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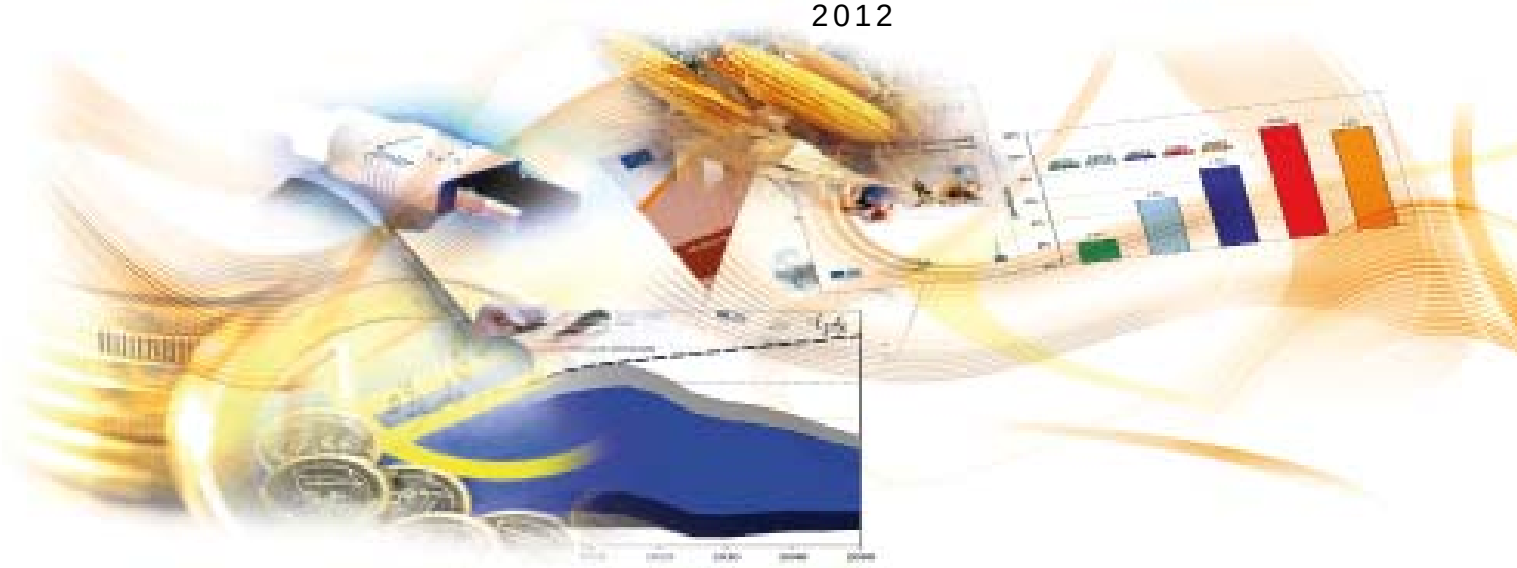
Agricultural sector and market developments: a special focus on Ukraine, Russia and Kazakhstan

Workshop proceedings

Thomas Fellmann and Olexandr Nekhay

2012



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- Workshop Proceedings -

Thomas Fellmann and Olexandr Nekhay

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:

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Sergey CHERNYSH	SWAP-RURAL Project, Ukraine
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Alexander TARASSEVYCH	FAS/USDA, U.S. Embassy, Ukraine
Andriy TOVSTOPYAT	Investment Capital Ukraine LLC, Ukraine
Joerg ZIMMERMANN	Ag Growth International, Canada

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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

AGENDA - DAY 1 - 26 OCTOBER 2010

09:00	**Workshop registration**
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 *(12 min presentations)*	**SESSION 1: PRODUCTION POTENTIAL AND CONSTRAINTS IN THE REGION** - Chair: Vera Matusevich (World Bank Moscow, Russia) ▪ **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)
	▪ **Discussion** - All Participants
11:15 – 11:45	***Coffee break***
11:45 *(12 min presentations)*	**SESSION 1 (continued)** - Chair: Victor Andrievsky (Agrarian Market Development Institute, Ukraine) ▪ **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)
	▪ **Discussion** - All Participants
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** - Chair: Natalya Korchakova (Delegation of the EU to Ukraine, Ukraine)
(12 min presentations)	▪ **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** - Chair: Ann E. Murphy (FAS/USDA, Ukraine)
(10 min presentations)	▪ **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

AGENDA - DAY 2 - 27 OCTOBER 2010

09:15	**Opening remarks for day 2** - European Commission
09:30	**SESSION 4: CEREAL MARKETS** - Chair: Jacques Delincé (JRC-IPTS, Spain)
(12 min presentations)	▪ **Setting the scene and overview on the EU** - Dangiris Nekrasius (DG AGRI, Belgium) ▪ **Cereal markets in Kazakhstan** - Rakhim Oshakbayev (ACEPAS, Kazakhstan) ▪ **Cereal markets in Ukraine** - Sergey Feofilov (Ukragroconsult, Ukraine) ▪ **Cereal markets in Russia** - Andrey Sizov (SOVECON, Russia)
	▪ **Discussion** - All Participants
11:00 – 11:30	***Coffee break***
11:30	**SESSION 5: OILSEEDS AND BIOFUELS MARKETS** - Chair: Thomas Fellmann (JRC-IPTS, Spain)
(12 min presentations)	▪ **Setting the scene and overview on the EU** - Dangiris Nekrasius (DG AGRI, Belgium) ▪ **Oilseeds markets in Kazakhstan** - Dauren Oshakbayev (ACEPAS, Kazakhstan) ▪ **Oilseeds and biofuels markets in Ukraine** - Alina Fedyay (Bunge, Ukraine) ▪ **Oilseeds markets in Russia** - Andrey Sizov (SOVECON, Russia)
	▪ **Discussion** - All Participants
13:00 – 14:30	***Lunch break***
14:30	**SESSION 6: FINAL DISCUSSION** - Chair: Jacques Delincé (JRC-IPTS, Spain) **AGRICULTURAL PRODUCTION AND COMMODITY MARKET DEVELOPMENT IN UKRAINE, RUSSIA AND KAZAKHSTAN**
(12 min statements)	▪ **Status quo, possibilities, challenges, and risks** - Rakhim Oshakbayev (ACEPAS, Kazakhstan) - Victor Andrievsky (Agrarian Market Development Institute, Ukraine) - Dmitri Rylko (IKAR, Russia)
	▪ **Discussion** - All Participants
16:00	**Concluding remarks** - European Commission
16:15	***End of day 2***

Acronyms

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

SME	Small and Medium-Sized Enterprises
TRQ	Tariff Rate Quota
UAH	Ukrainian hryvnia
UKR	Ukraine
USD	U.S. Dollar
USDA	U.S. Department of Agriculture
WTO	World Trade Organization

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

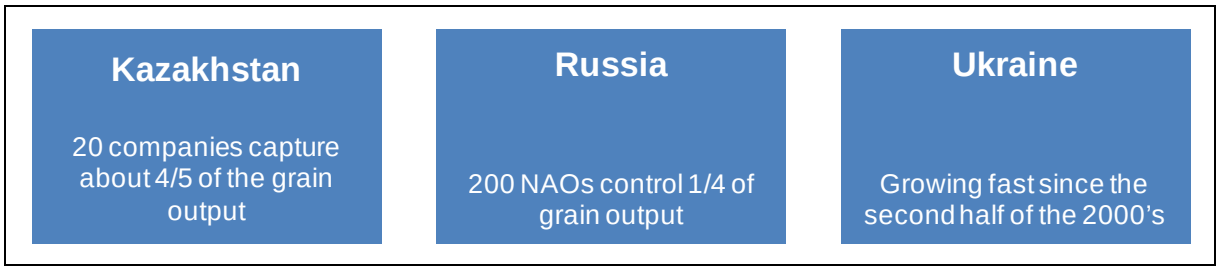
This section gives a summary of the workshop presentations on several different issues regarding the production potential and constraints in Ukraine, Russia and Kazakhstan. In the workshop, most issues presented were exemplified on rather specific examples in one of the

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



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:

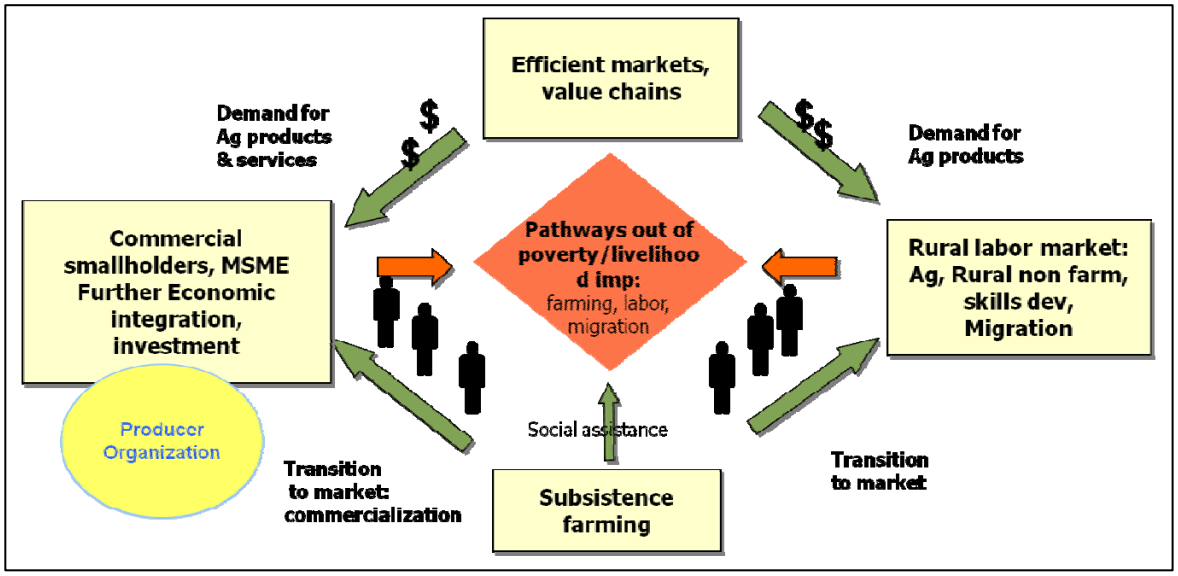
- *Agrarian structures:* process of change from collective to individual, from public to private (plots, farms, corporate enterprises).
- *Role of the state*: from directing input and output to providing basic public goods and a regulatory framework to free market economy.
- *Agricultural policy objectives*: 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



Source: Presentation McCormack (SWAP-RURAL Project, Ukraine)

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]

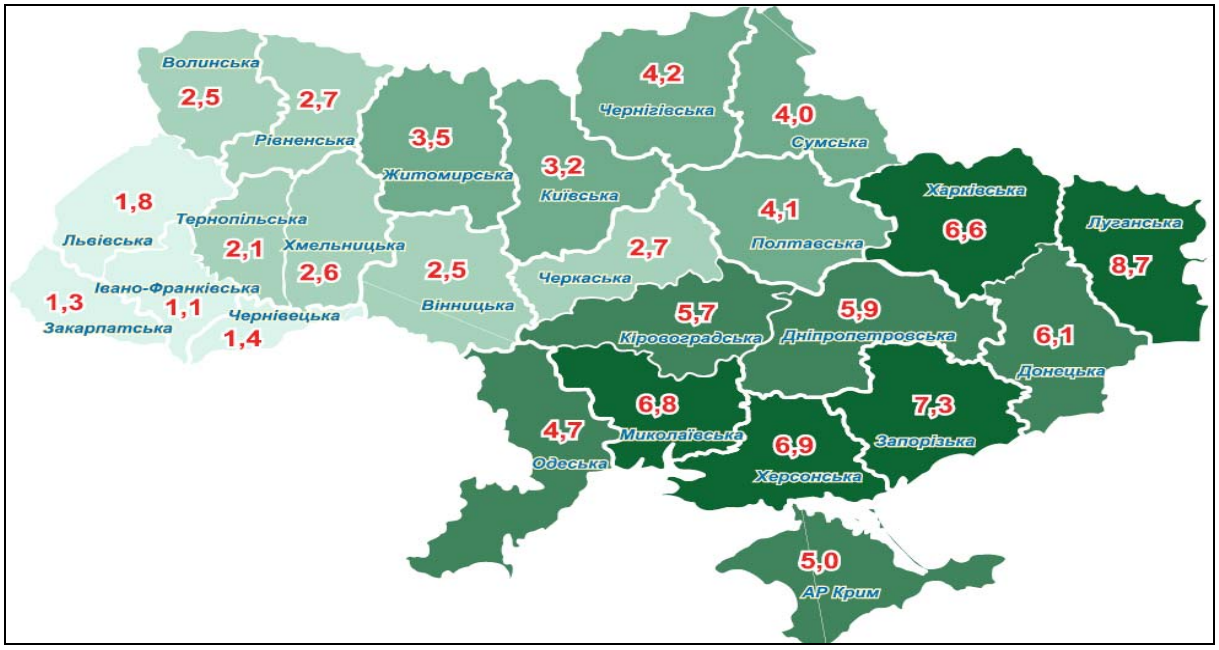
In October 2010 there were 17.36 million ha of rented farmland in Ukraine (under registered contracts for lease of land shares). The fee for rented land varies across the country, with the average rent fee in Ukraine being about 300 UAH per ha and year.[4] Regarding duration of the lease contracts, the 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)



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.myland.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.

[7] An updated and revised version of this modelling analysis is published in the following journal article: Nekhay, O., T. Fellmann and S.H. Gay (2012): A Free Trade Agreement between Ukraine and the European Union: Effects on Agricultural Markets and Farmers Revenues. Post-Communist Economies 3 (42): 351-363.

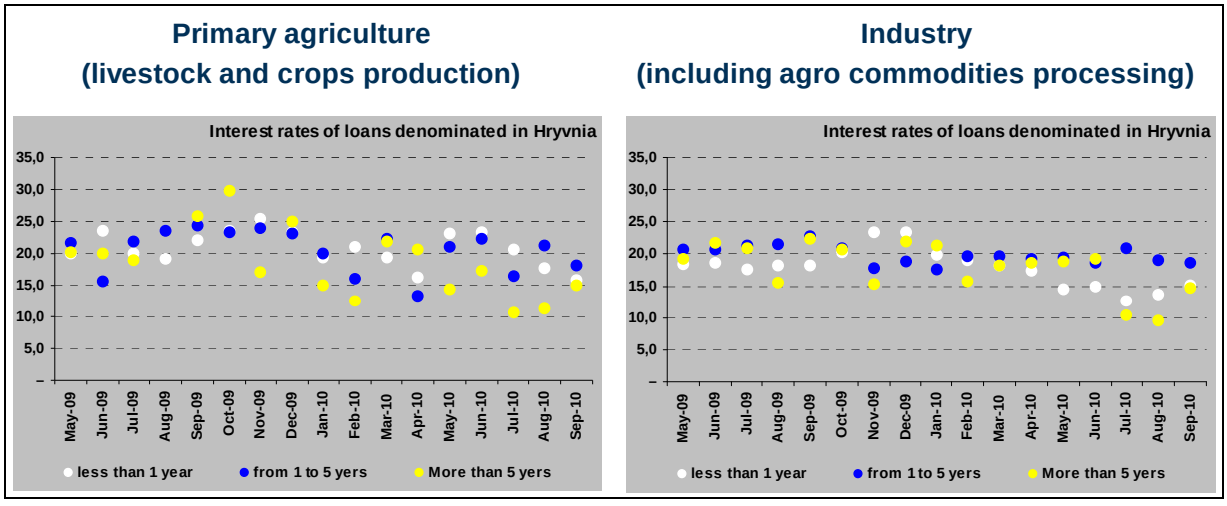
Financing of the agricultural sector in Ukraine

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)



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

Source: Presentation Olga Ramazanova (APK-Inform Agency, Ukraine); primary source: APK-Inform Agency: 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010'.

