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Ukraine

Grain and Feed

Wheat Import Update

2003

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Report Highlights:

Ukraine will import 3 million MT of wheat in MY 2003/2004. Two-thirds of total imports are expected to land prior to January 1, 2004. U.S.-sourced wheat is expected to arrive in Ukraine in 2004 as domestic wheat prices rise and traditional suppliers run low. GOU intervention in the grain market in late 2003 resulted in lost opportunity to import wheat at more favorable prices, causing a domestic calamity in flour and bread prices. While earlier disincentives for commercial imports have now been removed, State grain traders will likely remain important players in this atypical marketing year.

Includes PSD Changes: No
Includes Trade Matrix: Yes
Unscheduled Report
Kiev [UP1]
[UP]

Summary

According to the current USDA estimate, Ukraine will import 3 million metric tons (MMT) of wheat during the July 2003-June 2004 marketing year (MY) for wheat. Ukraine has already imported an estimated 1 MMT in July-October 2003 and expects to import another million tons in November – December 2003. Another 1.0 million tons is anticipated to be imported during January-July 2004. Price control measures employed by the Government of Ukraine (GOU) caused an interruption in wheat imports in the beginning of the marketing year, which resulted in a lost opportunity to import wheat at lower prices. Private grain traders are expected to conduct most of the import business this year. However, with increased financing available to State grain trading enterprises, the GOU has become an important player in the grain market this year.

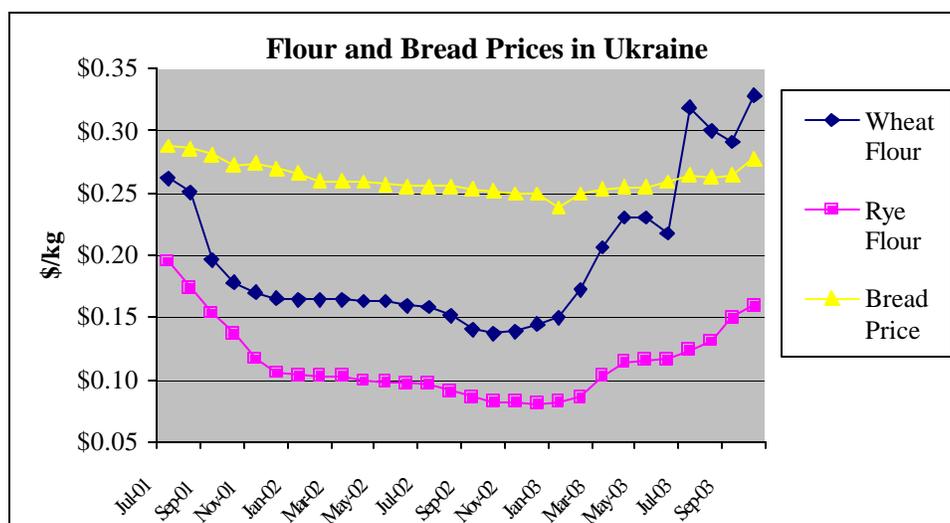
A Short Crop Results in Political Disarray

During the current grain marketing year, Ukraine is making the painful adjustment from a position as the sixth largest wheat exporter in the world during the two previous years to a net importer of wheat. Some GOU policymakers saw the 2003 short wheat crop as a national disaster. However, looking back in time, short crops and wheat imports are nothing new to Ukraine. The bumper crops of 2001 and 2002, mainly a result of extremely favorable weather conditions, were the largest wheat harvests since 1990 and reflected a 50% increase in wheat output over the previous decade's average. While lower wheat production in 2003 was expected, the combined deep winter freeze and spring drought caught GOU officials by surprise. Rather than allowing the market to determine internal prices and the pace of trade, agricultural officials over-reacted with administrative and price controls over the domestic grain market which adversely affected farmers, millers, bakers, consumers and commercial traders.

Price Controls Established for Bread, Flour and Wheat

Bread has historically been an important staple food product in Ukraine. The GOU has always regulated bread prices through various administrative measures. This year, local administrations at the rayon and oblast level forced some farmers to sell milling quality wheat after the harvest at \$130-140/MT when market prices were already at \$180/MT. Millers were not allowed to buy wheat or sell flour outside of predetermined price bands, which resulted in low wheat imports during September 2003. In addition to wheat and flour price fixing, local authorities set maximum profit margins for bakeries leading to a significant price differential between flour and bread. Inadequate domestic stocks and lack of imported wheat caused a sharp decline in flour production to 603,000 MT in July-September 2003 compared with 1.6 MMT produced during the same period in 2002. This forced the GOU to reconsider its price fixing policies.

In early November, most of the Ukrainian regions eased price fixing policies except for the most basic and affordable types of bread. The maximum profit margin on this so-called "social" bread has been set at 5% per year. Those identified as most vulnerable will receive a direct subsidy to compensate for an estimated increase in bread prices of UAH 7-8 (\$1.30-1.48) per capita per month until December 31, 2003. The GOU has not yet decided if this subsidy program will continue into 2004 as an anticipated nation-wide pension increase in January 2004 would eliminate the need for a bread subsidy to the elderly.



