Korchakova (Delegation of the EU to Ukraine, Ukraine)

#### EU Assistance to Ukraine in the field of Agriculture, Food Safety and Rural Development

Natalya Korchakova  
Sector Manager  
Economic, Trade and Territorial Development  
Delegation of the European Union to Ukraine

#### EU- Ukraine political framework

- Complex
- Dynamic
- Gradual deepening of economic integration and political relations

Forthcoming events:
- The EU-Ukraine Ministerial meeting which will take place in Luxembourg on 26 October.
- The 14th EU-Ukraine Summit which will be held in Brussels on 22nd November: The EU-Ukraine highest level of political dialogue takes place at the annual Summit meetings between the President of Ukraine and the EU Presidency together with the President of the Commission and the EU High Representative for Common Foreign and Security Policy.

#### Political framework

- The current legal framework for EU-Ukraine relations is provided by the Partnership and Co-operation Agreement (PCA). Ukraine is the first country of the former Soviet Union to conclude a PCA with the European Union in June 1995 (agreement entered into force on 3 March 1997).
- Ukraine is a priority partner country: within the European neighbourhood Policy (ENP) it ranked 1st in the 2005 Ranking of European Neighbourhood Policy countries which is a part of the European neighbourhood Policy.
- By March 2007 negotiations on a new EU-Ukraine Association Agreement (AA) were launched to replace the Partnership and Co-operation Agreement. This new agreement is expected to take into consideration Ukraine’s accession to the World Trade Organization in May 2008, the establishment of a Deep and Comprehensive Free Trade Area (DCFTA) with the EU.
- Since negotiations and ratification of the EU-Ukraine Association Agreement will take some more years before the final agreement can enter into force, the Union decided to adopt the EU-Ukraine Association Agenda.
- The new EU-Ukraine Association Agreement (AA) will replace the PCA, and will include a Deep and Comprehensive Free Trade Agreement (DCFTA), or preferential Free Trade Agreement to promote trade and investment relations. At the same time, the EU-Ukraine visa liberalisation negotiations under the EU-Ukraine Action Plan will also take place alongside these negotiations and will be part of the overall process.
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

**Association Agenda and priorities for 2010**

- The Association Agenda is a new practical instrument replacing the EU-Ukraine Joint Action Plan, which is being prepared for and facilitating the entry into force of the EU-Ukraine Association Agreement, which is currently being negotiated.
- The Association Agenda was adopted on 23 November 2009 by the EU-Ukraine Joint Action Plan. It sets key priorities for reforms, which Ukraine should address in the coming years in order to fully benefit from the quality of the Free Trade Agreement and the benefits associated with closer ties.

**Priorities within Association Agenda for Agriculture and rural development**

- The Partners’ mandate to support Ukraine is to prepare for and implement the implementation of the EACs, mentioned in relevant aspects of the Association Agreement, in particular through enhanced activities of the established agricultural dialogues, in particular:
  - improving the competitiveness of agricultural production, including by cooperation on the implementation of quality schemes.

**Bilateral Policy Dialogue on Agriculture and rural development**

**DG AGRI—Ministry of Agrarian Policy policy dialogue**

- Signature of Memorandum (18/06/2009):
  - Content of the Memorandum: best practices exchange, agricultural trade (export/import), agricultural production, rural development
  - High level meetings: Minister – Commissioner
  - Working groups (at least 2 meetings per year)
  - Training of the Ukrainian officials in Brussels (e.g., statistics, grain quota management)

**EU financial co-operation with Ukraine**

- The EU and its Member States—the largest donor to Ukraine. Since 1991, assistance provided by the European Commission is €1.4 billion.
- Annual bilateral funding (National Action Plan) has increased from €47 million in 2001 to €136 million in 2009.
- The co-operation framework behind EU financial and technical cooperation with Ukraine is the EU-Ukraine Association Agreement adopted by the European Parliament in 1992.
- The current financial Indicative Programme (2007-2010) (€494 million) was defined in close cooperation with the Ukrainian government and is subject to revisions.
- The strategy includes four main areas, each targeting specific challenges:
  1. Development of the agro-food sector
  2. Development of electricity networks
  3. Public administration reform: support to key reforms and the EU integration process.
- The current Financial Indicative Programme (2007-2010) (€494 million) was defined in close cooperation with the Ukrainian government and is subject to revisions.
- The strategy includes four main areas, each targeting specific challenges:
  1. Development of the agro-food sector
  2. Development of electricity networks
  3. Public administration reform: support to key reforms and the EU integration process.

**Principles for provision of financial assistance to Ukraine in field of agriculture, food safety and rural development**

- Alignment with governmental policies (e.g., the Economic Reform Programme for 2010-2014 developed in 2010).
- Donor coordination
- A donor group on agriculture is functional under the leadership of the Ministry of Agrarian Policy.
- A food safety donor group is active under leadership of EU-funded sector project.
- Sector-wide approach (institutional development, agricultural markets infrastructure, food safety and rural development)

**Available mechanisms for financial support**

- **Within ENPI:**
  - National Action Programmes:
    - Actions in form of service, supply contracts and grants.
    - Training projects (institutional building projects in form of grants)
    - Technical assistance projects (educational projects in form of grants)
  - **Outside ENPI:**
    - The 7th Framework Programme (International scientific and technological cooperation): Food, Agriculture and Forestry, and Biotechnology (17 M€ for 2007-2013).
    - Technical assistance and information exchange (TAEX): short-term technical assistance, technical training and user assistance managed from Brussels.
    - Direct co-operation with relevant DGs (DG AGRI, DG SANCO, DG Trade).

**EU-funded ongoing actions in ag sector in Ukraine**

**Sector-wide programme on agriculture, rural development and food safety (8 mln EUR)**

- Implementation of the sector-wide project: Implementation of Ukraine’s commitment under WTO and Doha framework in the rural sector (EU-AP). The project has started on 15 November 2008. The project budget is 8 mln EUR. The project comprises four components:
  1. Agricultural market infrastructure, rural development and institutional capacity building:
  2. Procurement of equipment for the reference veterinary laboratories, and FANS, crop forecasting system (3 supply contracts with total value of 2.3 mln EUR).
  3. Training project on food safety issues implemented by ICoB, Danish and Ukrainian veterinary competent authorities. The project budget is 1.2 mln EUR.