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

Region	Port/ complex	Volumes of simultaneous storage, thsd tonnes	Annual capacity of transshipment, mln tonnes
Odessa seaports	Odessa port elevator (public)	133.3	3.5
	Odessa commercial sea port: Ukrelevatorprom (Alfred C.Toepfer International Group (ACTI Group, Gamburg))	168.0	
	Odessa/Ukrelevatorprom, Inzernoexport (Odessa), port elevator (Kiev)	18.0	
	Odessa/Olympex Cupe	130.0	1.5
	Sea Commercial Port of Illichivsk: Transbulkterminal (Kernel Group)	200.0	4.2
	Illichivsk terminal (Glencore)	116.0	2.0
	Illichivsk sea fishing port (public)	18.0	0.4
	Belgorod Dnestrovsky sea trading port (public)	36.5	0.5
	Yuzhny sea trading port: Transinvestservis	380.0	3.5
	Borivage	126.0	2.0
Total		**1,325.8**	**17.6**
Seaports and river ports of Nikolaev oblast	Nikolaev Sea Trade Port (public)	50.0	2.0
	Nikolaev port elevator (public)	69.0	1.0
	Nikolaev river trading port – CJSC Grain trading company "Allseeds Ukraine	88.0	1.0
	Nikolaev Sea Trade Port: Nibulon	130.0	1.7
	Nikolaev Sea Trade Port: CJSC Nika-Terra (Group of companies Nika-Terra)	140.0	2.0
Total		**477.0**	**7.7**
Crimean ports	Kerch sea trading port (public)	5.4	0.3
	Feodosia sea trading port (public)	8.0	0.3
	Sevastopol sea trade port – CJSC Stevedoring company Avlita (Ukrainian industrial-transport company)	100.0	2.0
	Kerch sea fishing port: ABS-Terminal (Pole-Port Ltd)	35.0	0.6
Total		**148.4**	**3.2**
Dnieper ports	Kherson sea commercial port (public, management of grain terminals by Dnipro Cargo Ltd)	20.0	0.5
	Kherson port elevator (W.J. Grain)	100.0	1.5
	Skadovsk sea trading port (public)	5.7	0.1
	Dneprovsky store complex (Nortech-Azot and Azot-Trans Ltd)	8.5	0.2
	Grain terminal "UkrKazExportAstyk" (Kholding Kazexportastyk, Kazakhstan)	20.0	0.4
Total		**154.2**	**2.7**
Azov Sea ports	Berdyansk sea trading port (public)	10.7	0.6
	Mariupol Sea Commercial Port (public)	37.8	0.6
	Ukrtransagro (Ukrainian industrial-transport company)	50.0	2.0
	Berdyansk sea trading port: South-Eastern grain terminal Ltd (international industrial-transport consortium "Novaya Khortitsa")	18.0	1.0
Total		**116.5**	**4.2**
Danube river ports	Izmail (public)	14.4	0.2
	Reni/Reni-Line (Rudis Group)	20.0	0.5
	Ust-Dunaysk (public)	2.0	0.4
Total		**36.4**	**1.1**
Total		**2,258.2**	**36.4**

Source: Presentation Olga Ramazanova (APK-Inform Agency, Ukraine); primary source: APK-Inform Agency: 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010'.

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

Region	Port/ complex	Volumes of simultaneous storage, thsd tonnes	Annual capacity of transshipment, mln tonnes
Black Sea ports	JSC Novorossiysk port and grain products plant	150	4
	JSC Port Tuapse	102	3
	JSC Novorossiysk grain terminal	120	6
	JSC Portholding	-	1.5
Total		**372**	**14.5**
Azov Sea ports	Azov Port Elevator Ltd	48	1.5
	JSC Port Azov	14	0.4
	JSC Taganrog shipyard	43	0.6
	JSC Priazovye (Taganrog)	3	0.5
	JSC Port Temryuk	4.5	0.2
	JSC Port Caucasia	12	0.3
	JSC Port Yeysk	30	0.8
	JSC Yeysk port elevator	126	0.78
	Yeisk-Priazovie-port Ltd	2	0.2
	Directoria-New-seaport Ltd		0.4
	CJSC Azov shiprepairing company		1
Total		**283**	**7**
River ports of the Volga and Don	Portgrain Ltd	40	1.5
	JSC Kalachevskiy port	-	0.2
	Ilovatskiy grain-collecting station	50	0.2
	Nikolaevskiy grain-collecting station	120	0.3
	Kamyshinskiy elevator	100	0.2
	Dubovskiy elevator	80	0.2
	Volgodonskiy elevator	80	0.2
	Kalach-on-Don grain-collecting station	60	0.2
	Other terminals	100	1
	Bagaevskiy grain products plant / Bagaevskaya	15	0.2
	Bagaevskiy Grain Terminal "Rosagrein"	30	0.5
	Semikarakorskiy grain products plant / Semikarakorsk	100	0.5
	Grain Terminal Yug Rusi Agro	200	1.5 - 3.0
	Teminal AIC Aston	100	1
	Grain Terminal Cargill	30	0.5
	Grain Terminal Rostov grain terminal Bunge	30	0.5
	Grain Terminal Rostov grain products plant, IGC	150	1
Total		**1285**	**8.2**
TOTAL		**1940**	**29**

Source: Presentation Olga Ramazanova (APK-Inform Agency, Ukraine); primary source: APK-Inform Agency: 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010'.

Distribution channels and organization of the regional agricultural markets

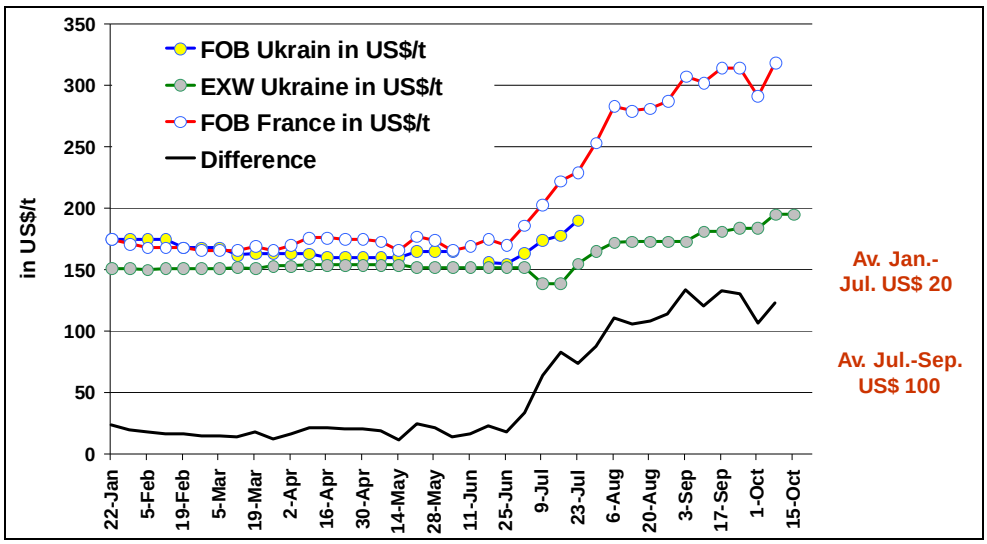
Drawing on the difference between an efficient market organization and an inefficient one, Ludwig Striewe (Toepfer International, Ukraine) exemplified that the better the logistics and the lower transaction costs and risks are in a country, the higher is the farm gate price. For example a panmax vessel 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.[8] 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



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).

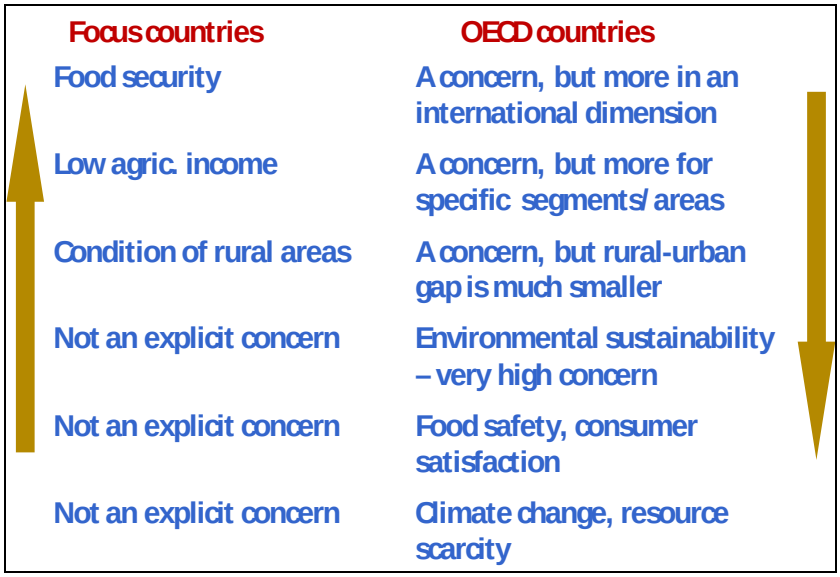
2. Agricultural policy in Ukraine, Russia and Kazakhstan

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).

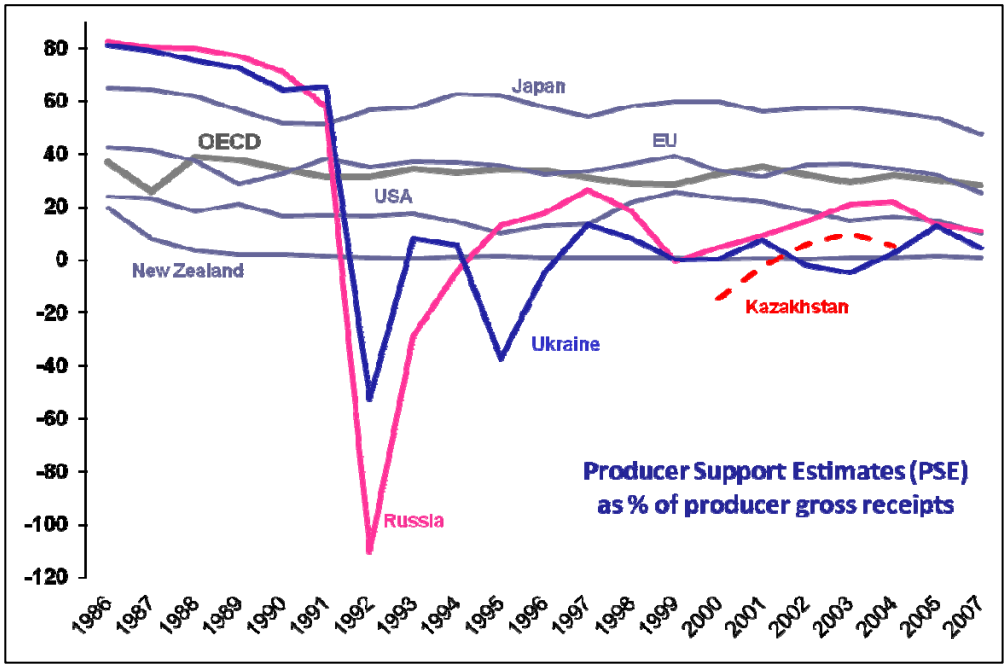
Figure 9: Mayor policy concerns in the focus countries compared to OECD countries



Source: Presentation Melyukhina (OECD, France).

The collapse of the Soviet Union lead 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

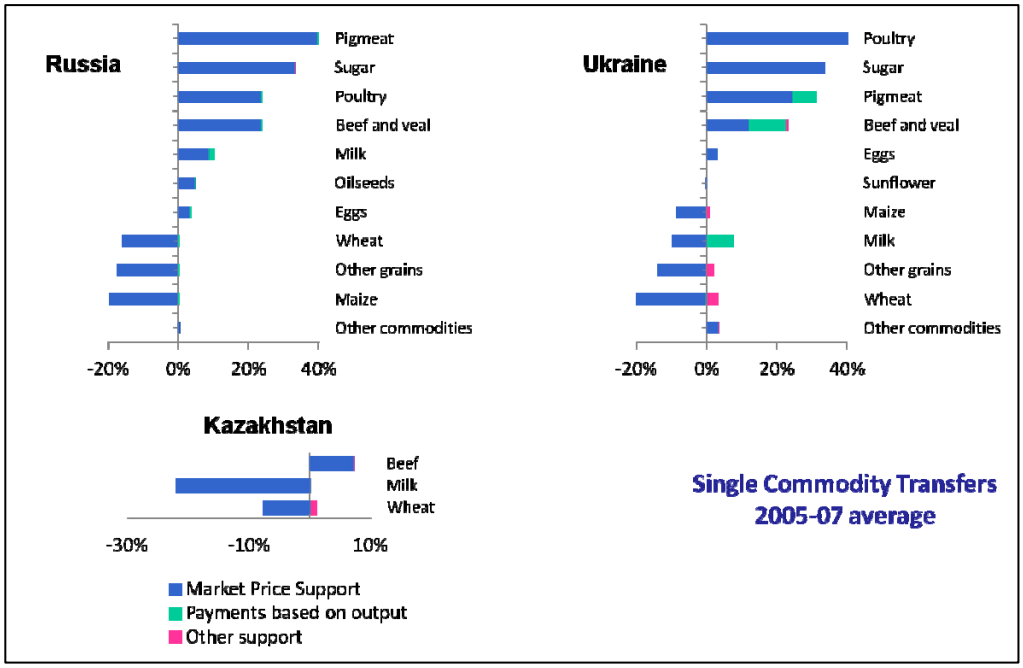


Source: Presentation Melyukhina (OECD, France); primary sources: OECD, World Bank for Kazakhstan

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.

Figure 11: Commodity profile of support



Source: Presentation Melyukhina (OECD, France)

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.

Figure 12: Kazakhstan legislation framework for agriculture

Law	Scope of application
"On state regulations of development of agriculture and rural areas"	Development of agricultural sectors and rural areas, food security
"On compulsory insurance in crop production"	Ensuring protection of property rights of crop producers from adverse natural phenomena resulting in partial or total loss of the crop
"On grain"	Regulation of grain industry: production, processing, storage and marketing
"On seed production"	Organisation and implementation of seed production system, state control over production, processing, storage, transportation, marketing and consumption
"On crop protection"	Crop protection from pests, weeds, diseases
"On phyto-sanitary control"	Regulation of the implementation of phyto-sanitary control
"On veterinary science"	Ensuring veterinary and sanitary safety
"On livestock breeding"	Preserving and increasing gene pool of high bred livestock, as well as reproduction and improvement of their productive qualities
"On development of cotton industry"	Regulation of cotton industry: production, processing, storage and marketing
"On rural cooperation of water users"	Regulation of supply and consumption of water by cooperative members
"On food safety"	Establishment of legal framework with the purpose of ensuring food security

Source: Presentation Rakhim Oshakbayev (ACEPAS, Kazakhstan)

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/producers 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;

- 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 competiveness, 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 mayor 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 verses 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

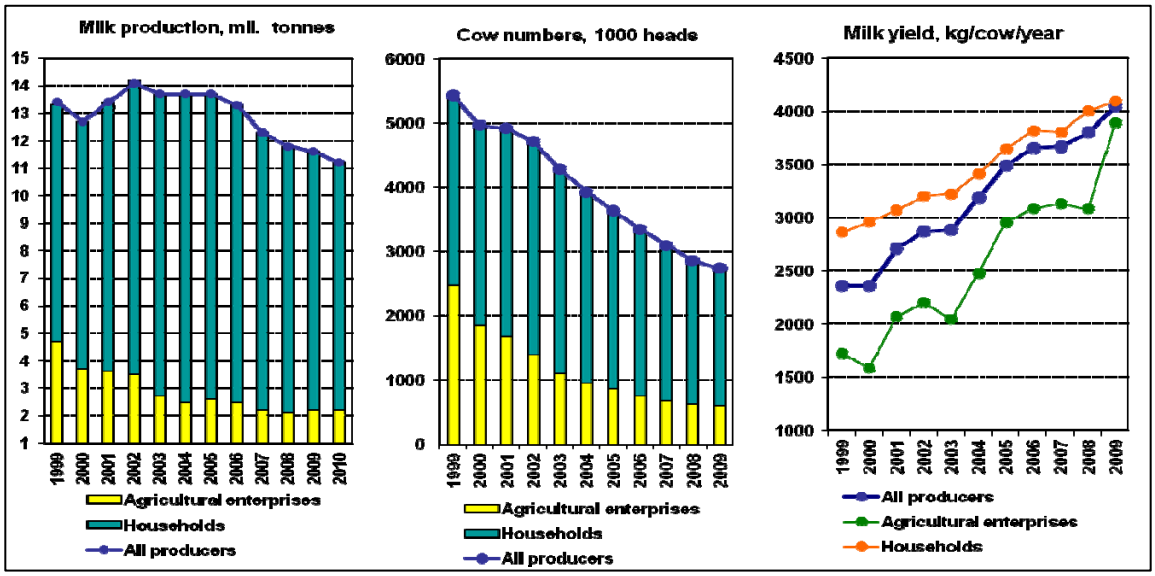
Thomas Fellmann (JRC-IPTS, Spain) set the scene for the milk and meat market session, presenting an overview of the projected developments on the respective world and EU markets. World market developments show still a strong demand for meat, with annual growth rates in world meat consumption projected 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

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).

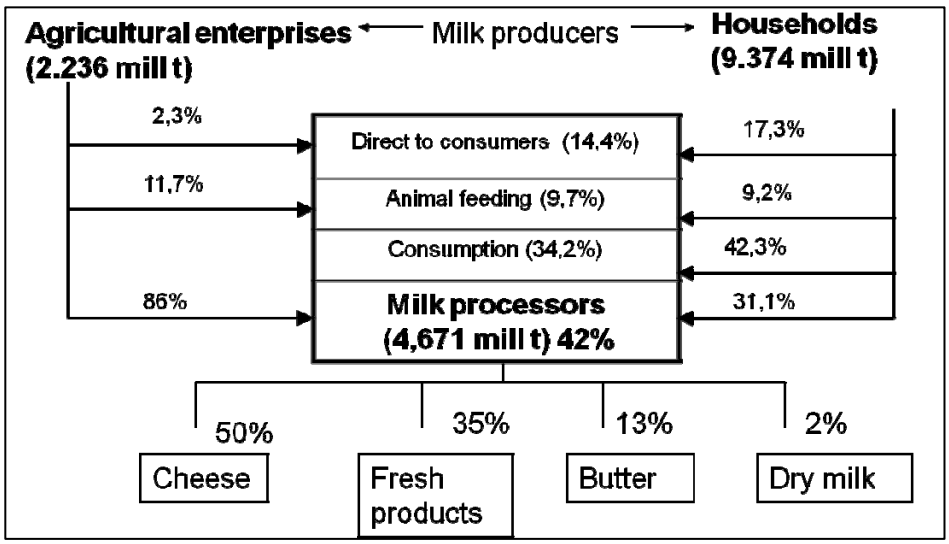
Figure 13: Milk production trends in Ukraine (1999-2009)



Source: Presentation Kozak (Institute of Agrarian Economics, Ukraine); primary source: national statistics

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).