Data Source: APK-Inform for wheat and rye flour prices; State Statistics Committee of Ukraine for bread prices.

Changes to VAT Law Encourages Imports

On November 6, 2003, the President of Ukraine signed a law extending the zero import duty on wheat and rye until July 1, 2004. Earlier in the marketing year, legislation was passed which allowed wheat imports with a zero import duty only until December 31, 2003 (see GAIN report # UP 3004). This new grain import legislation allows importers to use promissory notes to defer their value-added tax (VAT) payment for up to 180 days from the date of import into Ukraine until July 1, 2004. Prior to adoption of this law, importers were required to pay the entire amount of the VAT prior to customs clearance of imported wheat. Eligible importers who are also exporters can now offset their import VAT obligations with outstanding export VAT due. While traders have reported problems with the current VAT payment scheme, it appears that this legislation is facilitating wheat imports.

MY 2003/2004 Import Pace to Date

Wheat imports into Ukraine began in March 2003, near the end of the previous marketing year as domestic stocks were rapidly declining and the extent of the winter wheat loss was becoming apparent. From July through October 2003, Ukraine imported an estimated 1 MMT of the 3 MMT required for MY 2003/2004 (see Table 3). The GOU has forecast that the country will import 1 MMT in November-December 2003 and an additional 1 MMT in January-July 2004.

Imports began slowly during the current marketing year and actually stopped in September when GOU price controls took effect. Ukraine lost valuable time tinkering with market control mechanisms while the average world price for wheat increased 17-20% from July to the beginning of October 2003 (see Table 2).

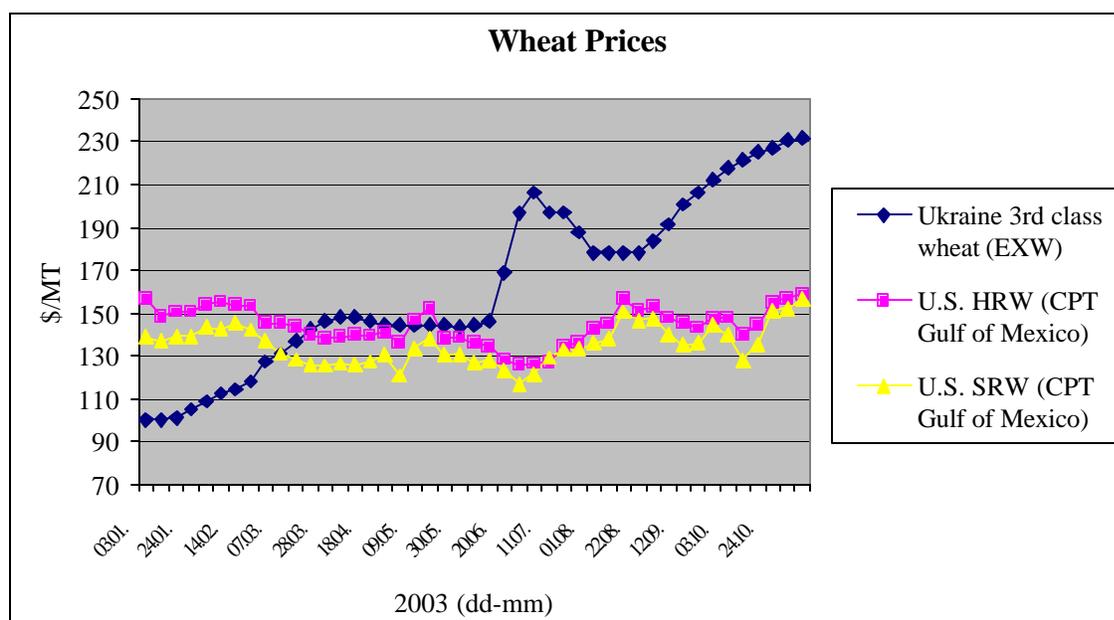
Ukraine's monthly demand for milling quality wheat is generally estimated at 550,000 MT but has declined in recent months due to high prices and low supply. During July-October 2003, Ukrainian wheat from the new harvest met most of the demand. However, by the end of

October, 65% of the 4 MMT of wheat produced in 2003 had already been utilized for food consumption and planting seed. Wheat imports must maintain an average pace of 210,000 MT per month in order to meet demand from local millers through July 2004.

The leading suppliers of wheat to Ukraine during the current marketing year to date are Kazakhstan, Russia, Germany and Canada. The main importers of this wheat were United Grain, Cargill, Glencore and Toepfer.

