Required Report - public distribution

Date: 2/3/2015

GAIN Report Number: UP1502

Ukraine

Grain and Feed Update

2015

Approved By:
Jorge A. Sanchez,
Agricultural Attaché

Prepared By:
Alexander Tarassevych,
Agricultural Specialist

Report Highlights:
Ukraine's sale of grains continues as the risk of political interference, which had diminished perspectives for the next marketing year (MY) crop are finally quelled. Grain stocks in the last months of 2014 remained above 2013 due to a good crop and somewhat sluggish exports which expected to intensify in the remaining months of 2014/15 MY. Winter crops have been planted in favorable fall weather and remain in good condition as of early February. Ukraine's political developments had a limited impact on production and trade. However, producers suffer from increases to the costs of inputs as a result of a severely devaluated national currency.

Post:
Kiev

Report Summary

The publication of official harvest data by the Statistics Service allowed for more precise PSD estimates for the remaining months of the 2014 calendar year. The largest increase was in the corn PSD table reflecting a high crop and significantly higher export expectations. Other exports were adjusted up to reflect the release of official production and trade data. Wheat export estimates were slightly lowered, while barley and rye export forecasts were adjusted up. Grain yield estimates for the Autonomous Republic of Crimea were included into the PSD production. Since grain exports from Crimea are not possible (at least not formally due to the threat of sanctions), carry over stock numbers significantly increased.

Production

The grains harvest in marketing year (MY) 2014/15 is complete and the following preliminary information has been published by the State Statistics Service (see Table 1).

Table 1. Grains Production in MY 2014/15 as of January 16, 2015*

Crop	Production, 1000 MT	Area Harvested, 1000 ha	Yield, MT/ha
Wheat	24101.9	6007.6	4.01
Rye	478.1	185.1	2.58
Barley	9043.4	3002.4	3.01
Corn	28452.2	4621.1	6.16

Source: State Statistical Service of Ukraine
**Table 1 does not include the data from the temporarily occupied territory of Crimea*

All PSD tables were updated to be in line with official Ukrainian statistics. PSD tables do, however, include data from the territory of Crimea.

The production of major exportable crops (corn, wheat, and barley) is considerably higher than in 2013 despite it being from a lower harvested area: production efficiency continues to improve despite political and economic turbulence. Significant attention is paid to input quality and general profitability of each cash crop. Larger agricultural farms implement innovative management systems involving real-time decision making programs using information provided from global positioning systems (GPS) technologies –equipped trucks and machinery and unmanned surveillance drones.

The direct impact of military clashes in Eastern Ukraine on grains production is not expected to be significant. The Anti-Terrorist Operations (ATO) are conducted on the territories of Donetsk and Lugansk Oblasts. The vast majority of the territory is composed of urban agglomerations, coal mines, industrial districts and towns. Approximately one third of the area is not controlled by Ukrainian government authorities. The share of Donetsk and Lugansk oblasts in Ukraine’s harvested area is close to seven percent. A larger part of this area remains controlled territory. There are reports that grains were harvested on the uncontrolled territory, but most of harvested grain remains stored locally.

Pic. 1 Illustrative Map of Areas not Controlled by

Ukrainian Government

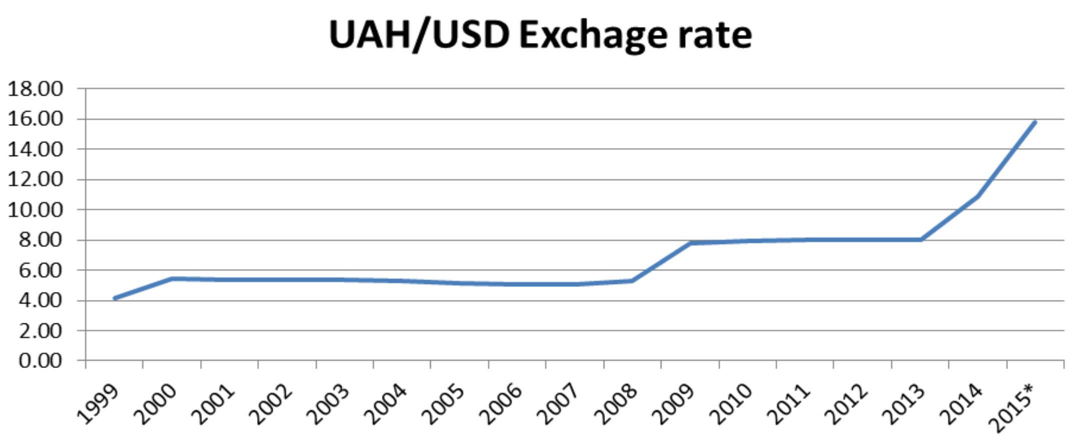
- *Area in red depicts parts of Lugansk and Donetsk Oblasts not controlled by the government as of early February 2015*
- *White area depicts occupied territory of the Autonomous Republic of Crimea*