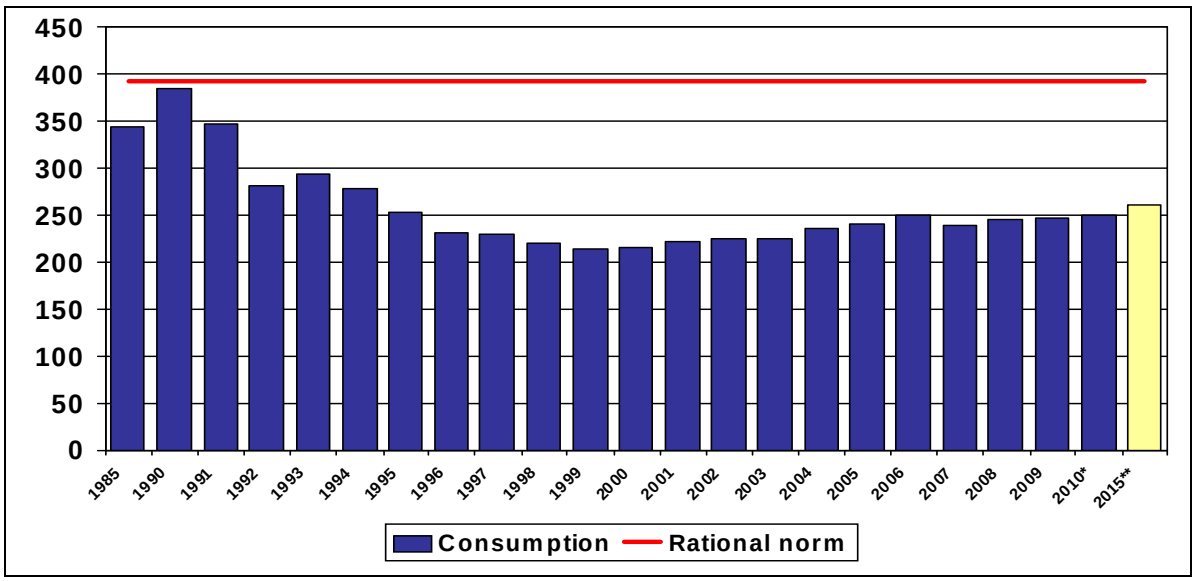
Figure 15: Dynamics of milk production in Russia

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

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



Source: Presentation Smirnov (Russian Dairy Union); primary source: National Statistic Service
Note: * estimate, ** forecasted; rational norm = recommended level of consumption[9]

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.

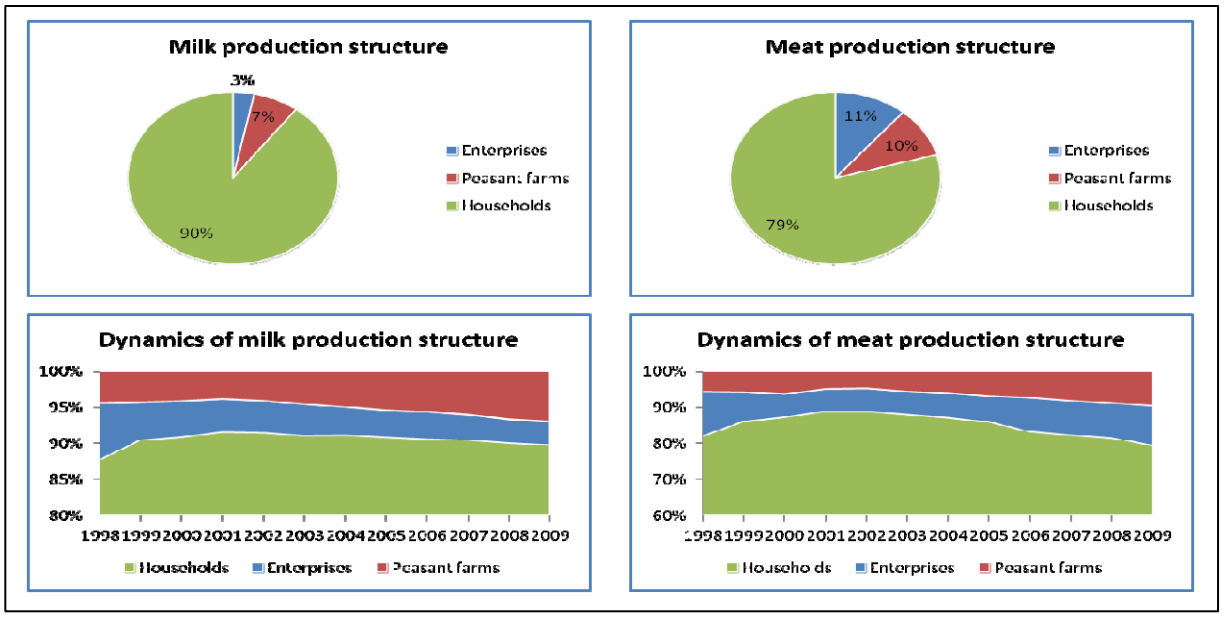
[9] The term 'rational norm' was used in the Soviet Union, when for all basic products a 'rational norm' of consumption was elaborated. The current Russian government uses the term to foster milk and meat consumption.

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



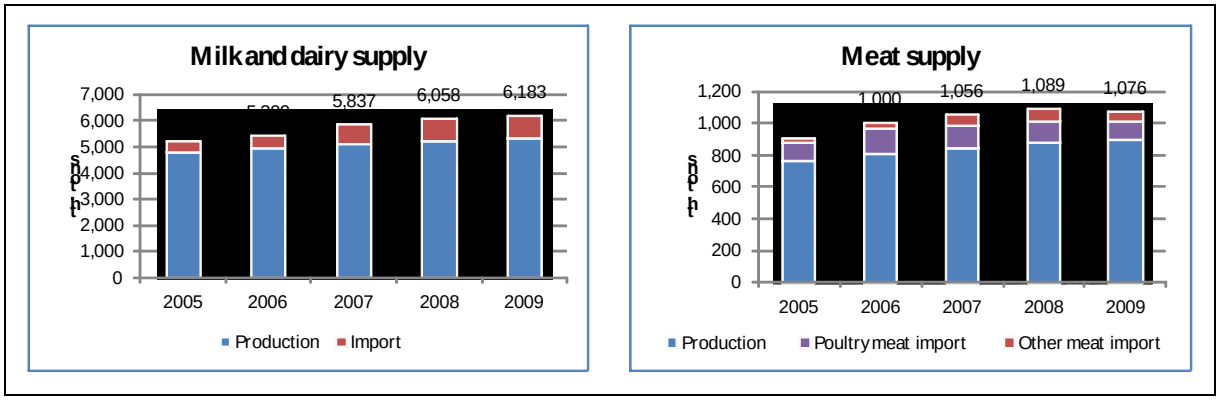
Source: Presentation Pak (ACEPAS, Kazakhstan)

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



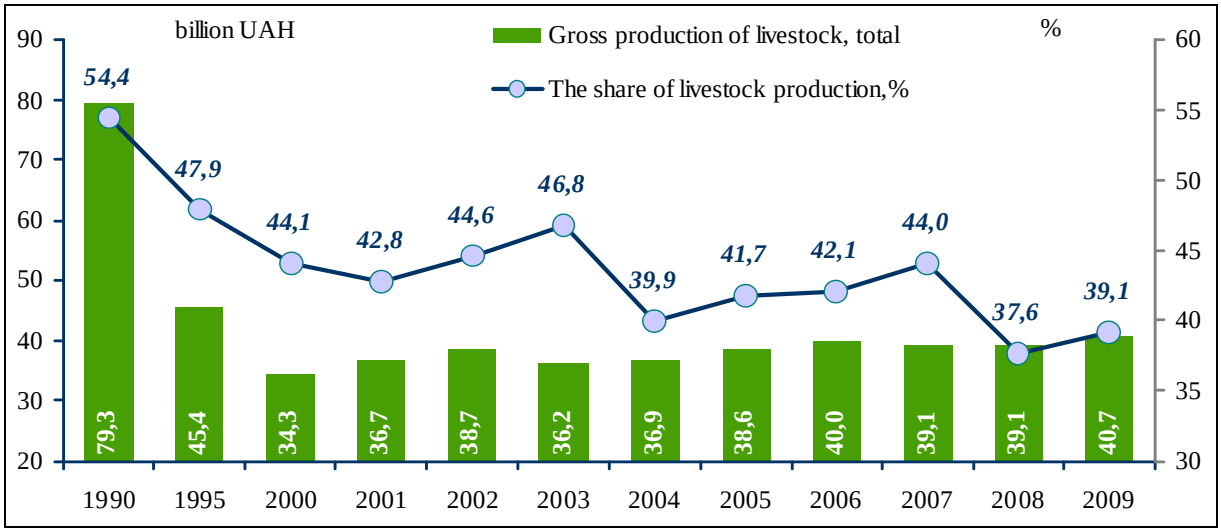
Source: Presentation Pak (ACEPAS, Kazakhstan)

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).

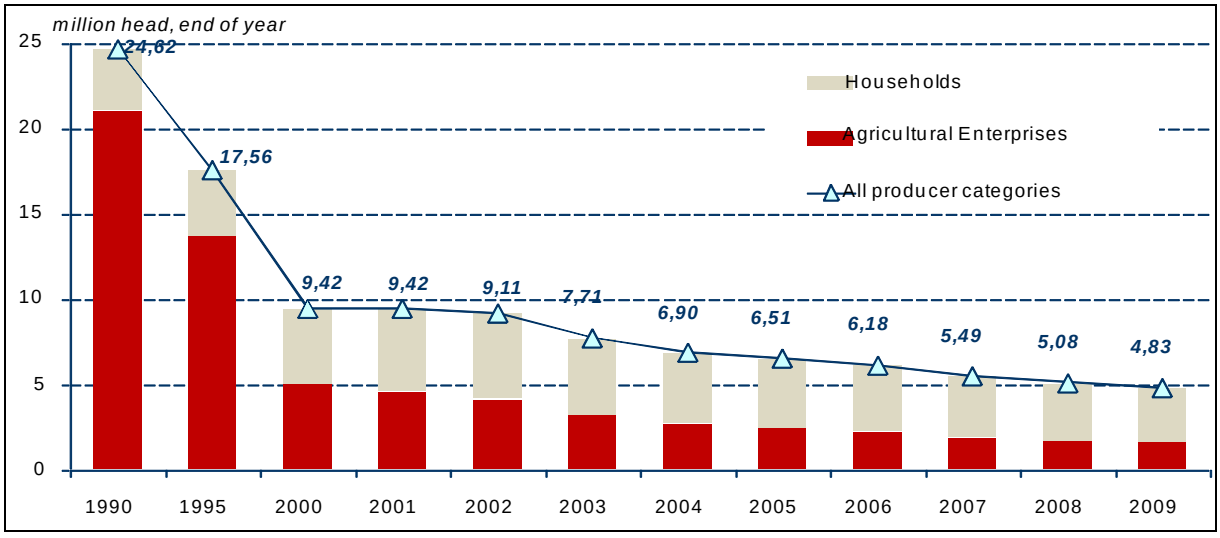
Figure 19: Dynamics of gross livestock production in Ukraine



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

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).

Figure 20: Development of cattle stocks in Ukraine



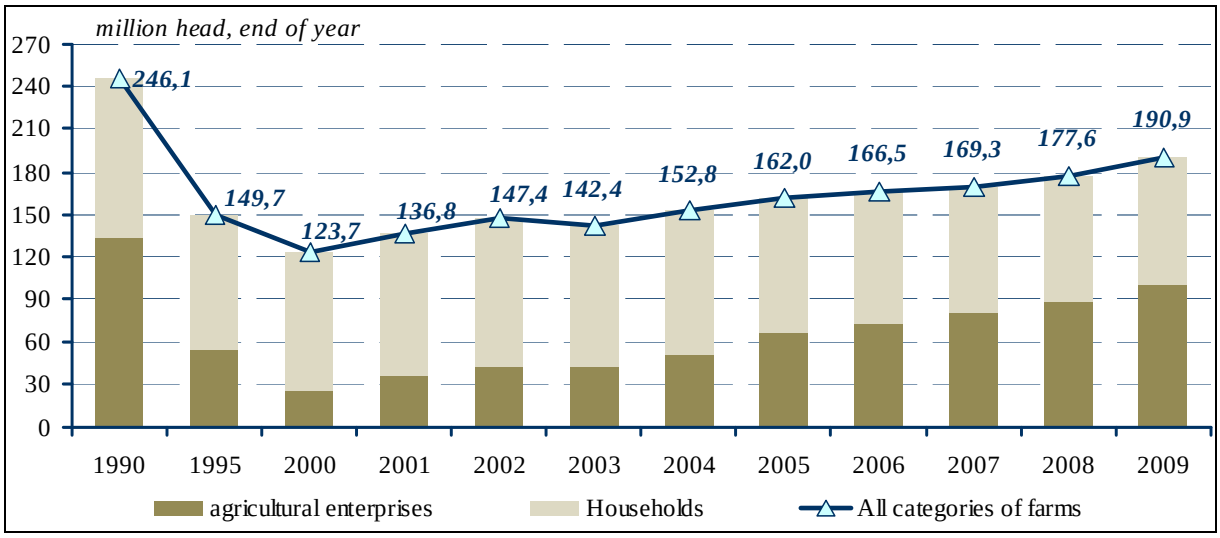
Source: Presentation Svyatkivska (Association Ukrainian Agribusiness Club, Ukraine)
primary source: State Committee of Ukraine on Statistics

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



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

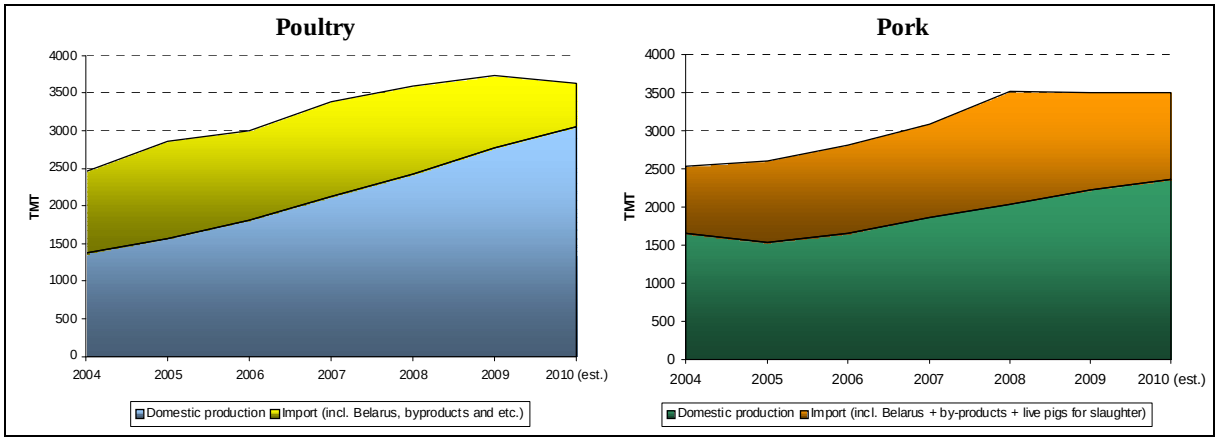
breeding will be further growing on account of a further deterioration of the market share of beef.

