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Ukraine

Grain and Feed

Ukraine Introduces Grain Export Quotas and Licensing

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Approved by:
W. Garth Thorburn II, Agricultural Attaché
Office of Agricultural Affairs

Prepared by:
Olena Pereyatenets, Agricultural Specialist

Report Highlights:

The economic hardships that were absorbed by grain traders, ports, and railroad companies during marketing year 2006/2007 because of the imposition of export quotas and licensing on grains led many to believe the government of Ukraine (GOU) would not impose such restrictive measures again. However, GOU re-introduced export quotas and licensing for grains for marketing year 2007/2008. This action was taken in order to prevent bread price increases before the parliamentary election and to allow the government to procure grain at lower prices. The drought that damaged crops in southern Oblasts was also used as a justification for this measure. This year Ukrainian farmers are expected to absorb the damage because grain traders will not purchase significant quantities of grain.

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

Executive Summary

Despite the drought that hit hard in southern Oblasts, the grain harvest is in full swing and should be bountiful enough for up to 6-7 million tons of wheat, barley and corn to be exported. However, the government once again insisted on restricting exports of grains. This action was taken presumably to enable the government to fill state grain reserves with lower priced grain. Also, the government's aim is to prevent bread price increases in advance of the September parliamentary elections. There is no indication how long these restrictions will be in place, but the industry consensus is that the export limitations will be enforced for at least three months (July, August and September).

Export Grain Quotas Introduced in Ukraine. Is It a Quota or a Ban?

The government of Ukraine (GOU) once again imposed export quotas for grains in marketing year 2007/2008. A decree was officially published on June 26, 2007. The decree calls for imposing a 3,000-ton export quota for each of the grains (wheat, barley, corn and rye) beginning July 1, 2007. This policy will actually serve as an export ban due to the extremely small size of the quotas. The decree does not specify how long the quotas will be implemented and calls on the government to reconsider lifting the quotas on September 20. If the government decides to extend the export quotas beyond September, then a new proposal or draft decree for additional grain export restrictions must be officially announced before September 20.

The GOU has justified restricting exports on the following:

1. To ensure food security;
2. To ensure bread prices remain low;
3. To fill up state grain reserves;
4. A drought in the Southern regions of Ukraine (Odessa, Kherson, Nikolaev, Zaporojie, Kirovograd, Dnipropetrovsk, Cherkassy) will reduce the overall harvest to a projected 14 million tons of wheat (or even a little lower);
5. To ensure enough grain remains in country to meet domestic demand. The government claims there is only enough grain to meet domestic consumption. GOU's forecast for wheat is even lower at 12 million tons. (The yearly average consumption of milling wheat in Ukrainian is around 7 million tons per year).

The GOU is determined to not allow the price of bread to increase before the upcoming Parliamentary election. Bread prices are considered to be an election campaign issue and are used by some as a measure of the government's performance.

Export quotas for barley and corn were introduced as well. The government included these grains to benefit meat processors with lower priced feed.

Ukrainian State Reserve

GOU has announced they plan to purchase wheat to increase the amount of stocks in the State Reserve. The government proposes to purchase 2.5-3.5 million tons of wheat at a minimum price of $156 per ton and a maximum of $206 per ton. Again, this action is justified on the grounds of ensuring food security. Experts don't expect the government will be able to purchase a substantial amount of wheat due to the lack of funding.

Exports

The government gave early signs that they intended to restrict the export of grains again. Grain traders reacted quickly and do not intend to make significant purchases of grain until the restrictions are lifted. They were stuck with large stocks of grain in late 2006 and refuse to incur significant losses again. It is conceivable that exporters will not purchase grain until September or October. The GOU is obliged to announce their intention to extend the export quotas or to repeal them by September 20, 2007. If the government extends the quotas beyond September 20, then traders could postpone making significant grain purchases until the restrictions are lifted.

Ukrainian Farmers

The harvesting of the winter crop began one week ago. Grain traders usually begin to procure grain during the first harvest and farmers typically try to sell between 30 to 50 percent of their crop from July through August. This allows them to secure financing for the autumn winter crop sowing campaign and to pay back debts that were incurred.

For marketing year 2007/2008, international grain traders are not expected to purchase substantial amounts of grain to minimize their risk. As a consequence, grain prices are expected to decrease as long as the restrictions remain in place. The only significant buyer will be the State purchasing grain for the State Reserve. However, the State is usually slow to make purchases and buys at discounted prices. The State will be unable to procure all the grain that farmers have to sell, due to the lack of funds.

Conclusion

Ukrainian farmers are expected to bear the cost associated with restricting grain exports. The estimated loss to Ukrainian farmers could reach $100 million, due to the expected difference in the domestic and world price of wheat. (i.e., the State purchases 2 million tons of wheat at an average price of $180 instead of a price of $230 - the market price). Barley and corn losses are expected to equal wheat losses. Industry damages are difficult to forecast at this early stage and will depend on the duration of the restrictions on grain exports.