**TAIEX programme**

- Study visit on animal identification and registration systems for monitoring of beef and beef products. 1-3 March 2012, Bratislava, Slovak Republic. Ministry of Agrarian Policy of Ukraine/Agency for Animal Identification and Registration.
- Workshop on development of civil society in the rural and agricultural sectors of Ukraine. 3 March, Kyiv.
- Study Visit on HACCP implementation, traceability, approval of establishments and official controls in meat, milk and dairy products: processing establishments. 6-10 April 2010. Belgium State Committee for Veterinary Medicine.
- Workshop on handling food crises / emergency12-29 April 2010. Kyiv, DG Sanco and European Food Safety Authority (EFSA).
- Workshop on development possibilities of small business in a village, project implementation and principles of its international. 30 April 2010. Plovdiv–Chief Administration, Ministry of Agrarian Policy.

**Project under preparation**

- Comprehensive Institutional Building Programme: Sanitary and Phytosanitary (SPS), approx. Budget: 9 mln EUR. Within Ukraine, the Comprehensive Institutional Building (CIB) programme is funded under the European Agricultural Fund for Rural Development (EAFRD) in the regions that play a central role in preparing ground for and implementing the future Accession and LCPs.
- Sanitary and phytosanitary regulations (food safety)
- Brings in new harmonised system of sanitary and phytosanitary standards (SPS) in line with EU standards is part of the Economic Reform Programme for 2009-2014.
- The background of this reform has been set out in the report “National food control systems in Ukraine and proposal for its reform” based on European standards performed by an EU-funded project. Based on this report, in May 2013 the Government of Ukraine adopted a plan of action to reform the SPS system. The plan provides a solid basis for further development of the Institutional Reform Plan.
- Training project on Rapid Sanitary and Phytosanitary impressions in plant protection. Budget: up to 1.2 mln EUR.
- Training project on the Ministry of Agrarian Policy at state aid in the agricultural sector. Project budget: up to 1.2 mln EUR.
Conclusions

1. Agricultural sector along with rural development and food safety remains a key sector for technical assistance in Ukraine.
2. A coordinated effort with the other donors is required.
3. A policy dialogue and gradual approximation of the Ukrainian legislation with the EU is to be continued.
4. The on-going EU-funded sector-wide programmes (SWAP) allows to explore the possibilities for the provision of the budget support in the field of agriculture and food safety.

Farm structure and agricultural landscape in the region

Dmitri Rylko (IKAR, Russia)

“Agroholdings”

- General context
- Why agroholdings
- What we know about them
- Future

For the second time during last century Russia and neighboring countries challenge the organizational landscape of the world agriculture...

- 30’s of 20’s century: massive collectivization
- 00’s of New Century: New Agricultural Operators (NAOs) or “agroholdings”...

World gain and FSU Black Sea loss of arable land: 1992=100%

Over last two decades the dramatic arable land shrinkage has taken place in three FSU Black Sea countries...
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

... In parallel three FSU Black Sea nations have transitioned from being world biggest grain importer to the major grain exporting nations...

The country has occupied strongest positions on the world wheat, barley, and sunoil export markets

The issue of vertical supply chain

- Fragmentation and disappearance of traditional input and service institutions and supply channels to/from agriculture
- Absence/weakness of role of contract laws, or simply wrong contract legislation
- Lack of commodity market price volatility protection
- (Extremely) high open market transaction cost

"New Agricultural Operators" (NAOs) or "AGROHOLDINGS" as regional solution

Combination of new organization of vertical supply chain and

new organization of farming

Our basic knowledge up-to-date

NAOs/agroholdings: mega-multi farming projects of mostly non-agricultural entities, which have entered primary ag production

Criteria:
- Size
- Active, but remote participation in management and control
-_Value at risk in agriculture

The issue of "independent collective farm"

- Lack of ownership and control
- Lack of efficient management
- Lack of legal and administrative protection

Our basic knowledge up-to-date

From Autumn 1999 (first publication) ongoing monitoring and updating data base

As of beginning of 2019, more than 150 private companies, which have captured 14500 TLA of arable lands in Russia (out of 115000 TLA total nominal Russian arable land and ~60 under key perennial crops)

Including 15+ companies with 100 TLA and more...
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Aggressive “integration” into the state bureaucratic pyramid

Lobbying preferential conditions for domestic agriculture and agbiz:

- Rice: from small 10% import duty to $120 per ton
- Sugar: introduction of flexible rate raw sugar import tariff up to $270 per ton
- Grains: Intervention fund and subsidized investment credits on farm, country and export elevators’ construction
- Meats: transfer from 0% to import TRQ incl. prohibitive over-quota tariffs

Why most fertile (South) and least fertile Siberia are least captured by agroholdings?

Agroholdings and «traditional» farming: what is the change?

- Input supply: mega-deals
- Credit: new collateral mass
- (Super)Quick crop rotation swings
- Marketing: new houses, or «captured» markets, or more professional approach to commodity sales

Managerial issue

Why is the “family farm” in the rest of the world?

The Rule of Agriculture. Perennial crops: predominance of “family farming” (mother nature and biology. Deviations: plantation crops, modern livestock and poultry operations)

Agroholdings aggressively do against the “rule of agriculture”: massive invasion into perennial crop production!
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Management in agroholdings

Creation of «reverse managerial pyramids» and highly hierarchical up-to-down decision making pipelines

What's next: regional context

Kazakhstan
Russia
Ukraine
20 companies “agroholds” 6.9% of the grain output
200-300% control 14% of grain output
From second half of 90's are growing fast

Russia is type of in-transitional Between of Kazakhstan (dominance of «agroholdings») and Ukraine (quick emergence of agroholdings)

Agroholdings management: with sense of humor

Instead of conclusions: Ag landscape: preliminary observations:

Our regional of Black Sea FSU common's agricultural landscape continues to be a unique case (sun/sea industry focus)

NAO's as a way of spewing re-industrialization of domestic agriculture (the agroholding & agroindustrial faster than converges farming operations)

Long term managerial and managerial efficiency of agroholdings is highly questionable

Agroholdings will most likely to continue to expand until they fully digest independent collective farms, until farms land is undervalued, until markets are not complete and efficient

Agroholdings managerial dilemmas

«Protection»
New vision
New technologies
New collaborate
Economy on scale

Lack of ag experience
Dissonance and chaotic DM
Reverse hierarchy in management process
Whose orders in the “master” in these agroholding?
The role of agriculture for rural development
John McCormack (SWAP-RURAL Project, Ukraine)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Share of households in Ag prod by commodity 2004

Is Ag and Rural Development the same?