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



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

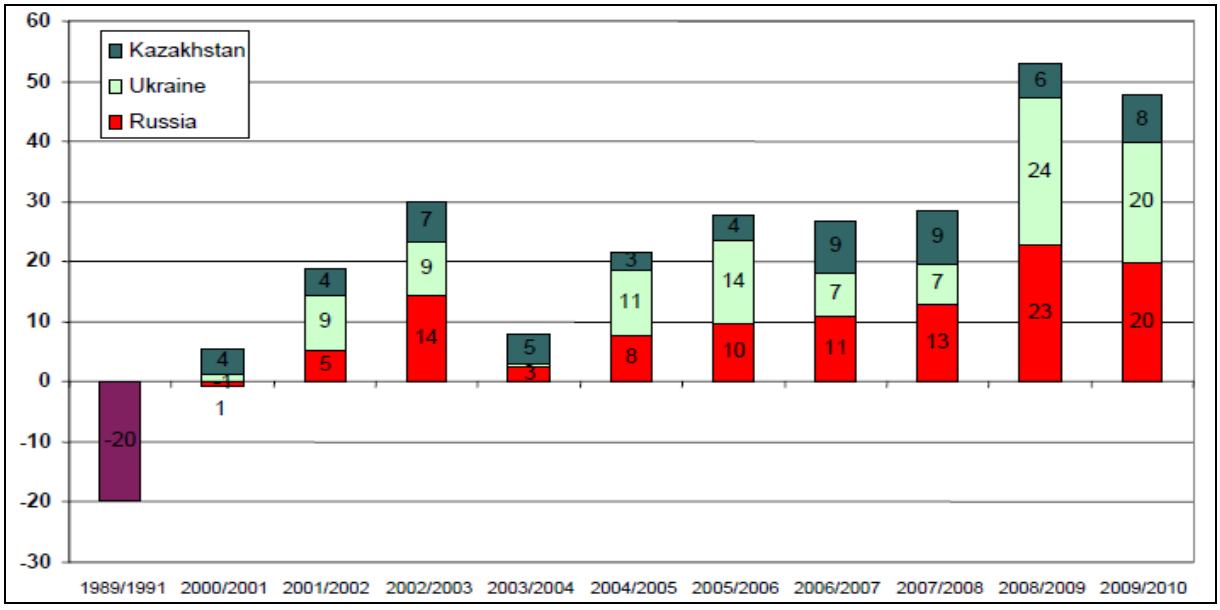
middle class, annual beef per capita consumption is set to rise, which will provoke further increases in Russian beef imports.

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

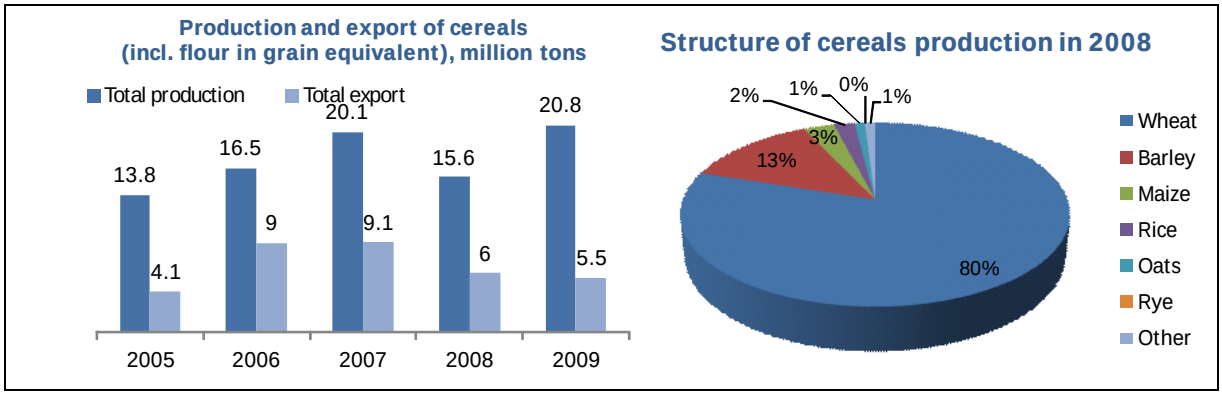
Dangiris Nekrasius (DG AGRI, Belgium) provided the general overview of the situation in world and EU cereals markets. Nekrasius presented figures on wheat, maize and barley with world balance, stock and prices for historical data from 1999 onwards and also projections until 2020.

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).

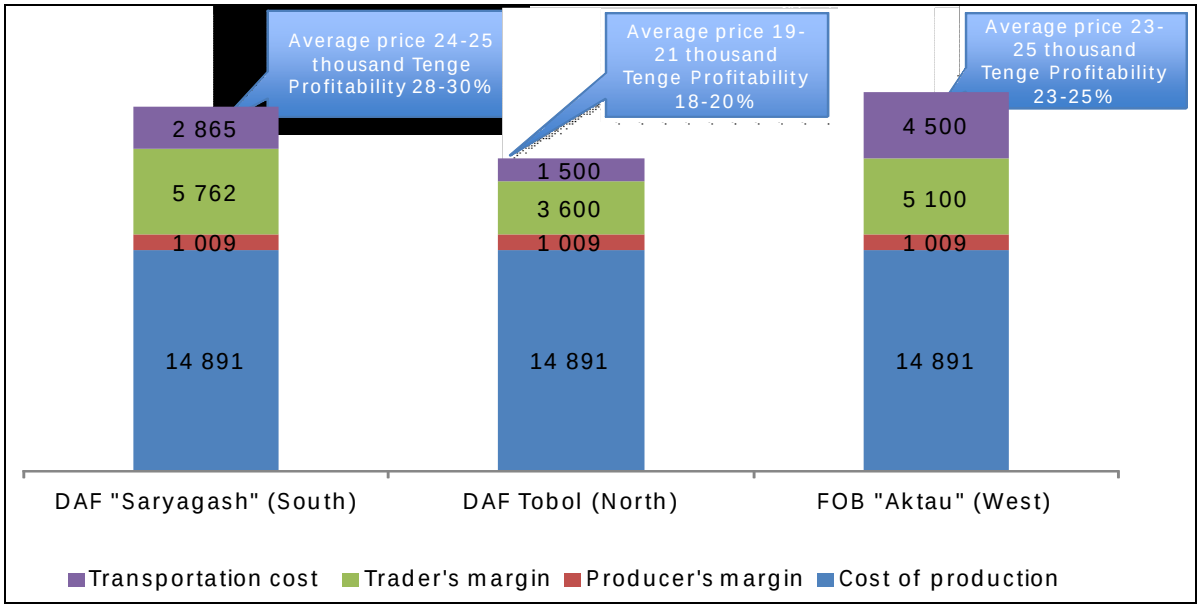
Figure 24: Production, export and production structure of cereals in Kazakhstan



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)



Source: Presentation Rakhim Oshakbayev (ACEPAS, Kazakhstan)

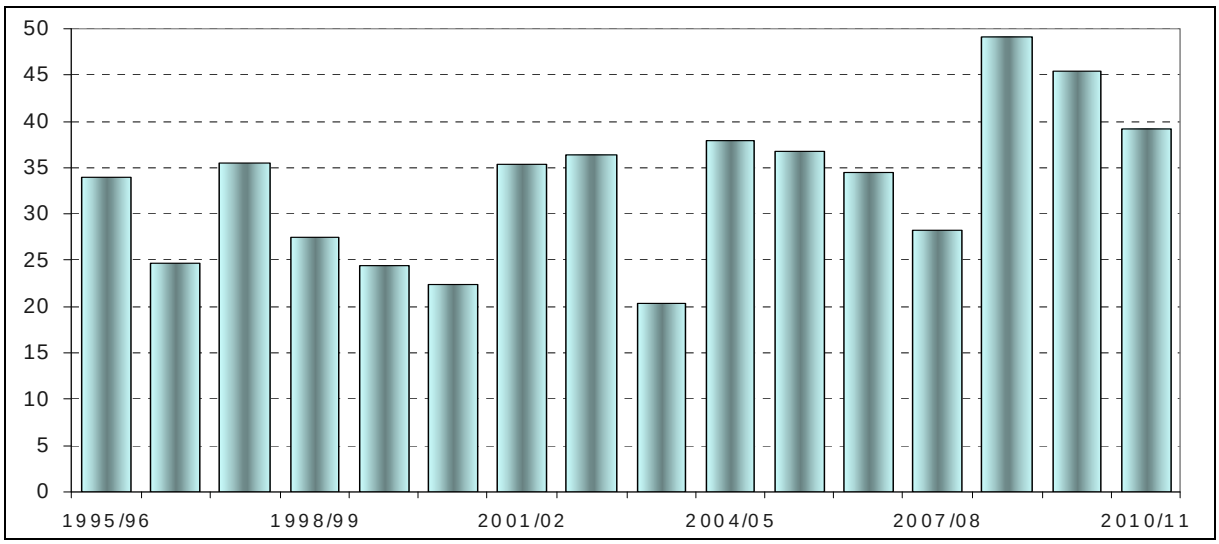
Oshakbayev highlighted several opportunities for cereals production in Kazakhstan:

- 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)



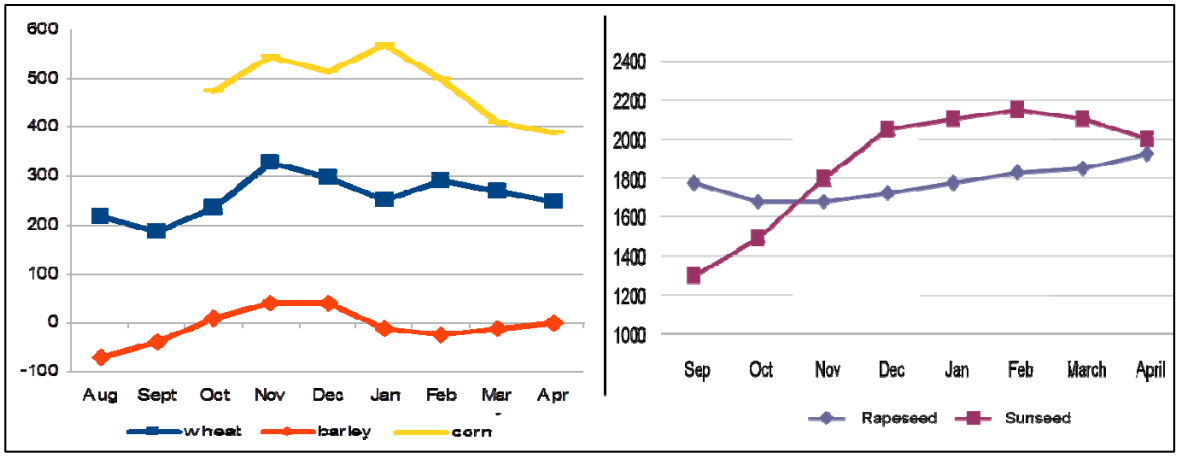
Source: Presentation Feofilov (Ukragroconsult, Ukraine)

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)



Source: Presentation Feofilov (Ukragroconsult, Ukraine)

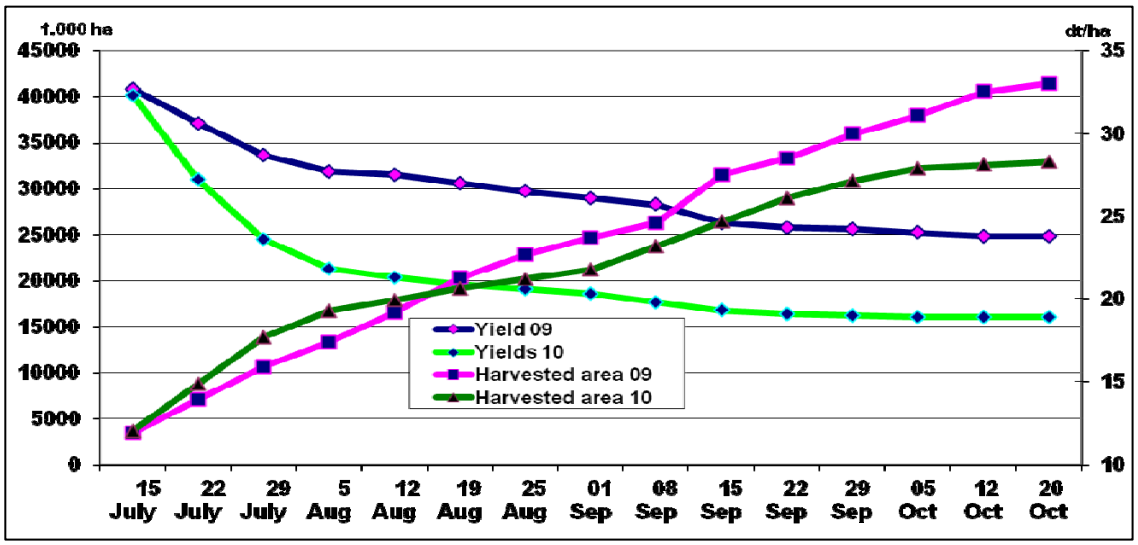
UkrAgroConsult has developed the Ukrainian Agricultural Index (UAIndex) as a tool for forecasting capital markets and assessing the value of agricultural companies. The UAIndex reflects the market's average attitude towards Ukrainian agro-holdings as entities operating in developing markets, i.e. the 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 20010/11. 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



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.

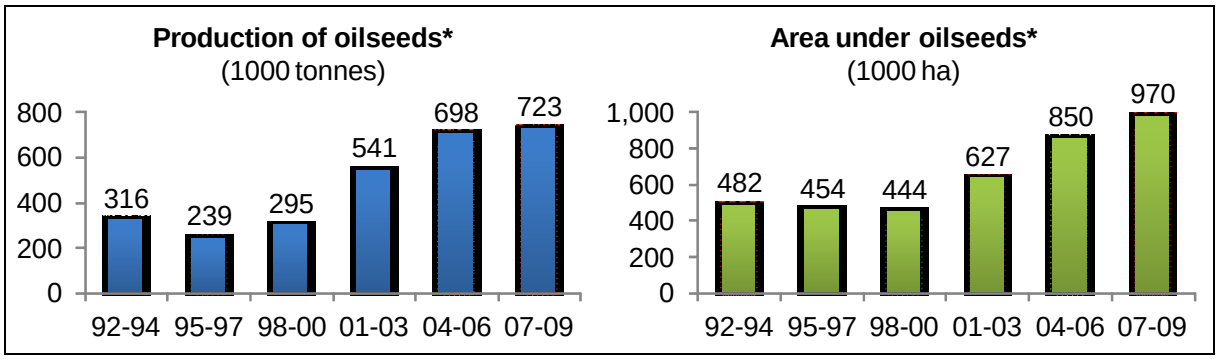
EU and world markets for oilseeds and biofuels

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.[10] 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



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

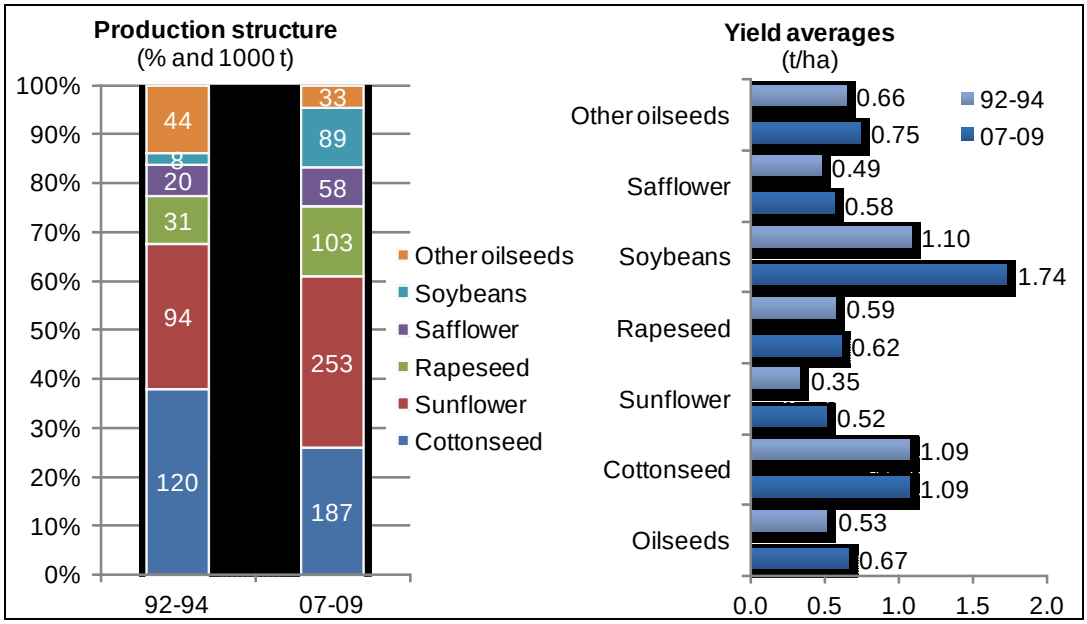
Main oilseeds produced in Kazakhstan are sunflower, cottonseed and rapeseed, and yields are rather low (cf. Figure 30). Kazakhstan is exporting rapeseeds (representing 85% of total oilseeds exports in the last three years), mainly to Latvia, Denmark, Finland and Norway. The main imported crop is sunflower (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