Source: Own drawings, Internet sources, Ukrainian National Security and Defense Council data

Macroeconomic Impact

Ukraine's present political and economic crisis has led to a significant devaluation in the local currency (Hryvna – UAH) and a number of trade-related problems associated with the devaluation. The National Bank of Ukraine (NBU) for years maintained monetary policies aimed at maintaining stable exchange rates. The target currency for this approach was the U.S. dollar, despite the fact that trade with U.S. was not significant if compared to trade with the Russian Federation or the European Union. The fixed exchange rate does not transfer the right market signals to importers and exporters resulting in international trade imbalances. Piling up, these imbalances may lead to periodical currency a crisis that outweighs the positive impact from a stable exchange rate. Significant political and economic shocks undermined UAH stability in 2014 resulting in abrupt devaluation.

Total currency devaluation in 2014 reached almost 100 percent, thus undermining imports and boosting exports. However, the positive gains made by exporters from the devaluation may be limited, as the devaluation also increased the value of essential agricultural inputs, most of which are imported, for the 2015/16 MY crop that could also influence production more significantly than in the previous MY.



Source: National Bank of Ukraine
** One month data*

Foreign currency exchange rate fluctuations led to a variety of problems for chemical and seed importers. Many of them report delays (over a month) when procuring currency, and these complicated purchasing procedures do not allow for any exchange rate planning by the trade. In many cases, importers lose money due to devaluation during the prolonged possession of the UAH. Input use for the MY2015/16 crop is expected to be lower than usual, but a significant drop is not expected. Grain sales remain the most profitable and reliable of all cash crops and export sales represent the largest influx of hard currency into the Ukrainian economy.

Select Agricultural Input Imports (January – November 2014)

HS Code	Description	Unit	Quantity			% Change
			2012	2013	2014	2014/2013
3808	Insecticides, Rodenticides, Fungicides, Herbicides, Anti-sprouting products Etc., Packaged For Retail Sale Or As Preparations Or Articles	MT	81248	77769	65817	- 15.37
		Mln. USD	674	670	554	-17.29
100510	Corn (Maize) Seed, Certified, Excluding Sweet Corn	MT	43117	43542	50075	15.01
		Mln. USD	186	232	295	27.03
1206	Sunflower Seeds, Whether Or Not Broken	MT	15446	18115	13106	- 27.65
		Mln. USD	158	197	143	- 27.52

Source: World Trade Atlas

Government Policies

Government and the trade signed MOU on grain exports

On January 27, 2015, the Minister of Agricultural Policy and Food, Oleksiy Pavlenko and representatives of non-government organizations of Ukraine's grain industry signed a Memorandum of Understanding (MOU) envisioning the free shipment of grains within defined voluntary quantitative restrictions for 2014/15 MY. The industry stated that the group had worked on supply and demand plans in an attempt to take into consideration existing contracts and future export opportunities. The group will be monitoring winter crop conditions and may review the MOU restrictions close to February 15.

The parties agreed that the MOU is rather a reflection of joint interests in a stable market rather than a result of hostile restrictions that might negatively impact the market. Minister Pavlenko stated that current weather condition and area seeded provide no reasons for concern. Winter grains for 2015/2016 MY occupy seven percent greater area. Approximately 97 percent of crops are in good and excellent condition if compared to last year. The parties publicly outlined the importance of USDA estimates and stated that such data was considered during the MOU negotiation process.