Ag Development
- Primary production
- Food security
- Improved Productivity
- Through sustained improvements in productivity of the agriculture sector
- Share of income derived from Ag in rural economy

Rural Development
- Rural livelihoods/poverty reduction
- Socio-economic welfare
- Rural Services provision & infrastructure
- Through sustained growth of the rural economy, which includes Agriculture
- Diversification & non-farming sector opportunities

Some Functions of Agriculture for Development
1. Can be a lead sector for growth
2. Source of livelihoods
   - Poverty reduction
   - Social buffer
   - Multifunctional role
   - Cultural, heritage, way of life, environment
3. Food security
4. A way of better managing natural resources
5. On farm and rural diversification, Rural SME & MSME development
6. Skills development and youth
7. Rural community development/civil society

Leverage the multifunctional nature of Agriculture
For sustainable development and poverty reduction, the multifunctional role of agriculture must be given a much more prominent place in RD Programming in Ukraine

Today there are improved opportunities to use agriculture for development
But not as usual:
- More and better targeted investments
- Multisectoral & decentralized approaches tailored to local situations
- Address the potential commercial family farm sector, competitiveness and markets

Potential of agriculture for development: improved livelihood pathways

- Efficient markets, value chains
- Demand for agriculture
- Subsistence farming
- Transitions towards commercialization
- Rural labor market: Ag, Rural non-farm, skills, etc.
- Migration

EU AGRICULTURE MODEL
- a modern and competitive farming sector
- sustainable and efficient farming systems
- serves rural communities - a living rural countryside
- public good services
- environmental conservation and protection
- simplified Ag policy
Land markets in Ukraine
Andriy Talama (J&L Consulting, Ukraine)

As of 1 January 1992, all land in Ukraine was in state ownership.

The initial stage of land reform suggested land de-nationalization, that is transfer of land from state ownership into possession of collective agricultural enterprises.

The second stage of land reform in Ukraine was launched in the end of 1999 by the Decree of the President by establishing a rule that land certificates should be converted into land titles A5/A5P, with physical allocation and land demarcation. Due to this requirement, fundamental steps in land reform were made.

As of 1 October 2018, almost 6.5 million rural residents has already received their land titles confirming private ownership of land in former collective enterprises, which is actually 92% of total amount to be received.
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

**Diagram of dynamic of land purpose change**

- **Production grounds**: 419,243 ha
- **Settlement land**: 79,059 ha
- **Other land**: 15,152 ha
- **Forest land**: 1,922 ha

**Diagram – the amount of rent fee (in % on 01.10.2010)**

- Rent fee up to 1.5% - 44%
- Rent fee 1.5% - 2.8% - 44%
- Rent fee 3.2% - 4%

**Main components of the land market**

Experts usually distinguish three main components of land market, namely:

- Purchase-and-sales Market
- Mortgage Market
- Rent Market

**Diagram – term of rent agreements, as of 01.10.2010**

- More than 10 years - 0.1%
- 5-6 years - 9%
- 6-10 years - 22%

**Diagram – amount of rent fee per 1 ha/year in regions**

**Diagram – dynamic of rent agreements duration**

- 1.5 years - 3.9%
- 4.5 years - 1.0%
- 6-10 years - 1.9%
- More than 10 years - 1.5%
Implications of a possible bilateral trade agreement between Ukraine and the EU
Olexandr Nekhay (JRC-IPTS, Spain)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

- In 1993 Ukraine was granted with the Generalized System of Preferences (GSP) of the EU
- In 2009 the GSP utilization rate reached a level of 71% of the eligible products
- Ukraine exports to EU amount 61 billion Euro and rank 11th
- The free Trade Area (FTA) will be embedded in the new Association Agreement as an integral element alongside others, such as political, social, and sectoral co-operation
- FTA negotiations have started in February 2008
- 12 rounds have taken place since then
- Next round is on 22 November 2010

AGLINK-COSIMO is a recursive-dynamic, partial equilibrium, supply-demand model of world agriculture
AGLINK was developed by the OECD Secretariat
Reflects the views of the participating countries
2004 the model was expanded with the COSIMO model (Commodity Simulation Model) of the FAO
The model covers annual supply, demand and prices of the main agricultural commodities produced, consumed and traded for all included regions

Based on the database available in OECD and FAO
EU and Ukraine modules are extracted from the AGLINK-COSIMO and adopted to run together
Trade with the rest of the world is kept at the same level in status quo and FTA scenarios
14 agricultural products considered
Results presented and analyzed as 3 years average numbers (2018-2020)
Current situation is presented by 3 years average of 2007-2009

Wheat
Coarse grains (maltz, barley)
Rice

Butter
Cheese
Skim milk powder (SMP)
Whole milk powder (WMP)

Oil seeds
Vegetable oils
Protein meals

Beef and veal
Pork
Poultry
Sheep meat

This modeling exercise is not related to the current negotiation process on the FTA between EU and Ukraine
No reaction of other regions (trade diversion) are considered
This results are preliminary
Financing of the agricultural sector of Ukraine
Andriy Tovstopyat (Investment Capital Ukraine LLC, Ukraine)

Sources of financing the agriculture

- **Own capital**
- **Bank loans**
  - National currency denominated
  - Foreign currency denominated
- Financing of the large agro-corporations
  - Syndicated loans
  - Bonds
  - Private placement
- Leasing
  - Commercial and state
- State programs

**Own capital**

According to annual survey held by APK-Inform among agricultural producers 27% of them were planned to make capital expenditures in 2010 using the following sources of capital:

- 72% were relying on their own resources;
- 3% were ready to use fee of state subsidy bank loans;
- 19% bank loans with partial interest compensation;
- 2% equipment-producers’ financing programs;
- 12% leasing, rent and other sources.

Almost 3/4 of Ukrainian primary agricultural producers prefer to avoid taking debts and are willing to finance their projects from own profit.