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

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

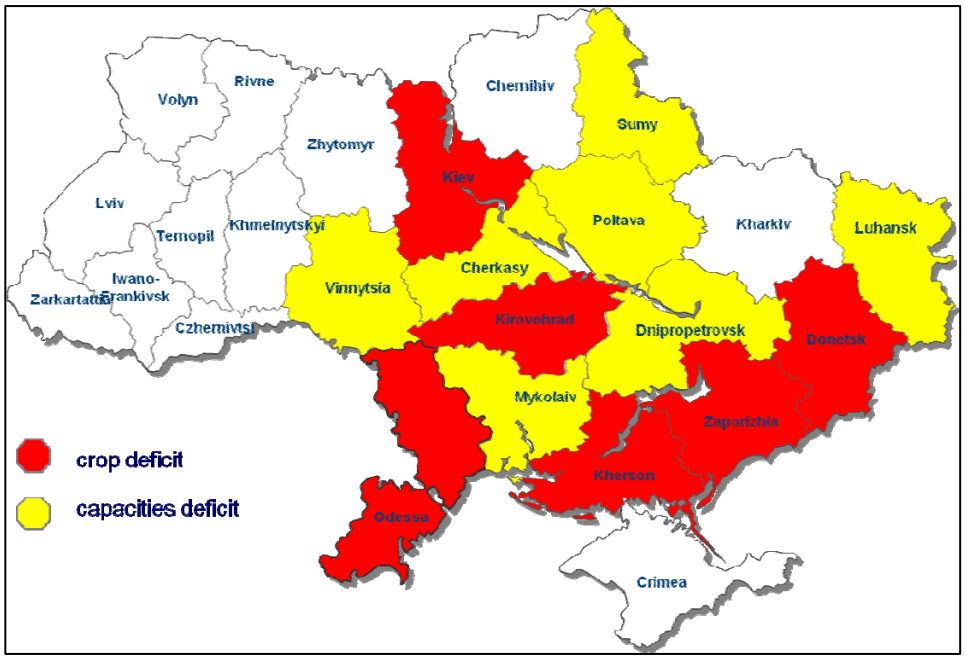
Alina Fedyay (Bunge, Ukraine) highlighted that just about five years ago sunflower covered almost the total oilseeds production in Ukraine (99%). However, nowadays also rapeseed and soybeans are produced. Fedyay presented Bunge Ukraine forecasts for the development of sunflower, rapeseed and soybean 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

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



Source: Presentation Alina Fedyay (Bunge, Ukraine)

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

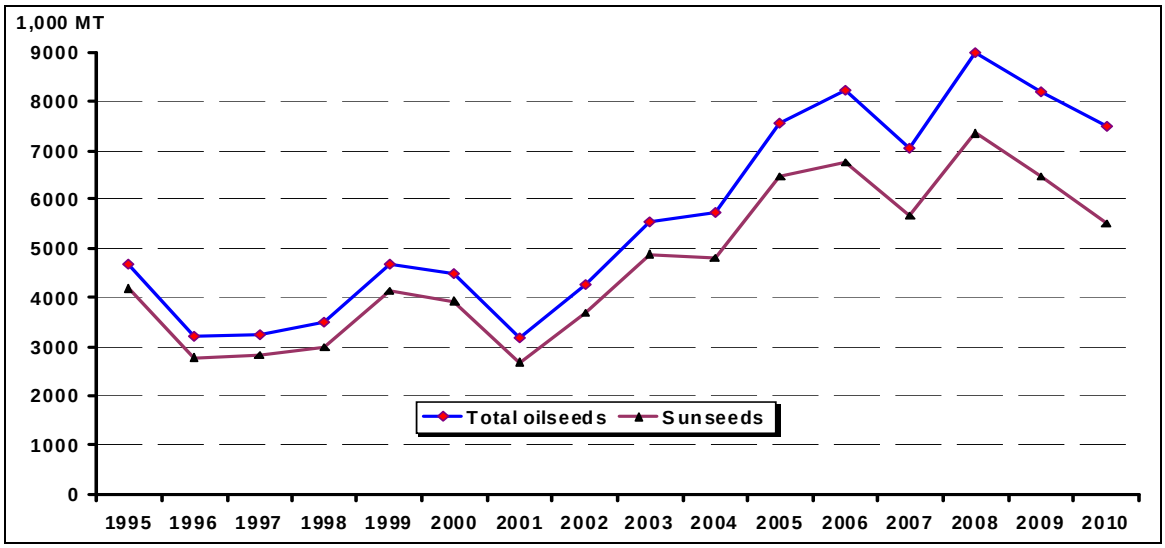
Ukraine. The situation is different for bioethanol. In 2009, Ukraine produced almost 12 kmt bioethanol. In the same year six Ukrainian distilleries were reconstructed for bioethanol production with a total annual capacity of 120 kmt. Further investments in bioethanol are foreseen, as for example Ukrros (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 20010/11. The area 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)

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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
Seville - Spain

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The Structure of the JRC-IPTS

JRC-IPTS: five core policy fields

- **Competitiveness and sustainability**
  - focusing on the economics of sustainability policies, relating mainly to the manufacturing, energy and transport sectors
- **Climate Change**
  - focusing on the economics of climate change
- **Knowledge for growth**
  - focusing on research policy and its interfaces with related policies, especially innovation, education and regional development
- **Information society**
  - focusing on policies to stimulate 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 economic and social pillars of agriculture and RD policies

AGRITECH: Techno-economic analysis of GM crops in EU
SUSTAG-RD: Economic analysis of farm sustainability
AGRITRADE: Model-based analysis of CAP and markets

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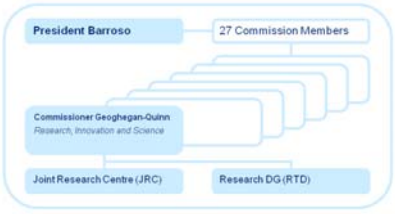
Who we are

Where does the Joint Research Centre (JRC) fit in the European Commission?



The JRC is a Directorate-General of the European Commission

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Background

- **JRC-IPTS in cooperation with DG AGRI has build up an integrated platform 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, ESIM, AGLINK, AGMEMOD
  - General equilibrium models: GTAP, GLOBE
  - Data management tool

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Who we are

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.

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Background

- **Expert workshops on agricultural commodity markets in EU**
  - Yearly workshop since 2006 in Brussels
  - Different orientations: emphasis NMS, expert exchange forum, comparison of different baselines, in-depth analysis of EU 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-after 2013**
- **Planned improvements of the modelling tools used at JRC-IPTS**
  - Improvement of the AGMEMOD model and further extension of the modules for Russia and Ukraine
  - Built a stand-alone model for Kazakhstan in AGLINK

⇨ **Improve market expertise and modelling tools**

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The Structure of the JRC

7 Institutes in 5 Member States ≡ 2700 staff ≡ 340 M€/y budget + 60 M€ income


IE - Petten, The Netherlands
- *Institute for Energy*


IRMM – Geel, Belgium
- *Institute for Reference Materials and Measurements*


ITU – Karlsruhe, Germany
- *Institute for Transuranium Elements*


IPSC - IHCP - IES – Ispra, Italy
- *Institute for the Protection and Security of the Citizen*
- *Institute for Health and Consumer Protection*
- *Institute for Environment and Sustainability*


IPTS – Seville, Spain
- **Institute for Prospective Technological Studies**

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Major objectives of the workshop

- *Give an overview* on short/medium term perspectives of agricultural markets in the context of world market development, *focussing 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 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.

JRC EUROPEAN COMMISSION — Participants of the workshop — ipts

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

JRC EUROPEAN COMMISSION — Structure of the workshop — ipts

- **Session 1: Production Potential and Constraints in the Region**
  - Farm structure and agricultural landscape in the region
  - Role of agriculture for rural development
  - Land markets
  - Modelling exercise: Implications of a possible bilateral trade agreement between Ukraine and the EU
  - Financing of agricultural companies
  - Transport infrastructure
  - Distribution channels and organisation of the regional agricultural markets
- **Session 2: Agricultural Policy in Ukraine, Russia and Kazakhstan**
- **Session 3: Milk, Dairy and Meat Markets**
- **Session 4: Cereal Markets**
- **Session 5: Oilseeds and Biofuels Markets**
- **Session 6: Final Discussion**
  - Agricultural Production and Commodity Market Development in Ukraine, Russia and Kazakhstan: **Status Quo, Possibilities, Challenges, and Risks**

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;

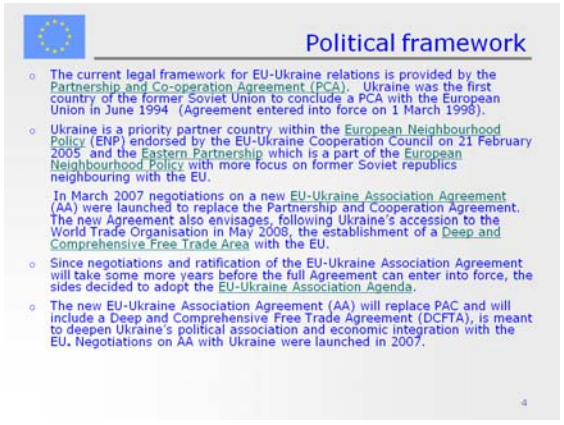
the 14th EU-Ukraine Summit which will be held in Brussels on 22nd November. The EU-Ukraine highest level of political dialogue takes place at the annual Summit meetings between the President of Ukraine and the EU Presidency together with the President of the Commission and the EU High Representative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

3

Delegation of the European Union to Ukraine

- Delegation of the European Commission to Ukraine was opened in 1993.
- The Delegation in Kyiv is one of over 130 European Union Delegations around the world.
- The Delegation has the status of a diplomatic mission and officially represents the European Union in Ukraine.
- As from 1 December 2009 with the Lisbon Treaty entering into force, the Delegation of the European Commission is transformed into the Delegation of the European Union to Ukraine.
- The Delegation was also in charge of Moldova and Belarus, now remains partially responsible for Belarus

2



Political framework

- The current legal framework for EU-Ukraine relations is provided by the Partnership and Co-operation Agreement (PCA). Ukraine was the first country of the former Soviet Union to conclude a PCA with the European Union in June 1994 (Agreement entered into force on 1 March 1998).
- Ukraine is a priority partner country within the European Neighbourhood Policy (ENP) endorsed by the EU-Ukraine Cooperation Council on 21 February 2005 and the Eastern Partnership which is a part of the European Neighbourhood Policy with more focus on former Soviet republics neighbouring with the EU.

  In March 2007 negotiations on a new EU-Ukraine Association Agreement (AA) were launched to replace the Partnership and Cooperation Agreement. The new Agreement also envisages, following Ukraine's accession to the World Trade Organisation in May 2008, the establishment of a Deep and Comprehensive Free Trade Area with the EU.
- Since negotiations and ratification of the EU-Ukraine Association Agreement will take some more years before the full Agreement can enter into force, the sides decided to adopt the EU-Ukraine Association Agenda.
- The new EU-Ukraine Association Agreement (AA) will replace PAC and will include a Deep and Comprehensive Free Trade Agreement (DCFTA), is meant to deepen Ukraine's political association and economic integration with the EU. Negotiations on AA with Ukraine were launched in 2007.

4

Association Agenda and priorities for 2010

- The Association Agenda is a new practical instrument replacing the EU-Ukraine Action Plan, which aims at preparing 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 Cooperation Council. It sets out key priorities for reforms, which Ukraine should address in the coming years in order to fully benefit from the intensified co-operation and improved market-access foreseen in the new Association Agreement.

Priorities within Association Agenda for *Agriculture and rural development*

The Parties cooperate to support Ukraine in, and to prepare for implementation of EC acquis mentioned in relevant annexes of the Association Agreement, in particular through enhanced activities of the established agricultural dialogue, in particular by:

- improving the competitiveness of agricultural production, including by cooperation on the implementation of quality schemes.

5

Bilateral Policy Dialogue on Agriculture and rural development

DG AGRI – Ministry of Agrarian Policy policy dialogue

- Signature of Memorandum (18/10/2006)
- 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)

6

EU financial co-operation with Ukraine

- The EU and its Member States -the largest donors to Ukraine. Since 1991, assistance provided by the European Community - € 2.5 billion.
- Annual bilateral funding (National Action Plan) has increased from € 47 million in 2002 to € 116 million in 2009.
- The co-operation framework behind EU financial and technical co-operation with Ukraine is the EU-Ukraine Association Agenda adopted by the Co-operation Council in November 2009. This replaces the joint Action Plan of 2005 and prepares for and facilitates the entry into force of the Association Agreement. For 2010, a list of priorities for action was jointly agreed by Ukraine and the EU.
- As a privileged partner for the EU, and as part of the European Neighbourhood Policy, Ukraine benefits from the European Neighbourhood & Partnership Instrument (ENPI). Under this instrument the EU partnership with Ukraine has graduated from mere technical assistance to more substantial and focused support to reforms and the EU integration process.
- The current National Indicative Programme for 2007-2010 (4 years: €494 million) was defined in close cooperation with the Ukrainian government and adopted in March 2007. The strategy includes new instruments, such as budget support and twinning, in order to support the Ukrainian Government's policies, strategies and plans in line with EU standards.
- The new National Indicative Programme for 2011-2013 (3 years: €470 million) sees a 27% increase in budget, with a focus on the entry into force of the EU-Ukraine Association Agreement

7

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 Reforms Programme for 2010-2014 developed in June 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 sectoral project
- Sector- wide approach (institutional development, agricultural markets infrastructure, food safety and rural development)

8

Available mechanisms for financial support

Within ENPI:

National Action Programmes

- Actions in form of service, supply contracts and grants.
- Twinning projects (Institutional building projects in form of grants)
- Tempus projects (educational projects in form of grants)

Outside ENPI:

- The 7th Research Framework Programme (International scientific and technological co-operation) Theme 2: Food, agriculture and fisheries, and biotechnology (37 MEUR for 2007-2013)
- Technical assistance and information exchange (TAIEX) (short –term technical assistance, technical training and peer assistance) managed from Brussels
- Direct co-operation with relevant DGs (DG AGRI, DG SANCO, DG Trade)

9

EU-funded ongoing actions in ag sector in Ukraine

Sector-wide programme on agriculure, rural development and food safety (9 mln EUR)

1. Implementation of the sector-wide project "Implementation of Ukraine's commitment under WTO and ENP frameworks in the rural sector (SWAP)". The project was launched on 16 November 2008. The project budget is 4.74 MEUR. The project comprises four components: food safety, market infrastructure, rural development and institutional capacity building.
2. Procurement of equipment for the reference veterinary laboratories and MARS crop forecasting system (3 supply contracts with total value of 2,3 MEUR)
3. Twinning project on food safety issues implemented by Dutch, Danish and Ukrainian veterinary competent authorities. The project budget is 1,26MEUR.

10

TAIEX PROGRAMME

- Study visit on animal identification and registration including the labelling of beef and beef products. 1-5 March 2010 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 product processing establishments.6-10 April 2010, Bulgaria State Committee for Veterinary Medicine
- Workshop on handling food crises / emergencies28-29 April 2010 Kyiv, DG Sanco and European Food Safety Authority (EFSA)
- Workshop on development possibilities of small business in a village, program "LEADER3 and principles of its introduction",29 April 2010 Poltava Oblast Administration, Ministry of Agrarian Policy

11

Project under preparation

1. Comprehensive Institutional Building Programme, Sanitary and Phytosanitary Issues (SPS), appx. Budget – 9 mln EUR. Within Ukraine National Indicative Programme 2011-2013. The Comprehensive Institution Building (CIB) programme launched under the Eastern Partnership Initiative aims at supporting capacity building in the institutions that play a central role in preparing ground for and implementing the future AA and DCFTA.