U.S. Wheat Expected to Land in Ukraine in 2004

Given current wheat prices in Ukraine, imports from the United States are now feasible. Post estimates that U.S. wheat imports into Ukraine could reach 500,000 MT between January and July 2004. So far, none of the many rumors of sales contracts have been confirmed by official U.S. weekly sales reports. That said, on November 7, 2003, USDA reported that 110,000 MT of U.S. wheat were sold to unknown destinations. It is believed that this wheat is on its way to the Black Sea with the destination either Ukraine or Romania, Ukraine's major competitor for wheat purchases in the region.



Data Source: APK-Inform

Price is not the only factor working in the favor of U.S. wheat exports to Ukraine. Diminishing supplies from Kazakhstan, Russia, Western Europe, Central Europe and Canada indicate that Ukraine will be required to look to the Western Hemisphere in December 2003-January 2004. Argentina should not be overlooked as a potential supplier in 2004.

GOU Grain Purchases

The State Joint Stock Company Khib Ukrainy and State Committee of Ukraine on the State Material Reserves (Derzhreserve) are the two state agents for grain purchases. The GOU has charged the two state agents with the purchase of up to 1.3 million MT of food grains (milling wheat, rye, food grade barley, oats, buckwheat and pulses) by January 1, 2004. It is doubtful, however, that this quantity of grain will actually be purchased by the GOU state agents, considering the constantly rising price of wheat. Sources indicate that both GOU

agents have purchased imported wheat on CIF Ukraine terms from major international grain traders, but they have not yet directly imported any grains.

Khlib Ukrainy received UAH 70 million (\$13 million) for pledge and intervention grain purchases this year. The Ministry of Agrarian Policy has admitted that the system of pledge purchases in MY 2003/2004 did not work due to high grain prices. The price for 3rd class wheat established by the GOU on July 3, 2003 (UAH 550/MT or \$104/MT) was already 40% below the market price. Using GOU financing, Khlib Ukrainy purchased 114,000 MT of Kazakh wheat and approximately 150,000 MT of Ukrainian wheat as of the end of October. It is interesting to note that the GOU's pledge purchases scheme did not work for the previous two marketing years either, as there was no funding available to purchase grain from farmers.

On September 16, 2003, the GOU approved UAH 400 million (\$75 million) in financing of grain purchases by Derzhreserve. This State Committee is tasked to purchase 1 million MT of food grains by January 1, 2004. According to the Committee, it purchased 301,000 MT of grain, including 236,000 MT of imported milling quality wheat, as of the end of October 2003. Derzhreserve has already declared its intention to buy U.S. and French wheat.

It is unlikely that the government-to-government agreement to import wheat from the Russian Federation will be fulfilled. As of September 29, 2003, the Russian State Reserves Committee sold only 12,500 MT of wheat to Derzhreserve under the intergovernmental agreement. The agreement was approved in August 2003 and envisioned delivery of 166,000 MT at a price of \$110/MT.

Table 1. Wheat Imports into Ukraine in MY 1999/2000-MY 2002/2003, (July-June marketing year, quantities in metric tons)

Imports from:	99/00	00/01	01/02	02/03
Kazakhstan	84,142	210,656	3,823	221,916
Russia	2,489	69,605	5,490	179,151
Moldova	0	0	1,249	1,788
Hungary	52,606	43,057	1,108	500
France	0	0	11	187
Czech Republic	55,846	12,381	5	20
Lithuania	0	0	6,866	0
Turkey	109,128	85,035	0	0
Germany	8,950	571	58	0
Bulgaria	6,164	17,813	0	0
Yugoslavia (Serbia and Montenegro)	21,316	0	4	11
Others Not Listed	31,770	25,129	52	0
Total	372,412	464,247	18,666	403,573
Total Flour Imports	56,090	155,500	6,800	67,600

Data source: State Statistics Committee of Ukraine

Table 2. Monthly Wheat Imports in MY 1999/2000-My 2002/2003, 1,000 MT

Month	MY 99/00	MY 00/01	MY 01/02	MY 02/03	MY 03/04
July	0	106	5	0	60
August	0	79	9	1	248
September	0	10	2	1	191
October	0	14	0	0	500*
November	0	25	2	0	
December	0	68	0	3	
January	0	35	0	2	
February	10	33	0	4	
March	27	21	0	26	
April	84	11	0	118	
May	103	21	0	165	
June	148	42	0	83	
Total for MY	372	464	19	403	999

Data source: State Statistics Committee of Ukraine

Table 3. July-September 2003 Wheat Imports, in MT

Imports from:	Jul-03	Aug-03	Sep-03	Jul-Sep-03
Kazakhstan	48,553	122,986	86,539	258,078
Russia	9,758	55,402	81,342	146,502
Germany		65,012	155	65,167
Lithuania		0	13,440	13,440
Czech Republic		0	6,696	6,696
USA		4,996		4,996
Latvia		0	2,547	2,547
Slovak Republic	1,314	0		1,314
France		0	223	223
Yugoslavia			18	18
Total	59,625	248,396	190,959	498,980

Data source: State Statistics Committee of Ukraine