**Bank loans. Interest rates, Hryvnia**

- Bank loans remain the most common sources of attracted finances for agricultural entities
- However interest rates in 2009 and 2010 are still high (in a range of 25-25%)
- Lower rates demonstrated in Ukraine are exceptional
- Rates for agriculture are much lower compared to industry (excluding food production)
- Volume of loans have been cut after financial crisis beginning

**Bank loans. Absolute volumes UAH vs. other currencies**

- Accumulated bank loans generally almost even, (about UAH2011), however about 10% of loans are replaced (old and newly issued)
- Foreign currency loans currently take 22% of all amount
- Short term credits take 40% share; medium-term – 50% and long-term – 10% (UAH credits)
- Agriculture and food industry use 11-12% of all commercial banks’ loan position

**Bank loans. Interest rates, foreign currency**

- Foreign currency loans have lower interest rates (10-15%) but have limited availability
- National Bank’s regulations allow foreign currency crediting of companies that only involved in foreign activity (trade)
- Problems of bad debt occurred after 50% national currency devaluation in 2008
- Small companies have very limited access to these loans
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

**Bank loans, Newly issued volumes**
- Newly issued loans currently amount for UAH265 billion in Hryvnia and UAH0.5 billion in other currencies.
- UAH-denominated loans increase.
- USD/EUR denominated - decline.

Source: National Bank

**Financing of the large agro corporations**

**Eurobonds**

- Biggest agroholdings also attract funds by issuing Eurobonds. Total number of such borrowers is about ten.
- Key characteristics:
  - Bond volume 100m to 300m USD;
  - Usually 5 years maturity;
  - Sovereign+ 2.5%–3.5% yield (currently 9.5–10.5%);
  - IFRS and audit are required.

**Stake placement**

- There were 5 full size initial public offerings made at the main court of London and Warsaw stock exchanges and number of less sizable private placements for the last 5 years.
- Key characteristics:
  - Non-repayable funds;
  - Free float at least 20%;
  - IFRS and audit for last 3 years are required.

**Leasing**

- State programs
  - Partial compensation of interest rates
  - Compensation of 50% capex of newly built animal farms

**Syndicated loans**

- The biggest domestic agroholdings sometimes attract finance from groups of European banks, that share funds and risks of particular project.
- Key characteristics:
  - Loan volume 50m to 300m USD/EUR;
  - "Long money";
  - Attractive interest rate (LIBOR+).

Source: IFC, EBRD

Source: National Bank

Andriy Tovstopyat
Equity analyst, food and agribusiness
andriy.tovstopyat@jcu.ua
+38044-2200120

Thank you for your attention!
Transport infrastructure of the grain market of the Azov and Black Seas region

Olga Ramazanova (APK-Inform Agency, Ukraine)
Distribution channels and organisation of the regional agricultural markets
Ludwig Striewe (Toepfer International, Ukraine)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

---

**Port Throughput Capacities**

- 2008/09
- 2009/10
- 2010/11

---

**Additional Requirements for Quality Certificates**

1. International quality requirements
   - Determined by private contracts and requirements of import countries
   - Sampling and Analysis according to CACFT rules

2. Additional Analysis required in Ukraine
   - GOST standard proven in the FSU, but not in line with international contracts
   - All together 5 classes of wheat, which need to be stored separately
   - Recently additional tests required which can take 2 days or 1.5 US$/MT or more

---

**Lack of Institutions and Organisations**

Contract Enforcement
- Significant contract defaults risk
- Increasing prices can lead to defaults of 20 – 40%
- High losses for trade companies involved which amount to US $80 to US $120 MMT or US $5 Mil for a Panmax

Problem in Russia & Ukraine
- Contract enforcement difficult and time-consuming
- Contracts are regarded as promise but not as an obligation
- Implications for agricultural
- Number of forward contracts low (only with very reliable partners)
- Long term price fixation impossible, bad for millers, livestock prod.
- As forward contracts are widely used for securing loans, this has implications for the financing abilities of agriculture
- Risk is calculated as costs, i.e. leads to higher farm gate price

---

**Summary**

1. Impressive investments in Grain Infrastructure
2. Competition becoming every year strong, i.e. good news for agriculture
3. Market institutions and organisation still weak
   - Contract enforcement very weak
   - Market information provided by private agencies only
   - Reliable official S&D statistics not existent
   - Intensive government interference provides for additional risk
   - Price hedging tools like forward contracts or even futures are not workable

   *With a good investment climate and more reliable government action*
   - Ukraine, for example, could easily produce 60 to 80 mln MMT of grain
   - Thus, food security would hardly be an issue any more

---

**Direct Government Interference**

1. VAT arrears in Ukraine
   - Arrears till 4/2010 settled by issuance of VAT bonds
   - VAT arrear problem has structural effects – increases the number of transactions on the market, favors certain companies
   - Provisions in the draft tax code very problematic
   - VAT risks the largest single risk and most problematic for agriculture and trade

2. Export restrictions in Russia, Ukraine & Kazakhstan
   - Export stop until summer 2011 in Russia
   - Kazakhstan to follow????
   - Ukraine:
     - New customs requirements that slowed down or blocked wheat shipments, 20 – 10 vessels blocked in the ports
     - Average age of approx. 1 USD per ton day i.e. about US $400-600 per day & huge losses due to unfilled contracts with importing countries
     - Introduction of grain export quota on October 10, 2010
     - Huge losses for agriculture
General overview on domestic agricultural policy and government regulations in Ukraine, Russia, Kazakhstan and comparison with OECD countries
Olga Melyukhina (OECD, France)
Overview on domestic agricultural policy and government regulations: Kazakhstan
Rakhim Oshakbayev (ACEPAS, Kazakhstan)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Composition of Public Expenditure on Agriculture

- 70 -

Competitiveness: Do subsidies address these challenges?

- The subsidy programs do not contribute to improved competitiveness:
  - Delay structural transformation.
  - Distort production decisions. Crop specific payments are most distortive.
  - Do not bring about technical transformation.
  - Do not change the costs of production to the economy.
  - Do not necessarily increase output (example sugar beet).
  - Encourage production of economically unprofitable land.
  - Supports the least competitive production when linked to import dependence.
- Not all benefits will reach farmers – leakage.

Amount of subsidies on Agriculture
2004-2010 rr.