The following voluntary restrictions were adopted:

HS Code	Product Group	Total Voluntary Restrictions for 2014/15 MY	Voluntary Restrictions for January–June* of 2015*
1001	Wheat and Meslin including:	12.8 Mln MT	4.6 Mln MT
	- I-V grades	7.1 Mln MT	1.2 Mln MT
	- VI and no grade	5.7 Mln MT	3.4 Mln MT
1002	Rye	30,000 MT	19,000 MT
100400 90	Barley	4.2 Mln MT	0.6 Mln MT
1005 90	Corn	20.2 Mln MT	13.2 Mln MT

**The same MY is used for all grains*

Market Deregulation

In an attempt to increase the influx of hard currency into the country and relax unnecessary market limitations, Ukrainian authorities have taken major steps aimed at market deregulation. First, the State Agricultural inspection service was eliminated completely in September 2014. Second, Ukraine abolished quality certification requirements for grains which allowed for logistics cost to decrease and expedited deliveries.

The State Phytosanitary Service responsible for grain quarantine certification is also being reformed. Previously Plant Protection and Quarantine (PPQ) authority was a part of the State Veterinary and Phytosanitary Service of Ukraine (SVPSU). As a part of an administrative reform, PPQ became a part of the State Food Safety and Consumer Protection Service. The creation of a new authority is not complete due to the controversial nature of some of its functions and some resistance from state employees and the business community. There is a possibility that the scope of the new authority will to be reviewed in the near future.

Some positive deregulation impacts include the cancellation of grain warehouse certification in spring 2014. The cancelation of related technical regulations also allowed for decreased storage and handling costs for elevator owners, millers, and grain traders.

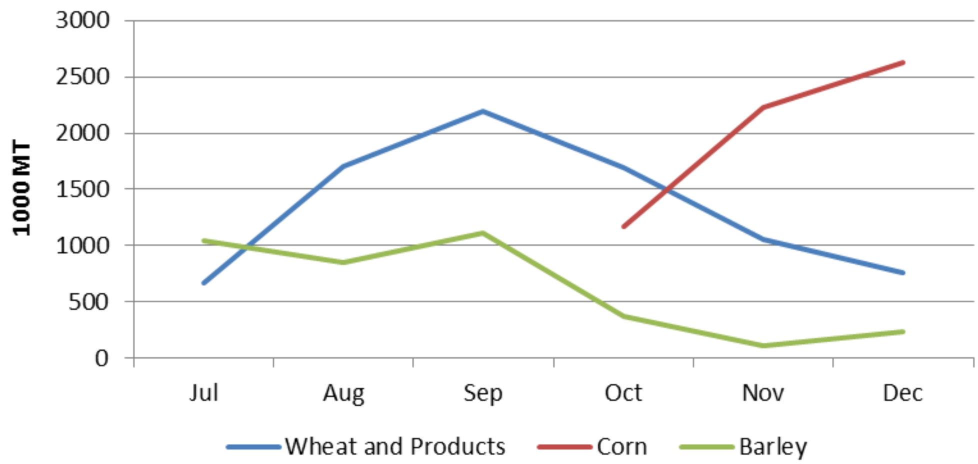
Altogether these deregulations had a rather significant positive impact on trade allowing for better trade margins and better farm gate prices. They also significantly decreased corruption incentives along the grain export chain.

Trade

According to the Ministry of Agrarian Policy and Food data published January 18, 2015, combined grain exports in 2014/2015 marketing year reached 21 million tons. This includes:
Wheat – 8,579,000 M;
Corn – 8,692,000 MT;
Barley - 3,800,000 M;
other grains – 235,000 MT.

Official trade data from Ukraine's Custom Service for CY 2014 is not yet available. Some preliminary data supports strong export demand and another strong year for corn exports.

Export of selected grains in 2014/2015 MY



Source: FAS/Kyiv own estimates

The wheat and barley export slowdown in December was associated with an unclear GOU position on a grain export memorandum. Exports are expected to recover and reach the number shown in the PSD tables.

Trade volume in 2014/15 MY (from MY start to the end of December 2014) is expected to be close to the following numbers:

Product Group	**1000 MT**
Wheat and Products	8080
Corn	6020
Barley	3723
Rye	13

Source: FAS/Kyiv own Estimates

Exports continued through major Black Sea port with Yuznyj and Odesa responsible for 46 percent of all exports. Trade through smaller ports (Mykolaiv, Illichivsk, Kherson, Ochakiv and Berdiansk) also remains uninterrupted. Trade through the port of Mariupol is suffering from the close proximity of the military activity. Grains exports through this port remained under 2 percent of total trade however. Chances are that the port will have limited ability to serve as a commercial grain export port in the near future due to the recent escalation of violent shelling in the city.