   Sanitary and phyto-sanitary regulation (food safety)

   - Bringing the Ukrainian system of sanitary and phytosanitary standards (SPS) in line with EU standards is part of the Economic Reforms Programmes for 2010-2014.
   - The background of this reform has been set out in the report "National food control system in Ukraine and proposals for its reforming based on European standards" prepared by an EU-funded project. Based on this report, in May 2010 the Government of Ukraine adopted a plan of priority measures to reform the SPS control system. This plan provides a solid basis for further development of the Institutional Reform Plans.
2. Twinning project with Main State Plant Quarantine Inspection on plant protection Project budget - up to 1,2 mln. EUR.
3. Twinning light project with the Ministry of Agrarian Policy on state aid in the agricultural sector. Project budget- up to 0.8 mln. EUR

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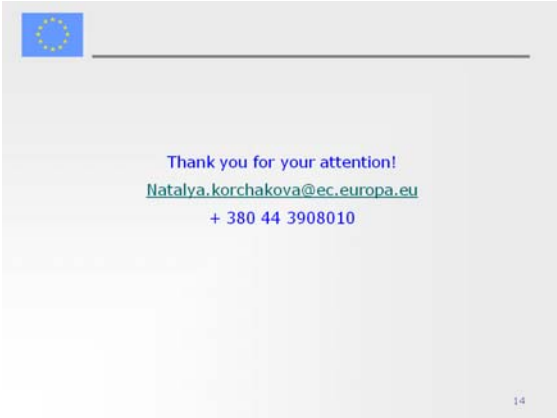
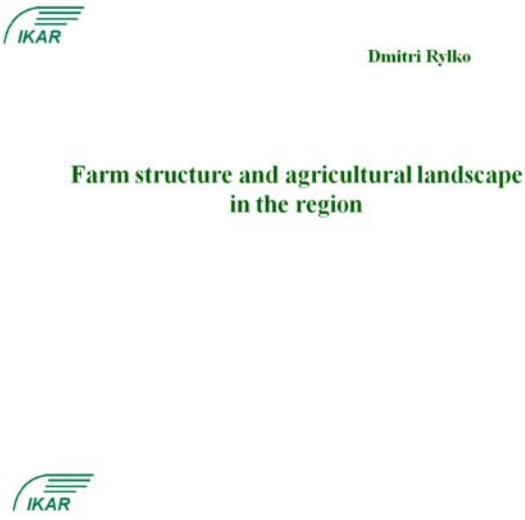
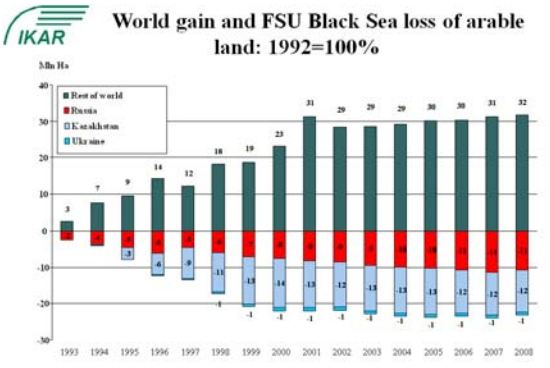


Farm structure and agricultural landscape in the region

Dmitri Rylko (IKAR, Russia)

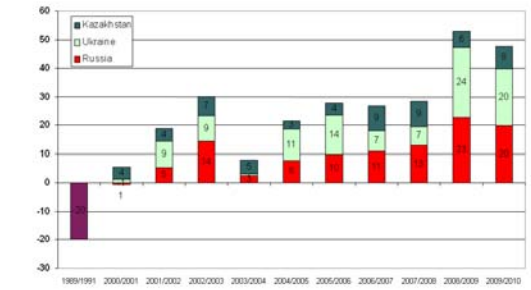




Over last two decades the dramatic arable land shrinkage has taken place In three FSU Black Sea countries…

IKAR

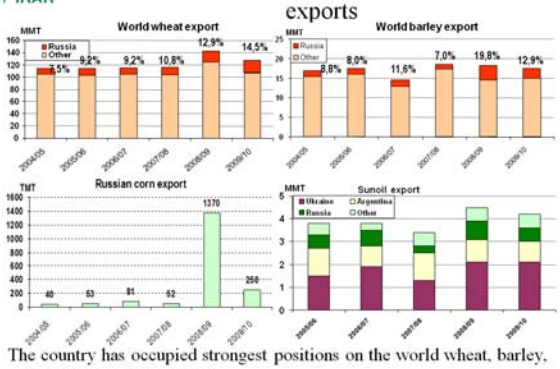
Net grain export from FSU Black Sea countries



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

IKAR

Shares of Russian grain & oilseed complex exports



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

IKAR

The issue of vertical supply chain

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

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«New Agricultural Operators» (NAOs) or «AGROHOLDINGS» as regional solution

Combination of new organization of vertical supply chain and

new organization of farming

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The issue of «independent collective farm»

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The issue of «independent collective farm»

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

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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**

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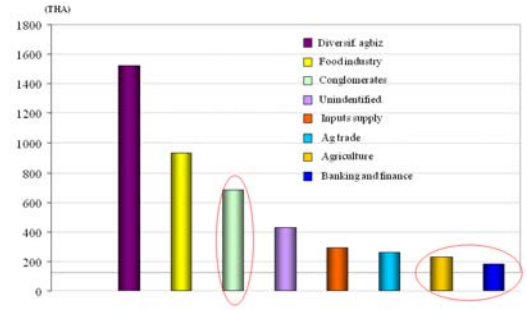
Our basic knowledge up-to-date

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

As of beginning of 2010: more than 150 private companies, which have captured 14500 THA of arable lands in Russia (out of 113000 THA total nominal Russian arable land and ~60 under key perennial crops)

Including 35+ companies with 100 THA and more…

Who? Land distribution by nature of «mother company»

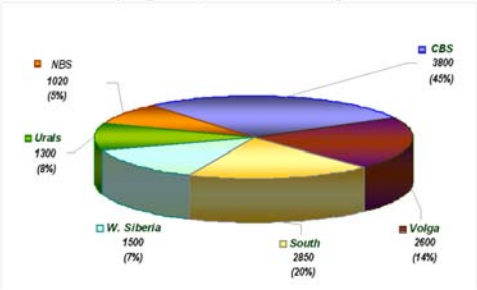


Aggressive "integration" into the state bureaucratic pyramid

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

Estimated break-down of arable land under agroholdings' control by regions (THA and % of regional arable land)



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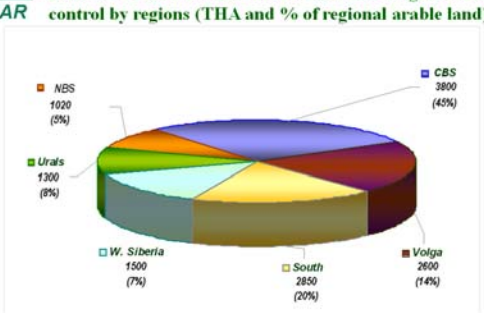
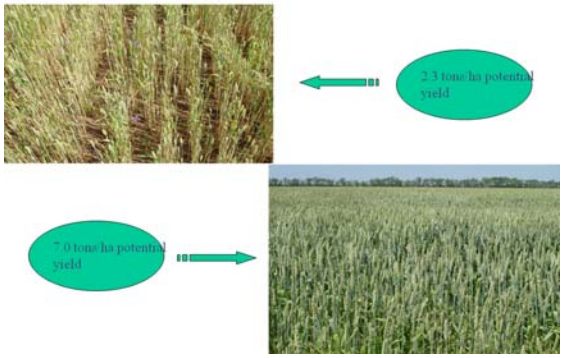


Why most fertile (South) and least fertile Siberia are least captured by agroholdings?

Case of «Traditional» and «New» farming.

Stavropol, neighboring farms, winter wheat. June, 2009



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

- **Input supply: mega-deals**
- **Credit: new collateral mass**
- **(Super)Quick crop rotation swings**
- **Marketing: «in-house», 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!

Management in agroholdings

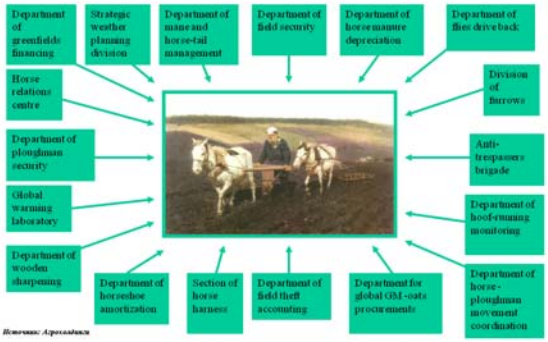
Creation of «reverse managerial pyramids» and highly hierarchical up-to-down decision making pipelines

What's next: regional context

Kazakhstan	Russia	Ukraine
20 companies "capture" 4/5 of the grain output	200 NAOs control 1/4 of grain output	From second part of 00's are growing fast!

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

Agriholdings management: with sense of humor



Instead of conclusions. Ag landscape: preliminary observations

Our regional («Black Sea FSU countries»)' agricultural landscape continues to be a unique case (size/scope/industry focus)

NAOs as a way of speedy re-industrialization of domestic agriculture (to «quickatch» & expand much faster than «average» farming operation)

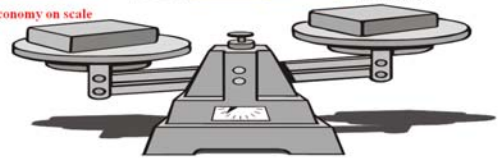
Long term technical and managerial efficiency of agroholdings is highly questionable

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

Agroholdings managerial dilemmas

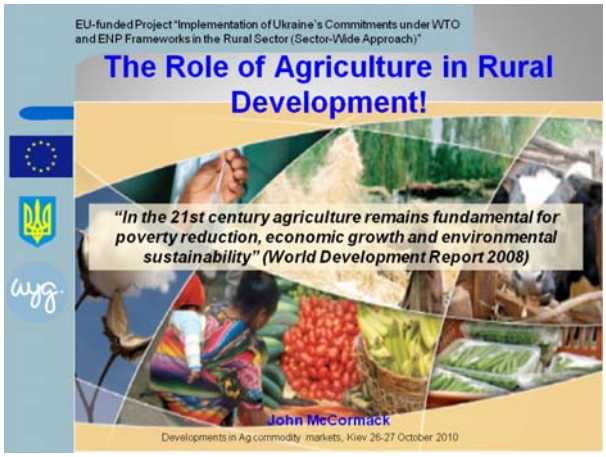
«Protection»
New vision
New technologies
New collaterals
Economy on scale

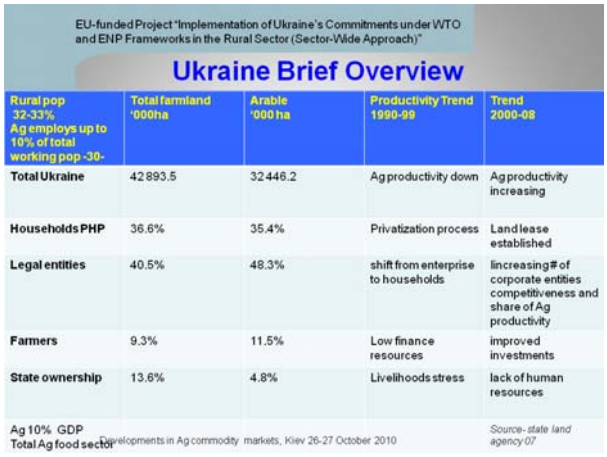
Lack of ag experience
Discrete and chaotic DM
Reverse hierarchical managemen pyramid
Where who is the "master" Is there Perpetual Stewardship?

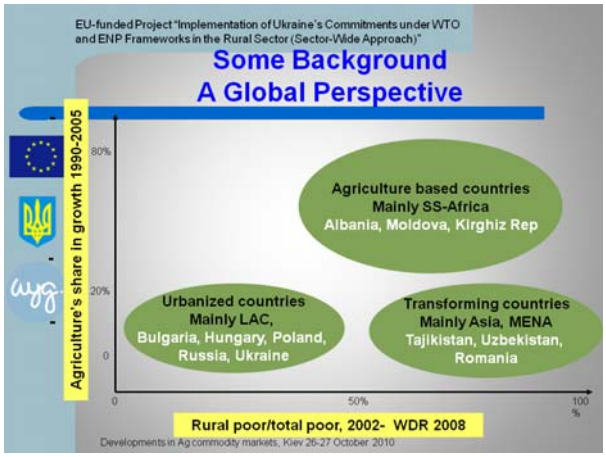


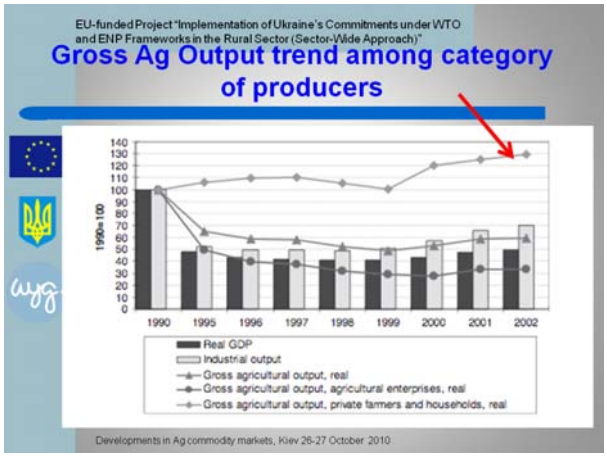
The role of agriculture for rural development

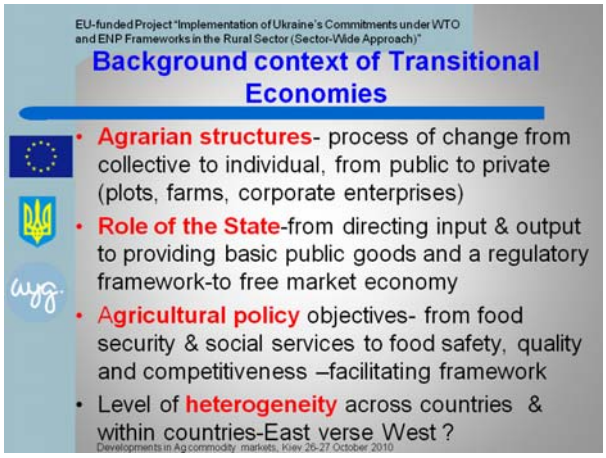
John McCormack (SWAP-RURAL Project, Ukraine)

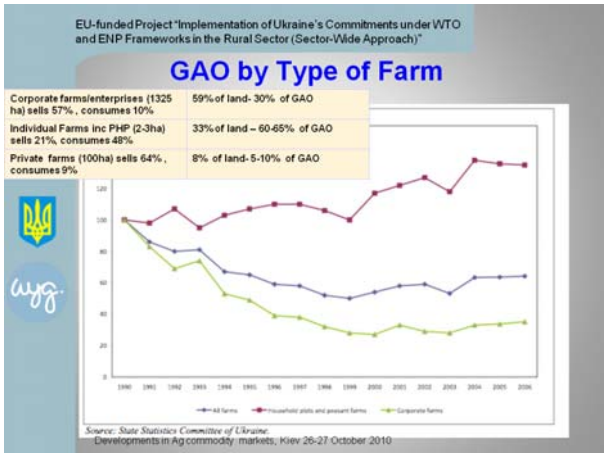






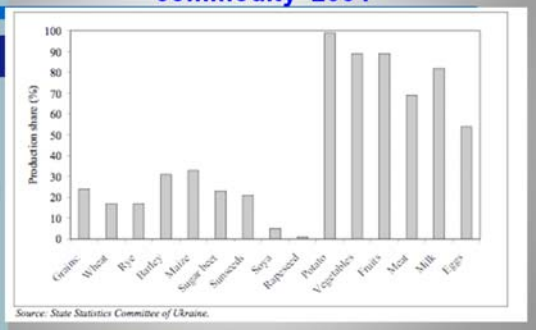






EU-funded Project "Implementation of Ukraine's Commitments under WTO and ENP Frameworks in the Rural Sector (Sector-Wide Approach)"

Share of households in Ag prod by commodity 2004



Source: State Statistics Committee of Ukraine.

EU-funded Project "Implementation of Ukraine's Commitments under WTO and ENP Frameworks in the Rural Sector (Sector-Wide Approach)"

Rural Sector

Multidimensional & cross sectorial by nature

- Agriculture is an important part of it
- Also includes social and human capital
- Natural resources
- Social and physical infrastructure
- Communities and community development, civil society and their engagement
- Role of public private partnership-PPP

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Is Ag and Rural Development the same ?