New challenge for policy makers: Custom Union
Level of state support in countries of Custom Union

The key challenges of improving competitiveness

a) Facilitating structural change in terms of land ownership and management.
b) Facilitating technical change through provision of essential public services (including advisory services, research and extension, provision of market information, sanitary and phytosanitary inspection and veterinary services)
c) Irrigation and drainage rehabilitation and establishment of financially sustainable management arrangements.
d) Credit and insurance provision.
e) Facilitating investment in wholesale and retail marketing and distribution facilities and agro-processing.
f) Preparing for climate change.
Overview on domestic agricultural policy and government regulations: Ukraine
Serhiy Demyanenko
(Institute for Agribusiness and Rural Development, Ukraine)
Overview on EU and world milk and meat markets
Thomas Fellmann (JRC-IPTS, Spain)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Meats

World meat prices in nominal terms remain above historical levels
Nominal versus real meat prices

Dairy

World consumer preference for poultry meat
Overall increase of per capita meat consumption between the 2007-08 base period and 2019

World dairy prices rising in nominal terms

EU27 aggregate meat market balance (’000 tons)
Declining trend in world dairy prices in real terms is expected to abate
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Thank you for your attention!

Milk and Meat Markets in EU & World

Overview

Thomas Feilmann
European Commission
Joint Research Centre
IPTS - Institute for Prospective Technological Studies
In collaboration with Benno Töth
DG Agriculture and Rural Development
Milk and dairy markets in Ukraine
Olga Kozak (Institute of Agrarian Economics, Ukraine)

Contents
1. Milk production trends
2. Farm structure
3. Milk prices
4. Milk price volatility
5. Dairy chain
6. Processing profile
7. Export-import
Short conclusion and future trends

Milk and dairy markets in Ukraine

Olga Kozak
National Scientific Centre “Institute of Agrarian Economics”
25 October, Kyiv

Farm size
Dual farm structure: very small farms on one hand and very large on the other hand

Typical farm defining

Milk production trends 1999 - 2009

Source: National statistics
Milk production: 11.6 million t in 2010 – 11.2 million t or 96.6%
Regions/Leaders: Vinnytsya, Poltava, Lviv regions

Milk price

Milk production trends 1999 - 2009

Source: National statistics
Milk production: 11.6 million t in 2010 – 11.2 million t or 96.6%
Regions/Leaders: Vinnytsya, Poltava, Lviv regions

Milk price volatility

Source: National statistics, World milk price (FAO data)
Volatility: Coefficient of variation - Standard deviation / arithmetic mean × 100
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

**Dairy chain**

- Agricultural enterprises (2.236 mill t) 2.2%
- Direct consumers (14.4%) 17.3%
- Animal feeding 9.7%
- Consumption (52.2%) 42.7%
- Milk processors (4.911 mill t) 42%

- 50% Cheese
- 35% Fresh products
- 15% Butter
- 2% Dry milk

Self-sufficiency in milk: 107%
Consumers: 45 mil lpy/ 230 kg per capita per year
Milk processing: 42% delivered (299 factories)

**Import-Export**

Structure of dairy products export, 2009:
- Asia 10.1%
- Africa 0.3%
- Europe 55%
- Australia 29.6%
- China 15.1%

Structure of dairy products import, 2009:
- Asia 9.9%
- Europe 45.9%
- CIS 32.2%
- Russia – 55%
- Kazakhstan – 12.5%
- Belarus – 37.7%

CIS = Commonwealth of Independent States (Countries of the former Soviet Union)

**Processing profile**

Graph showing the distribution of milk products from 2000 to 2007.

**Dairy industry**

**Top players:**
- Unilac
- Midland
- MILK Alliance
- Terra-Food
- West Milk Group
- Vrems Bill Dairies
- Rainford
- Cheesewright
- Lundorf
- Eckals

30 biggest companies cover 78% of return

**Main trends are:**
- Concentration of property
- Increasing of top players influence
- Technical modernization of production
- Introduction of new technologies
- Innovation products appearance
- High quality management and marketing system

**Conclusion and future trends**

1. National milk and dairy markets development has evolutionary character and as foreseen situation won't change much soon. Milk volume 2009 is estimated as 10 million tons mostly caused of production decreasing in households.
2. Dairy sector development will strongly depend of agriculture policy. Market risks will affect both the market players as well as the consumers in the future.
3. Strategic partners – CIS countries and special Russia. The global trends will have place in milk and dairy markets of Ukraine.
4. Activations of relationship between the market players are predicted. The role of public organizations will significantly grow.

**Import-Export**

Graph showing export and import of dairy products from 2000 to 2009.

Export: 8% of production
Import: 4.8% of consumption
Milk and dairy markets Russia
Evgeniy Smirnov (Russian Dairy Union, Russia)
Milk and meat markets Kazakhstan
Vladimir Pak (ACEPAS, Kazakhstan)

- Estimated value of meat market of Kazakhstan in 2009 is around 1.8 bln USD expressed in farm gate prices
- Similarly milk and dairy products market value is around 2.0 bln USD in farm gate prices
- These estimates are based on total consumption and in fact should be reduced as not all goods consumed were actually traded as will be noticed further
- In terms of agricultural gross product meat and milk & dairy production is estimated at 16% and 19% respectively
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Kazakhstan meat and dairy markets:

Market capacity

- Per capita consumption of milk and dairy products
- Per capita consumption of meat and meat products

Market supply

- Meat supply: Main import positions: package milk, yoghurts, butter, cheese and curds, condensed milk and milk powder
- Export of dairy products is insignificant and mainly consists of cheese and curds, and concentrated milk and milk powder

Producers

- 1.6 mln households (that can be considered as personal owners) own 85% of cattle population (2.7 mln heads) and produce 80% of meat and 90% of whole milk
- Peasant farms are usually family farms that own 20-100 cows
- Agricultural enterprises are organizations usually created on the basis of kolkhozes owning about 5,000 ha of agricultural land and about 200–3,000 cows

Potential solutions

- Generally speaking, by these numbers Kazakhstan is almost self-sufficient by “red” meat and domestic market, with poultry put aside, is near saturation at current price level
- Whole milk production is also not far from fulfilling domestic needs
- Further development is possible through extension of domestic consumption by development of further processed products with cooked and semi-cooked products – this niche still have a potential, or
- Alternatively through utilization of export potential under conditions of Customs Union
- The letter is Government’s bet: 60,000 th. tons/year by 2013

Production structure

- Milk production structure
- Meat production structure

Small-scale dead-end

- The problem with extending domestic processing is closely connected to the fact that 80% of meat and 90% of milk is produced by unorganized households:
  - Poor quality and inefficiency
  - Unstable supply
  - Seasonality
  - High biosecurity risks
- In order to get households involved into organized large scale production, processor have to provide them with all required services (like Tyson Foods in US or Irmv in Turkey)

Kazakhstan meat and dairy markets:

Government support

<table>
<thead>
<tr>
<th>Milk &amp; Dairy</th>
<th>Meat</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidizing from 5 to 20 KKT (450–6,13 USD) per kg of whole milk or up to 44% of average producer price</td>
<td></td>
</tr>
<tr>
<td>Subsidizing 80–175 KKT (63,51–117,56 USD) per kg of produced meat, up to 50% of average cost of production</td>
<td></td>
</tr>
<tr>
<td>70% tax discount provided to producer</td>
<td></td>
</tr>
<tr>
<td>Import tariff 15–25%</td>
<td></td>
</tr>
<tr>
<td>Tariff 15–25% for in quota import, Tariff 50–75% for out-of-quota import</td>
<td></td>
</tr>
<tr>
<td>Subsidizing interest rates at 200% of official refinancing rate of National Bank of Republic of Kazakhstan for processors</td>
<td></td>
</tr>
<tr>
<td>Permits on extending at low interest rate with maximum credit period of 7 years</td>
<td></td>
</tr>
</tbody>
</table>
Meat markets in Ukraine
Elisabeth Svyatkivska (Association Ukrainian Agribusiness Club, Ukraine)

Dynamics of Gross Livestock Production
Livestock production has increased about 2% annually, starting from 2001.
In 2010, livestock sector is still growing.
In the first half of 2010, the volume of production increased by 5%.
We expect 3.6% growth of the total production of livestock by the end of 2010.

Cattle Stocks
- Household cattle: About 70% of cattle concentrate in households.
- Supply to slaughterers consists mostly of live cattle of dairy breeds.
- Share of households in total slaughters volumes reaching up to 70% depending on a region.
- As of January 1, 2010, the cattle stock at all categories of farms amounted to 28.7 thousand heads.
- During 2007-2009, the cattle stock was steadily decreasing.
- As of January 1, 2010, it was 1.34 million heads, or 20% less compared to the beginning of 2009.
- Cattle slaughter: the slaughter of male and female cattle by households - 77%.
- Cattle production by farms - 23%.

Dynamics of Gross Livestock Production
Source: State Committee of Ukraine on Statistics of Livestock Industry

Cattle Stocks
Source: State Committee of Ukraine on Statistics of Livestock Industry
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

**Monthly Dynamics of Pig Population, all farms**

![Graph showing monthly dynamics of pig population](image)

Source: Data from National Statistical Service of Ukraine

As of January 1, 2010, the total pig stock in Ukraine amounted to 7.576.6 thousand heads, including 4.37.5 thousand heads (i.e. over 50%) kept at agricultural enterprises.

To compare: a year before, on January 1, 2009, there were 6.556.0 thousand heads, including 2.753.9 thousand at agricultural enterprises.

**Dynamics of Pig Population**

![Graph showing dynamics of pig population](image)

As of January 1, 2010, the poultry stock at all categories of farms amounted to 190.9 million heads; there were 103.35 million heads at agricultural enterprises.

**Balance of Pork, Poultry Meat and Beef in 2009-2014**

<table>
<thead>
<tr>
<th>Year</th>
<th>Pork (ton)</th>
<th>Poultry Meat (ton)</th>
<th>Beef (ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>120</td>
<td>340</td>
<td>80</td>
</tr>
<tr>
<td>2010</td>
<td>130</td>
<td>400</td>
<td>90</td>
</tr>
<tr>
<td>2011</td>
<td>140</td>
<td>450</td>
<td>100</td>
</tr>
<tr>
<td>2012</td>
<td>150</td>
<td>500</td>
<td>110</td>
</tr>
<tr>
<td>2013</td>
<td>160</td>
<td>550</td>
<td>120</td>
</tr>
<tr>
<td>2014</td>
<td>170</td>
<td>600</td>
<td>130</td>
</tr>
</tbody>
</table>

Source: Data from State Statistics of Ukraine

**Import of Meat and Meat Products**

<table>
<thead>
<tr>
<th>Year</th>
<th>Pork, dried pumps (ton)</th>
<th>Pork, dried (ton)</th>
<th>Beef, dried (ton)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>100</td>
<td>50</td>
<td>20</td>
</tr>
<tr>
<td>2010</td>
<td>110</td>
<td>55</td>
<td>22</td>
</tr>
<tr>
<td>2011</td>
<td>120</td>
<td>60</td>
<td>25</td>
</tr>
<tr>
<td>2012</td>
<td>130</td>
<td>65</td>
<td>28</td>
</tr>
<tr>
<td>2013</td>
<td>140</td>
<td>70</td>
<td>30</td>
</tr>
<tr>
<td>2014</td>
<td>150</td>
<td>75</td>
<td>32</td>
</tr>
</tbody>
</table>

Source: Data from Ukraine’s Customs Service

**Regulation of Foreign Trade**

After the reduction of customs tariffs which took place upon Ukraine’s accession to WTO, the period of 2008-2009 witnessed significant increase of import to Ukraine of meat and meat products.

As a result, the government administration was compelled to impose new non-tariff methods of protection of domestic market, first of all, permanent checks at the point of entry. That had some effect, and volumes of import decreased in 2009 as compared to 2008.

In 2010, authorities lowered import duties and quotas. In addition, “Regulation of Foreign Trade” Act has been amended.

These attempts had the same effect: volumes of import in 2010 have been decreasing as compared to 2009.

**Conclusions**

Global prospects of development of sub-sectors of livestock sector are not facing any changes.

Agriculture is retaining its position as the most stable sector, demonstrating 5% rate of annual growth. But future prospects are depending on development of export sales markets. In this context it is important what quotas for pork will be set up at signing the free trade zone agreement with the EU.

Pig breeding also has a potential for growth. More producers will be increasing their market share while small and medium farmers with lower efficiency will be leaving the sector.

Cattle sector is still the most problematic one, level of production cost lower than or equal to market price for beef.