Attachments

Table 1. Wheat Production, Supply and Distribution*, 1000 MT

	2012/2013		2013/2014		2014/2015	
	Jul 2012		Jul 2013		Jul-14	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	5,630	5,630	6,566	6,566	6,300	6,008
Beginning Stocks	5,363	5,363	2,579	2,579	3,670	3,670
Production	15,761	15,761	22,278	22,278	24,500	24,750
MY Imports	45	45	68	49	50	30
TY Imports	45	45	68	49	50	30
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	21,169	21,169	24,925	24,906	28,220	28,450
MY Exports	7,190	7,190	9,755	9,755	11,000	10,800
TY Exports	7,190	7,190	9,755	9,755	11,000	10,800
Feed and Residual	3,100	3,100	3,400	3,381	4,000	4,000
FSI Consumption	8,300	8,300	8,100	8,100	8,000	8,000
Total Consumption	11,400	11,400	11,500	11,481	12,000	12,000
Ending Stocks	2,579	2,579	3,670	3,670	5,220	5,650
Total Distribution	21,169	21,169	24,925	24,906	28,220	28,450

Source: FAS/Kyiv own Estimates
**These are not USDA official numbers*

Table 2. Barley Production, Supply and Distribution*, 1000 MT

	2012/2013		2013/2014		2014/2015	
	Jul 2012		Jul 2013		Jul 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	3,293	3,293	3,233	3,233	3,200	3,002
Beginning Stocks	1,172	1,172	873	873	883	883
Production	6,935	6,935	7,561	7,561	9,400	9,450
MY Imports	0	0	25	16	5	1
TY Imports	0	0	25	16	5	1
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	8,107	8,107	8,459	8,450	10,288	10,334
MY Exports	2,134	2,134	2,476	2,475	4,000	4,200
TY Exports	2,659	2,659	3,827	3,827	2,700	2,700
Feed and Residual	3,500	3,500	3,400	3,392	3,300	3,300
FSI Consumption	1,600	1,600	1,700	1,700	1,600	1,600
Total Consumption	5,100	5,100	5,100	5,092	4,900	4,900
Ending Stocks	873	873	883	883	1,388	1,234
Total Distribution	8,107	8,107	8,459	8,450	10,288	10,334

Source: FAS/Kyiv own Estimates
**These are not USDA official numbers*

Table 3. Corn Production, Supply and Distribution*, 1000 MT

	2012/2013	2013/2014	2014/2015

	Oct 2012		Oct 2013		Oct 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	4,370	4,370	4,825	4,827	4,600	4,621
Beginning Stocks	1,051	1,051	1,191	1,191	2,237	2,237
Production	20,922	20,922	30,900	30,900	27,000	28,460
MY Imports	44	44	50	57	50	52
TY Imports	44	44	50	57	50	52
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	22,017	22,017	32,141	32,148	29,287	30,749
MY Exports	12,726	12,726	20,004	20,005	16,500	20,000
TY Exports	12,726	12,726	20,004	20,005	16,500	20,000
Feed and Residual	6,800	6,800	8,500	8,506	9,000	8,700
FSI Consumption	1,300	1,300	1,400	1,400	1,400	1,400
Total Consumption	8,100	8,100	9,900	9,906	10,400	10,100
Ending Stocks	1,191	1,191	2,237	2,237	2,387	641
Total Distribution	22,017	22,017	32,141	32,148	29,287	30,741

Source: FAS/Kyiv own Estimates

**These are not USDA official numbers*

Table 3. Rye Production, Supply and Distribution*, 1000 MT

	2012/2013		2013/2014		2014/2015	
	Jul 2012		Jul 2013		Jul 2014	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Harvested	298	298	279	279	180	185
Beginning Stocks	132	132	166	166	128	128
Production	676	676	638	638	450	478
MY Imports	0	0	0	0	0	0
TY Imports	0	0	0	0	0	0
TY Imp. from U.S.	0	0	0	0	0	0
Total Supply	808	808	804	804	578	606
MY Exports	17	17	51	51	5	19
TY Exports	16	16	59	51	5	19
Feed and Residual	50	50	50	50	25	37
FSI Consumption	575	575	575	575	450	450
Total Consumption	625	625	625	625	475	487
Ending Stocks	166	166	128	128	98	100
Total Distribution	808	808	804	804	578	606

Source: FAS/Kyiv own Estimates

**These are not USDA official numbers*