Ag Development	Rural Development
• Primary production	• Rural livelihoods/poverty reduction
• Food security	• Societal Welfare
• Improved Productivity assists poverty alleviation	• Rural Services provision & infrastructure
• Land access and capitilization	• Through sustained growth of the rural economy, which includes Agriculture
• Through sustained improvements in the productivity of the agriculture sector	• Diversification & non farm sector opportunities
• Share of income derived from Ag in rural economy	

EU-funded Project "Implementation of Ukraine's Commitments under WTO and ENP Frameworks in the Rural Sector (Sector-Wide Approach)"

THE 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

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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

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WYG International

STRATEGY

EU Agri-Rural Development, 2007-13

Axis 1	Axis 2	Axis 3
Competitiveness	Environment	Economic diversification
Farms + Forestry 10%	Land use + Management 25%	On/off farm + Quality of life 15%

PRIORITIES & RD MEASURES

Axis 4 Local community development -LAG-LEADER 5-7%

BOTTOM UP

National Agriculture Program financed by MAP other funds?
MTEF Development

EU assistance to help align the agri-rural sector with national/EU RD objectives

 EC regulation1698/2005

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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 business as usual
  - More and better targeted investments
  - Multisectoral & decentralized approaches tailored to local situations- incorporate a bottom up approach- e.g. LEADER Type and public private collaboration
  - Address the potential commercial family farm sector, competitiveness and markets

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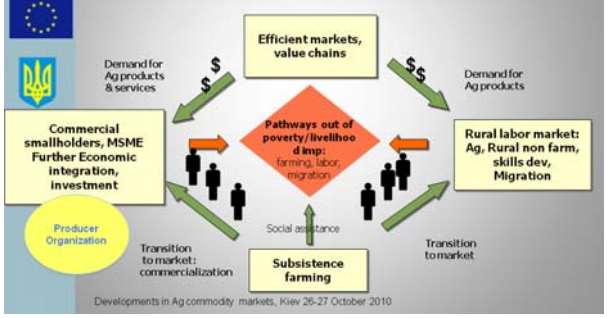
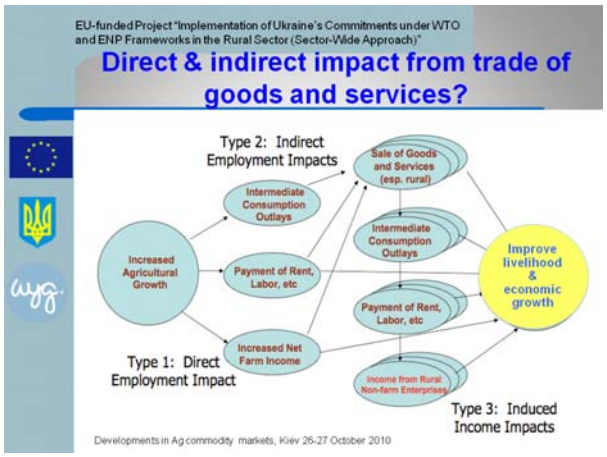
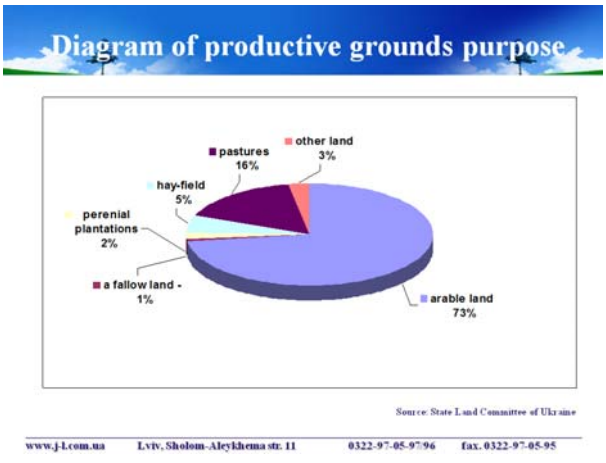
Potential of agriculture for development : improved livelihood pathways

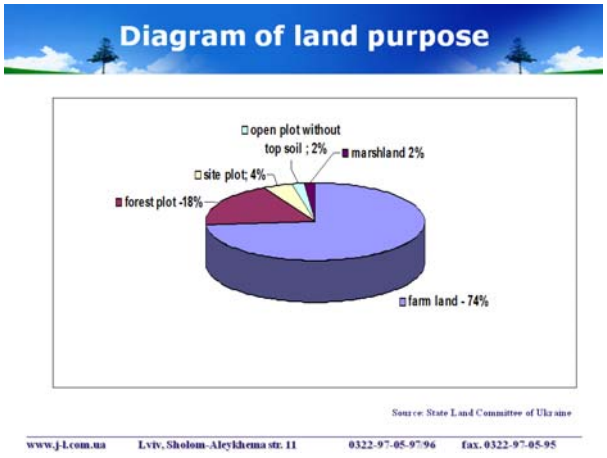




Land markets in Ukraine

Andriy Talama (J&L Consulting, Ukraine)





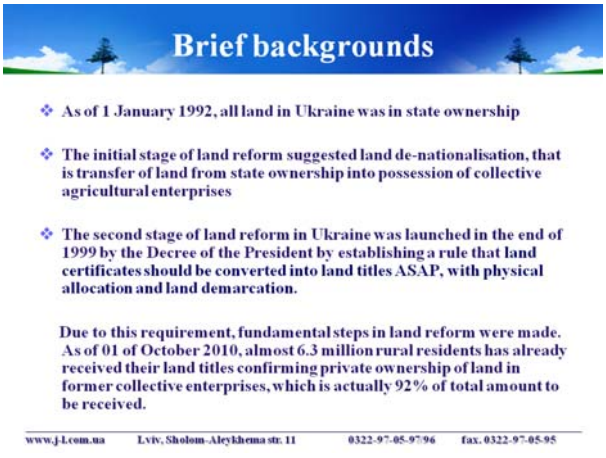
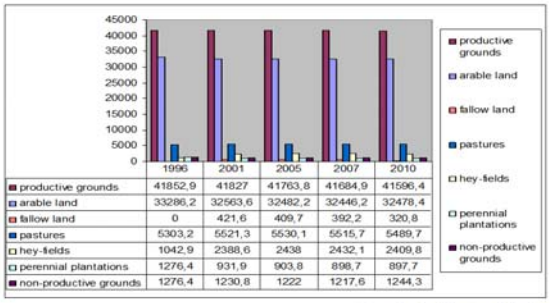


Diagram of dynamic of land purpose change



	1990	2001	2005	2007	2010
productive grounds	41852,9	41827	41763,8	41684,9	41596,4
arable land	33286,2	32563,6	32482,2	32446,2	32478,4
fallow land	0	421,6	409,7	392,2	320,8
pastures	5303,2	5521,3	5530,1	5515,7	5489,7
hey-fields	1042,9	2388,6	2438	2432,1	2409,8
perennial plantations	1276,4	931,9	903,8	898,7	897,7
non-productive grounds	1276,4	1230,8	1222	1217,6	1244,3

Source: State Land Committee of Ukraine

www.j-l.com.ua Lviv, Sholom-Aleykhema str. 11 0322-97-05-97/96 fax. 0322-97-05-95

Average shared land plot in regions, Ha

Source: State Land Committee of Ukraine, AgroReform2009 under edition of Kyrylenko I.H.

www.j-l.com.ua Lviv, Sholom-Aleykhema str. 11 0322-97-05-97/96 fax. 0322-97-05-95

Main components of the land market

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

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

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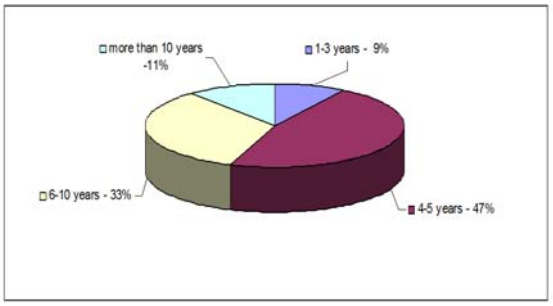
Diagram – term of rent agreements, as of 01.10.2010



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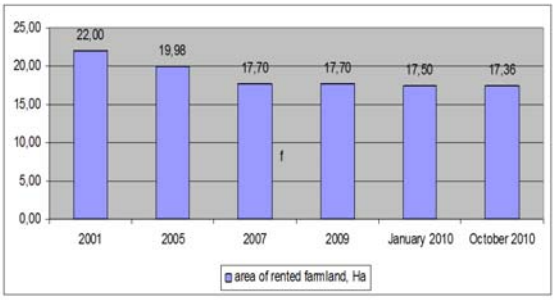
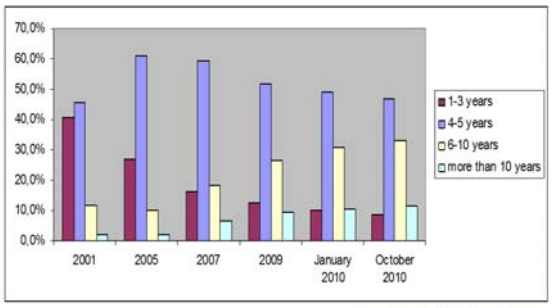
Rented farmland (mln. Ha)



Source: State Land Committee of Ukraine

www.j-l.com.ua Lviv, Sholom-Aleykhema str. 11 0322-97-05-97/96 fax. 0322-97-05-95

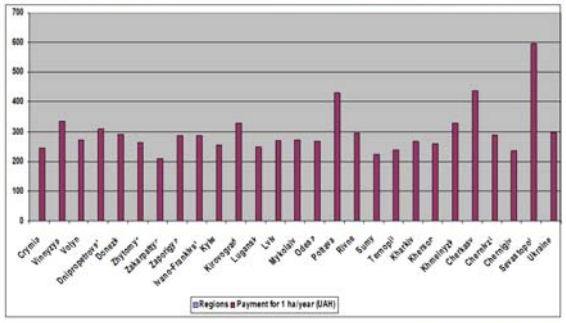
Diagram – dynamic of rent agreements duration



Source: State Land Committee of Ukraine

www.j-l.com.ua Lviv, Sholom-Aleykhema str. 11 0322-97-05-97/96 fax. 0322-97-05-95

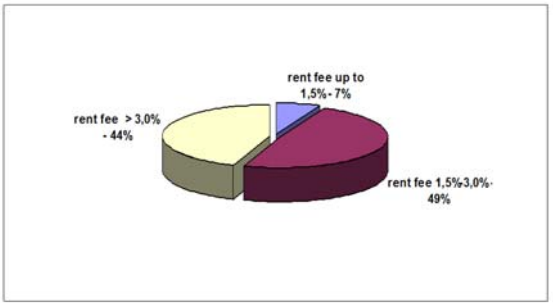
Diagram – rent fee per 1 ha/year in regions



Source: State Land Committee of Ukraine

www.j-l.com.ua Lviv, Sholom-Aleykhema str. 11 0322-97-05-97/96 fax. 0322-97-05-95

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



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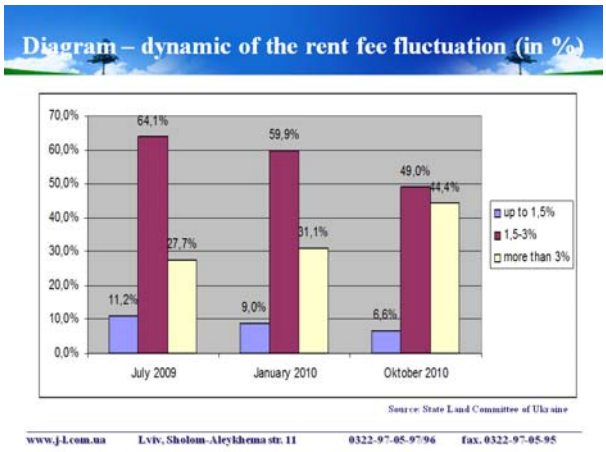
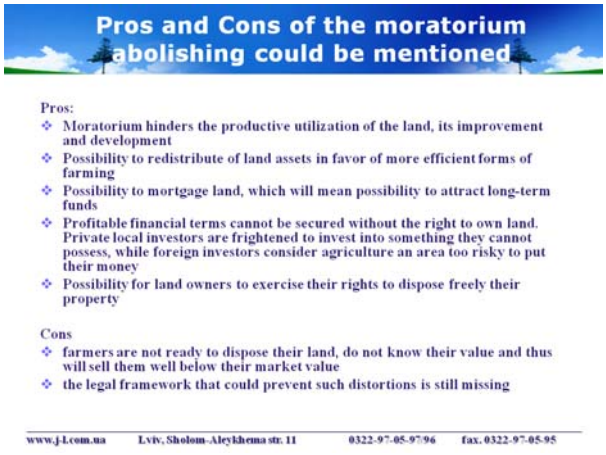




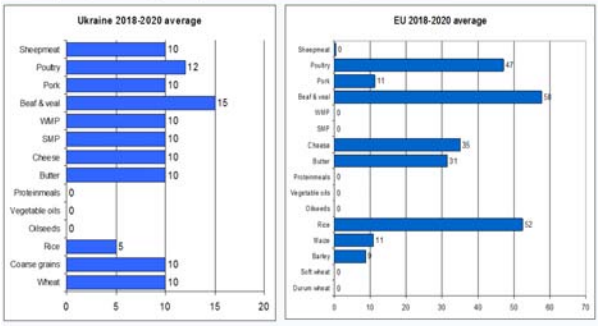
Implications of a possible bilateral trade agreement between Ukraine and the EU

Olexandr Nekhay (JRC-IPTS, Spain)

Background on free trade agreement negotiations between Ukraine and the EU

- 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

Tariffs considered for Ukraine and EU



Background on AGLINK-COSIMO

- 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 has been expanded with the COSIMO model (COmmodity SImulation Model) of the FAO
- The model covers annual supply, demand and prices for the main agricultural commodities produced, consumed and traded for all included regions

Net Trade of Ukraine in 1000 tons

Products	Current situation	Status quo scenario	FTA scenario	Change in net trade status
Wheat	7 586	9 954	8 625	-
Coarse grains	8 179	13 100	11 315	-
Rice	-93	-124	-107	+
Oil seeds	2 275	4 443	4 452	+
Vegetable oils	1 459	2 460	2 518	+
Protein meals	1 527	2 360	2 441	+
Butter	5	-1	-1	-
Cheese	58	129	139	+
Skim milk powder (SMP)	42	113	96	-
Whole milk powder (WMP)	18	14	14	0
Beef & veal	-4	-57	-13	+
Pork	-144	-273	-316	-
Poultry	-177	-24	-48	-
Sheep meat	0.1	0.1	0.1	0

Main assumptions of modeling FTA in AGLINK-COSIMO

- 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

Net Trade of EU in 1000 tons

Products	Current situation	Status quo scenario	FTA scenario	Change in net trade
Wheat	12 753	11 540	12 869	+
Coarse grains	-2 225	-3 400	-1 615	+
Rice	-1 390	-2 016	-2 033	0
Oil seeds	-16 402	-16 151	-16 161	0
Vegetable oils	-8 710	-10 956	-11 011	0
Protein meals	-27 864	-28 503	-28 585	0
Butter	99	39	39	0
Cheese	488	537	527	0
Skim milk powder (SMP)	196	188	205	+
Whole milk powder (WMP)	433	446	447	0
Beef & veal	-267	-452	-497	-
Pork	1 615	1 436	1646	+
Poultry	37	-9	15	+
Sheep meat	-261	-240	-240	0

Crops considered in the modeling of FTA

- Wheat
- Coarse grains (maize, barley)
- Rice
- Oil seeds
- Vegetable oils
- Protein meals
- Butter
- Cheese
- Skim milk powder (SMP)
- Whole milk powder (WMP)
- Beef and veal
- Pork
- Poultry
- Sheep meat

Concluding remarks

- 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)

INVESTMENT CAPITAL UKRAINE
INVESTMENT BANKING

Financing of the agricultural sector of Ukraine

Andriy Tovstopyat

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

29 August 2012

Sources of financing the agriculture Contents

- Own capital
- Bank loans
  - National currency denominated
  - Foreign currency denominated
- Financing of the large agro corporations
  - Sizable loans by IFC, EBRD
  - Syndicated loans
  - Eurobonds
  - Stake placement
- Leasing
  - Commercial and state
- State programs

Own capital

According to annual survey hold 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 free of state subsidy bank loans;
- **10%** bank loans with partial interest compensation;
- **1%** equipment-producers' financing programs;
- **14%** leasing, rent and other sources.

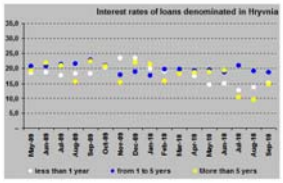
Almost 3/4 of Ukrainian primary agricultural producers prefer to avoid taking debts and are willing to finance their projects from own profit.

Source: APK-Inform

Bank loans. Interest rates, Hryvnia

Primary agriculture (livestock and crops production)

Industry (including agro commodities processing)



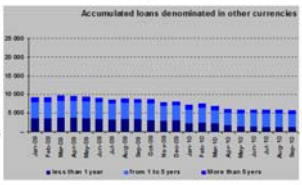
- Bank loans remain the most common sources of attracted finances for agricultural entities
- However interest rates in 2009 and 2010 are still high (in a range of 20-25%), lower rates denominated in UAH are exceptional
- Rates for agriculture more broad comparing to industry (including food production)
- Volumes of loans have been cut after financial crisis beginning

Source: National Bank

Bank loans. Absolute volumes UAH vs. other currencies

UAH

USD, EUR



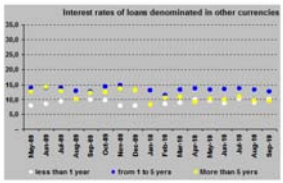
- Accumulated bank loans generally almost even, (about UAH20bl), however about 10% of loans are replaced (paid and newly issued)
- Foreign currency loans currently take 22% of all amount
- Short term credits take 40% share; mid term – 50% and long term – 10% (UAH credits)
- Agriculture and food industry use 11-12% of all commercial banks' loan portfolio

Source: National Bank

Bank loans. Interest rates, foreign currency.

Primary agriculture (livestock and crops production)

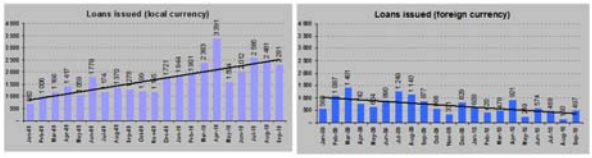
Industry (including agro commodities processing)



- Foreign currency loans have lower interest rates (10-15%) but have limited accessibility
- Nation Bank's regulations allow foreign currency crediting of companies that only involved in foreign activity (trade)
- Problems of bad debt occurred after 60% national currency devaluation in 2008
- Small companies have very limited access to these loans

Source: National Bank

Bank loans. Newly issued volumes



- Newly issued loans currently amount for UAH2bl in Hryvnia and UAH0.5bl in other currencies
- UAH denominated loans increase
- USD/EUR denominated - decline

Source: National Bank

- Share of these loans in all agro
- The total number of farmers more than 40,000
- They operate 3.8mha (10%) of farmland of the country
- The "farmer's" share is only 1350/27400=4.9%

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.