It may be expected that the share of poultry and pig breeding will be further growing on account of deterioration of the market share of beef.
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Meat markets in Russia
Dmitri Rylko (IKAR, Russia)

Key milestones

Since early 2004 domestic meat policies become increasingly proactive/aggressive in terms of domestic producers support

Combination of
market support (introduction of TRQs) and
direct subsidies (National priority project)

Growing protectionism in domestic meat sector:
case of poultry meat

<table>
<thead>
<tr>
<th></th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quota, TMT</td>
<td>1,000</td>
<td>1,100</td>
<td>1,151</td>
<td>1,171</td>
<td>1,212</td>
<td>652</td>
<td>760</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>771.9</td>
<td>711.5</td>
<td>841.5</td>
<td>871.4</td>
<td>991.9</td>
<td>750</td>
<td>600</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-27</td>
<td>206.0</td>
<td>206.0</td>
<td>220.6</td>
<td>228.5</td>
<td>236.4</td>
<td>185.8</td>
<td>144</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other nations</td>
<td>73.1</td>
<td>73.1</td>
<td>98.9</td>
<td>71.2</td>
<td>73.8</td>
<td>16.2</td>
<td>36.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Actual import, TMT</td>
<td>1,005</td>
<td>1,237</td>
<td>1,185</td>
<td>1,275</td>
<td>1,173</td>
<td>642</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>US</td>
<td>703.3</td>
<td>703.3</td>
<td>901.6</td>
<td>976.6</td>
<td>785.6</td>
<td>694</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>181.1</td>
<td>258.8</td>
<td>175.2</td>
<td>191.7</td>
<td>151.9</td>
<td>58.1</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>EU-27</td>
<td>179.8</td>
<td>224.8</td>
<td>200.5</td>
<td>187.9</td>
<td>134.4</td>
<td>151</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other nations</td>
<td>14.7</td>
<td>28.4</td>
<td>6.1</td>
<td>30.1</td>
<td>19.4</td>
<td>8.4</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Import duty, %/Euro per 1 kg</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In quota</td>
<td>250.2</td>
<td>250.2</td>
<td>250.2</td>
<td>250.2</td>
<td>250.2</td>
<td>250.2</td>
<td>250.2</td>
<td>250.2</td>
<td>250.2</td>
<td>250.2</td>
</tr>
<tr>
<td>Over quota Initial</td>
<td>-</td>
<td>-</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
</tr>
<tr>
<td>Over quota fact</td>
<td>-</td>
<td>-</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
<td>600.40</td>
</tr>
</tbody>
</table>

Protectionism and consequent growth of domestic production: higher domestic prices and stagnant overall consumption during last 2 years...

Russia at meat crossroad

Ambitious goals of Food security doctrine...
Signs of market saturation and price affordability problems...
WTO accession and associated upper limits of support...
Great Russian Drought 2010 and its longer term consequences
Overview on EU and world cereal markets
Dangiris Nekrasius (DG AGRI, Belgium)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan
Cereal markets in Kazakhstan
Rakhim Oshakbayev (ACEPAS, Kazakhstan)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Cereal production

Transportation

Transportation issues
- Kazakh wheat hardly competes with Russia and Ukraine on EU market and Australia on China market due to higher transportation costs and lower yield
- Kazakhstan is the biggest landlocked country
- There are 3 key directions of export
- Russian exporters have the privilege on Russian railways
- Railways capacity limits export on southern directions
- Kazakhstan has no cargo ships in Caspian sea
- Export to China is poor

Value chain in the export of one ton of wheat (€/t), autumn 2009

Problems in export of cereals

- No access to the open sea.Rechantment from grain terminals on Black, Azov and Baltic seas decreases competitiveness of Kazakh grain.
- Deficit of grain carriers
- Low capacity of railways tracks and lack of grain terminals
- Large number of commodity exchanges does not provide proper results in searching for the market for grain producers
- Tendency of oligopolization of silo market
- Certificates on grain quality, issued by Kazakh laboratories are not recognized worldwide
- State company – FoodContract Corporation (KazAgro) – important internal market-maker
- Unpredictable government interference in the grain market

Opportunities

- Presence of local and foreign players on the market
- Increase in production due to the expansion of sown areas and the relatively favorable weather conditions
- Application of moisture-retaining technologies
- Climatic advantages for growing
- Improvement and development of infrastructure

In early 2010 the agreement to lift the ban on the transit of grain through the territory of China was reached, and construction of a grain terminal with capacity of 560 thousand tons on the boundary was started.

Single commodity transfer for wheat in Kazakhstan

State funding of crop production

The decreasing negative SCT for wheat reflects the Kazakhstans transition process and still limited linkages with international markets

The SCT level for wheat in Kazakhstan is lower than selected OECD and rated non-OECD countries. The SCT is below that of the EU15 and the OECD average, and it is comparable with Russia.
Cereal markets in Ukraine
Sergey Feofilov (UkrAgroconsult, Ukraine)

Ukraine: wheat and maize production, 2010
- Wheat - about 17 MMT (20.8)
- Barley - 9.0 MMT (11.6)
- Maize - 11.0 MMT (10.2)
- Total harvest - about 37-38 MMT (45.4)

Ukraine: Grain Production

The 2010 grain production is down by 14-16% against the 2009
Total grain production will likely to amount to 37-38 MMT against 45 MMT in 2009
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Ukraine: monthly grain export

Other sources of financing for the ag sector
- Increasing role of commodity credits from input suppliers
- International donors - International Financial Corp – about $ 230 MI
- European Bank for Development and Reconstruction – Euro 340 MI

Ukraine: Stable currency

Ukraine: Increasing role of the public and private investors, 2010
- IPO - $225.0MI
- In 2010 another 1-2 companies may place IPO for - $100.0-120MI (est)
- Eurobonds - $330.0MI
- Additional emission and sales of shares - $83 MI + $62 MI = $145MI
- Private investors - $150-180 MI (est)

Ukraine: Bank lending to the ag sector (Bl. UAH/$)

Ukraine: cash prices for wheat, barley, sunflower

Ukraine: Bank interest rates decreased
- Summer 2009 - interest rates are at 24 - 32% (12 months)
- March 2010 - interest rates are at 18 - 25% (12 months)

Production margins and farmers’ choice of crops
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

**Production margins and farmers' choice of crops**

Ukraine: Production Margin in 2009/10 season, UAH/mt

- Rapeseed
- Sunseed

**Ukraine: area of key winter crops**

- Wheat
- Barley
- Rapeseed

**Ukraine Agricultural Index**

- EU-15

**Ukraine: Soil moisture content, 2010**

**Conclusions**

- Autumn 2007 - air temperatures and precipitation were within the usual and even above usual levels
- Autumn 2008 - delay in plantings due to hot weather (+31-35 from Sept 1 until Sept 15), then due to excessive soil moisture
- Autumn 2009 - drought like weather in Aug-Sept. About 50% of the areas were planted later the best time

- 21st Century: agriculture’s development driver is not technology but capital markets
- Investors are focusing attention on soft commodities as demand is increasing. An improving business climate will drive interest in agribusiness
- In 2009 an 2010 farmers do not reduce production area but lower use of costly inputs
- Ag sector will see considerable recovery in 2011

**Commodity market Analyst**

UkrAgroConsult

Subscribe to weekly newsletters:
- (weekly and monthly)
  - Investment UAindex
  - Agrinews, Kyiv
  - Black Sea Grain & Oil

* E-mail: marketing@ukragroconsult.org
* Site: www.ukragroconsult.com
* www.blackseagrain.net
* Tel.: +380 44 451 4834
Cereal markets in Russia
Andrey Sizov (SOVECON, Russia)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Market implications

- Tight grain balance in 2010/11, despite the ban on grain exports;
- Wheat balance is seen rather comfortable but just seen. A fast growing demand for wheat, including milling wheat from feed industry;
- Barley & corn. Quite tight balance is underpinning fast growing domestic prices. Feed barley prices, which are now well above milling wheats prices, are picking up domestic wheat prices;
- Strong domestic prices are resulting in heavy slaughter rate and decline in livestock numbers;
- Reduced livestock numbers will ease domestic demand for feed grains but a sharp growth in Russia’s grains imports looks unavoidable;
- Expected drop in winter grain plantings is coupled with their poor state, particularly in the Volga river area;
- It is very likely that Russia’s 2011 grain output will be reduced.
Overview on EU and world oilseeds and biofuels markets
Dangiris Nekrasius (DG AGRI, Belgium)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan
Oilseeds markets in Kazakhstan
Dauren Oshakbayev (ACEPAS, Kazakhstan)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Oilseeds processing
- There are 15 medium and large scale processing companies in Kazakhstan; only 2 of them – from soviet times.
- 2 companies are dedicated mainly to soybeans, and 2 – to rapeseed.
- Except Sevola group processing plant, processing plants are allocated in oilseeds production regions.
- Total processing capacity is estimated more than 1.3 mln. tons.
- In average, the oil processing plants capacity utilization in 2009 was 22.0%.
- Key players are equipped with modern western production lines.
- 5 plants can produce deodorized oil.
- Each company has its own procurement system, trademarks and wholesale distribution network.
- Rapeseed is mainly processed for food purposes.

Policy: case of cotton
- Cotton price = (quality coefficient) * (Liverpool price) – transportation
- In 2007, few “On the development of the cotton industry” has restricted cotton-processing plants to procure raw cotton.

Oilseeds processing
- Domestic oil extraction plants process 92% of the oilseeds.
- 07-09 average oilseeds production and estimated consumption by processing companies, '000 tons

<table>
<thead>
<tr>
<th></th>
<th>Production</th>
<th>Processing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cotton</td>
<td>185</td>
<td>149</td>
</tr>
<tr>
<td>Sunflower</td>
<td>203</td>
<td>163</td>
</tr>
<tr>
<td>Rape</td>
<td>67</td>
<td>69</td>
</tr>
<tr>
<td>Soybeans</td>
<td>103</td>
<td>89</td>
</tr>
<tr>
<td>Safflower</td>
<td>59</td>
<td>8</td>
</tr>
</tbody>
</table>

Limits of production
- Natural restrictions:
  - Recommended crop rotation with sunflower is 5 years. In East-Kazakhstan, 31% of arable land is under sunflower.
  - Rapeseed is water demanding crop, 240-300 mm is not enough.
  - Rapeseed requires soil fertility and nutrient availability.
  - Being drought resistant, sunflower is the most unpretentious crop, but it suffers from diseases and pests.
  - Soybeans is cultivated on irrigated land, which is very limited.

Policy: case of prices
Oilseeds and biofuels markets in Ukraine
Alina Fedyay (Bunge, Ukraine)
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

We expect rapeseed crop to triple from current level till 2015 and increase by 3.6 times till 2020

Biodiesel

~ 42 simple machinerys and mini plants operate in Ukraine with total capacity 0.5mmt, producing 50-70ltm of biofuel annually.

WHY?

Biodiesel – kitchen mathematics

Oil content is circa 42%

~2.38 mt of rapeseed is needed for production 1mt of rapeoil
1 mt of rapeoil = 1 mt of biodiesel

Price for Uk rapeseed as of Oct 19 was 4 100 UAH/mt

Price for biodiesel as of Oct 19 was 7 900 UAH/mt

2.38 * 4100 = 9 758 UAH/mt of biodiesel
Oilseeds markets in Russia
Andrey Sizov (SOVECON, Russia)

Outlook for Russia’s oilseeds output in 2010/11

Dr Andrey Sizov
SOVECON
http://www.sovecon.ru
Phone +7 499 129-80-27
Agricultural sector and market developments in Ukraine, Russia and Kazakhstan

Market Implications

- A sharp decline in sunseed production results in Russia’s tight oilseed balance despite record high output of other oilseeds;
- Strong domestic oilseed prices underpin steady growth in domestic vegoil prices;
- High domestic prices for vegoil make Russia’s sunoil exports uncompetitive and will limit Russia’s sunoil exports in 2010/11. Domestic market for sunoil producers will be top priority.
Abstract

This report presents a summary and the presentations of the expert workshop "Developments in agricultural commodity markets: a special focus on Ukraine, Russia and Kazakhstan". In the workshop specific sessions covered developments and perspectives of the most important agricultural commodity markets (cereals, oilseeds, biofuels, milk and meat). A special focus was given to the potential and constraints of agricultural production in the three countries. In order to outline the reasons behind observed and prospected market developments, specific topics like domestic agricultural policies and government regulations, infrastructure and organisation of the regional agricultural markets, farm structure, and issues regarding the financing of the agricultural sector in Ukraine, Russia and Kazakhstan were also discussed.
As the Commission’s in-house science service, the Joint Research Centre’s mission is to provide EU policies with independent, evidence-based scientific and technical support throughout the whole policy cycle.

Working in close cooperation with policy Directorates-General, the JRC addresses key societal challenges while stimulating innovation through developing new standards, methods and tools, and sharing and transferring its know-how to the Member States and international community.

Key policy areas include: environment and climate change; energy and transport; agriculture and food security; health and consumer protection; information society and digital agenda; safety and security including nuclear; all supported through a cross-cutting and multi-disciplinary approach.