Financing of the large agro corporations Stake placement

WARSAW STOCK EXCHANGE

London STOCK EXCHANGE

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

Financing of the large agro corporations Sizable loans by IFC, EBRD

IFC

European Bank for Reconstruction and Development

IFC, EBRD have capacious programs for Ukraine and already have financed number of projects.

Criteria of financing by these organizations:

- Already developed large-scale business;
- Loan volume 5m to 50m USD/EUR;
- Mid-term maturity;
- LIBOR+
- Loan should cover no more than 30-50% of project expenses;
- Sharing the stake of a company;
- Omnipresent control.

Leasing State programs

There is the state leasing operator Ukragroleaging and number of private leasing companies. During and after financial crisis leasing schemes have lost their positions.

State operator has concluded contracts for some UAH190m for the 3Q 2010.

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

Financing of the large agro corporations 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+)

ING

HSBC

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Equity analyst, food and agribusiness
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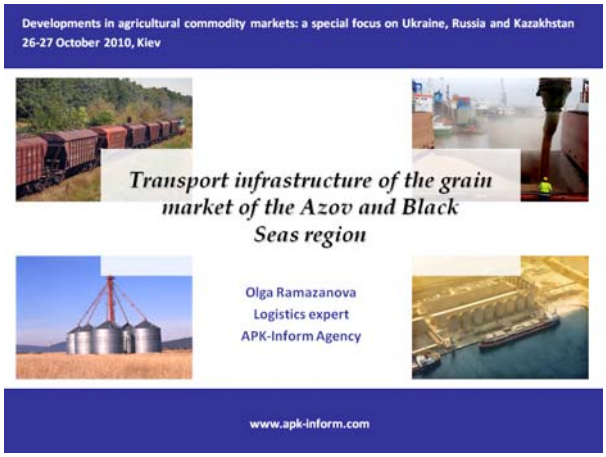
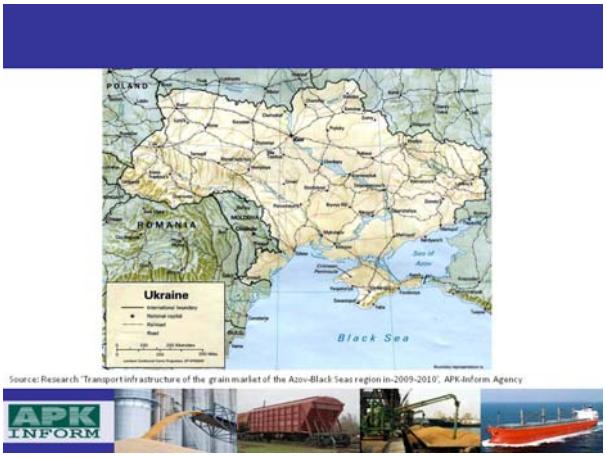
Thank you for your attention!

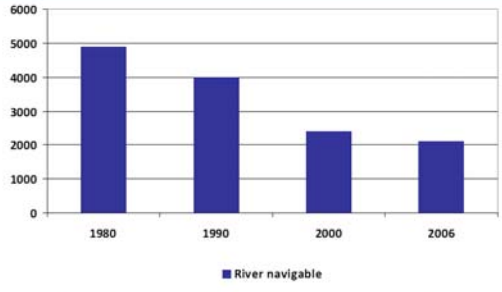
Transport infrastructure of the grain market of the Azov and Black Seas region

Olga Ramazanova (APK-Inform Agency, Ukraine)





Ukraine: length of river communication routes, km



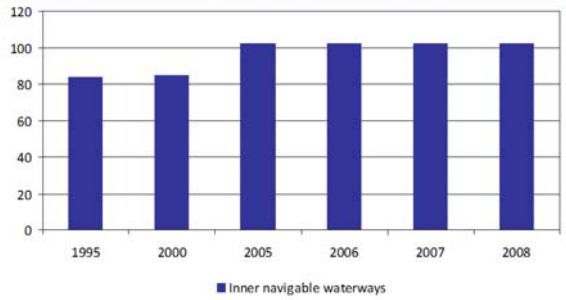
Source: Research 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010', APK-Inform Agency

Source: Research 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010', APK-Inform Agency

Investment grain project of the agricultural limited liability company Nibulon (2009-2010 period)

Source: http://nibulon.com/r/inc/map.php

Russia: Length of water ways of communication as of the end of the year, 1000 km



Source: Research 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010', APK-Inform Agency

Ukraine: Transshipment capacities of grain terminals

Region	Port/complex	Volumes of simultaneous storage, thsd tonnes	Annual capacity of transshipment, mln tonnes
Odessa seaports	Odessa port elevator (public)	133.3	3.5
	Odessa commercial sea port: Ukrelevatorprom (Alfred C.Toepfer international Group (ACT-Group, Gamburg))	168.0	
	Odessa"Ukrelevatorprom, Inzernoexport (Odessa), port elevator (Kiev)	18.0	
	Odessa"Olympex Cupe	130.0	1.5
	Sea Commercial Port of Ilichivsk: Transbulkterminal (Kernel Group)	200.0	4.2
	Ilichivsk terminal (Glencore)	116.0	2.0
	Ilichivsk sea fishing port (public)	18.0	0.4
	Belgorod Dnestrovsky sea trading port (public)	36.5	0.5
	Yuzhny sea trading port: Transinvestservis	380.0	3.5
	Bontvage	126.0	2.0
Total		1,125.8	17.6
Seaports and river ports of Nikolaev oblast	Nikolaev Sea Trade Port (public)	50.0	2.0
	Nikolaev port elevator (public)	69.0	1.0
	Nikolaev river trading port – CJSC Grain trading company "Allseeds Ukraine	88.0	1.0
	Nikolaev Sea Trade Port: Nibulon	130.0	1.7
	Nikolaev Sea Trade Port: CJSC Nika-Terra (Group of companies Nika-Terra)	140.0	2.0
Total		477.0	7.7
Crimean ports	Kerch sea trading port (public)	5.4	0.3
	Feodosia sea trading port (public)	8.0	0.3
	Sevastopol sea trade port – CJSC Stevedoring company Avlita (Ukrainian industrial-transport company)	100.0	2.0
	Kerch sea fishing port: ABI-Terminal (Pole-Port Ltd)	35.0	0.6
Total		148.4	3.2

Source: Research 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010', APK-Inform Agency

Transshipment facilities of grain terminals and ports of the Azov and Black Sea basin of Russia

Region	Port/complex	Volumes of simultaneous storage, thsd tonnes	Annual capacity of transshipment, mln tonnes
Black Sea ports	JSC Novorossiysk port and grain products plant	150	4
	JSC Port Tuapse	102	3
	JSC Novorossiysk grain terminal	120	6
	JSC Portholding	-	1.5
Total		372	14.5
Azov Sea ports	Azov Port Elevator Ltd	48	1.5
	JSC Port Azov	14	0.4
	JSC Taganrog shipyard	43	0.6
	JSC Priazovye (Taganrog)	3	0.5
	JSC Port Temryuk	4.5	0.2
	JSC Port Caucasia	12	0.3
	JSC Port Yeysk	30	0.8
	JSC Yeysk port elevator	126	0.78
	Yeisk-Priazovie-port Ltd	2	0.2
	Directoria-New-seaport Ltd		0.4
	CJSC Azov shiprepairing company		1
Total		283	7

Source: Research 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010', APK-Inform Agency

Ukraine: Transshipment capacities of grain terminals

Region	Port/complex	Volumes of simultaneous storage, thsd tonnes	Annual capacity of transshipment, mln tonnes
Dnieper ports	Kherson sea commercial port (public, management of grain terminals by Dnipro Cargo Ltd)	20.0	0.5
	Kherson port elevator (W.J. Grain)	100.0	1.5
	Skadovsk sea trading port (public)	9.7	0.1
	Dneprovsky store complex (Nortech-Azot and Azot-Trans Ltd)	8.5	0.2
	Grain terminal "UkrKazExportAstyk" (Kholding Kazexportastyk, Kazakhstan)	20.0	0.4
Total		154.2	2.7
Azov Sea ports	Berdyansk sea trading port (public)	10.7	0.6
	Mariupol Sea Commercial Port (public)	37.8	0.6
	Ukrtransagro (Ukrainian industrial-transport company)	50.0	2.0
	Berdyansk sea trading port: South-Eastern grain terminal Ltd (international industrial-transport consortium "Novaya Khortitsa")	18.0	1.0
Total		116.5	4.2
Danube river ports	Izmail (public)	14.4	0.2
	Reni/Reni-Line (Rudis Group)	20.0	0.5
	Ust-Dunaysk (public)	2.0	0.4
Total		36.4	1.1
Total		2,258.2	36.4

Source: Research 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010', APK-Inform Agency

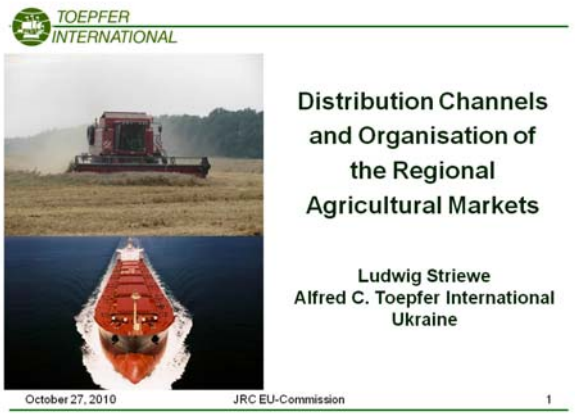
Transshipment facilities of grain terminals and ports of the Azov and Black Sea basin of Russia

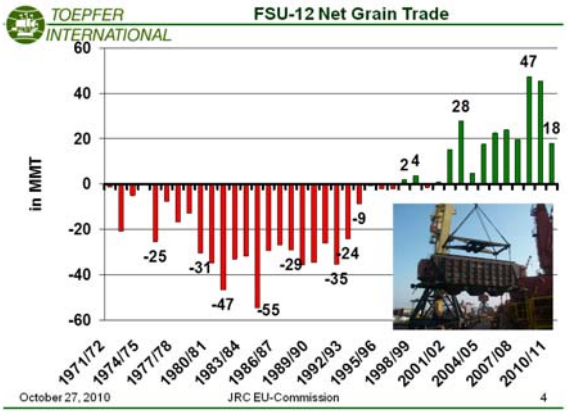
Region	Port/complex	Volumes of simultaneous storage, thsd tonnes	Annual capacity of transshipment, mln tonnes
River ports of the Volga and Don	Portgrain Ltd	40	1.3
	JSC Kalachevskiy port	-	0.2
	Rovatskiy grain-collecting station	50	0.2
	Nikolaevskiy grain-collecting station	120	0.3
	Kamyshinskiy elevator	100	0.2
	Dubovskiy elevator	80	0.2
	Volgodonskiy elevator	80	0.2
	Kalach-on-Don grain-collecting station	60	0.2
	Other terminals	100	1
	Bagaevskiy grain products plant / Bagaevskaya	15	0.2
	Bagaevskiy Grain Terminal "Rosagrein"	30	0.5
	Semikarakorskiy grain products plant / Semikarakorsk	100	0.5
	Grain Terminal Yug Rusi Agro	200	1.5 - 3.0
	Teminal AIC Aston	100	1
	Grain Terminal Cargill	30	0.5
	Grain Terminal Rostov grain terminal Bunge	30	0.5
	Grain Terminal Rostov grain products plant, IGC	150	1
Total		1265	8.2
TOTAL		1940	29

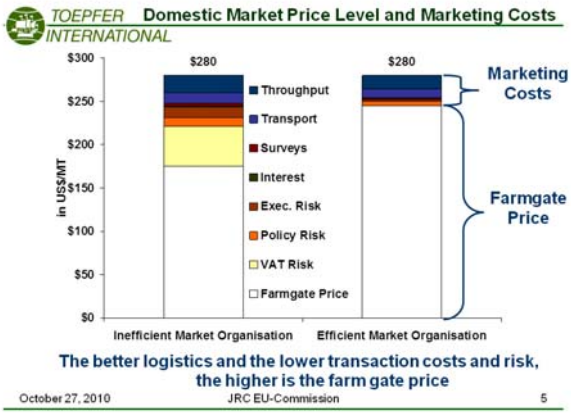
Source: Research 'Transport infrastructure of the grain market of the Azov-Black Seas region in-2009-2010', APK-Inform Agency

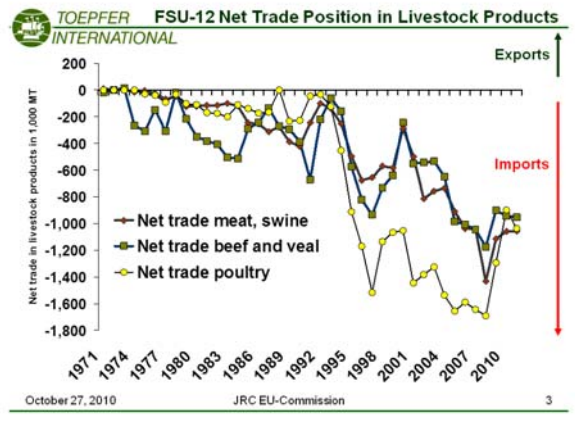
Distribution channels and organisation of the regional agricultural markets

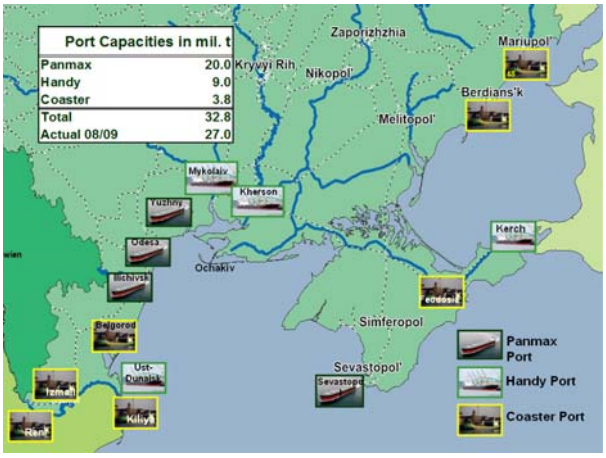
Ludwig Striewe (Toepfer International, Ukraine)



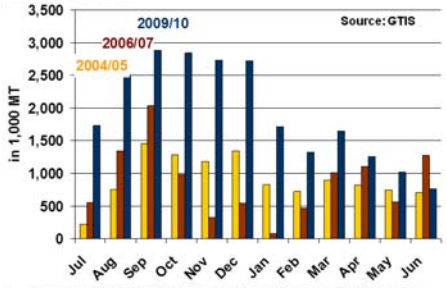








Port Throughput Capacities



- Panmax with 50,000 to 60,000 MT costs on average US$ 30,000 per day
- In 2002 lay-time of ships 6 days, costs of 3.6 US$ per MT
- In 2010 lay-time of ships 2 days, costs of 1.3 US$ per MT
- Yearly benefit to farmers at a crop of 40 mil MT: > US$ 100,000 mil

Additional Requirements for Quality Certificates

1. International quality requirements
   - Determined by private contracts and requirements of import countries
   - Sampling and Analysis according to GAFTA rules
2. Additional Analysis required in Ukraine
   - GOST standard proven in the FSU, but not in line with international contracts
   - Altogether 6 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 can amount to US$ 80 to US$ 120/MT 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

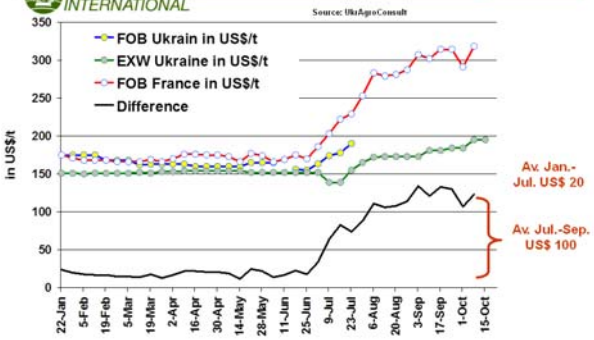
Implications for agriculture

- 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 c.p. lower farm gate price

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 custom requirements that slowed down or blocked wheat shipments, 20 – 30 vessels blocked in the ports
     - Demurrage of approx. 1 US$ per t per day, i.e. about US$ 400,000 per day & high losses due to unfulfilled contracts with importing countries
     - Introduction of grain export quota on October 19, 2010
     - Huge losses for agriculture

Farmers Burden on Grain Market Regulation



Ukrainian Quota History

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 mil MT of grain Thus, food security would hardly be an issue any more

General overview on domestic agricultural policy and government regulations in Ukraine, Russia, Kazakhstan and comparison with OECD countries

Olga Melyukhina (OECD, France)

OECD ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Session 2:
Overview of domestic agricultural policies in Ukraine, Russia and Kazakhstan and comparison with OECD countries

Olga Melyukhina
Ogranisation for Economic Co-operation and Development (OECD)

Workshop "Developments in Agricultural Commodity Markets: a Special Focus on Ukraine, Russia and Kazakhstan", Kiev 26-27 October 2010

Outline

- Key policy concerns
- Level of policy interventions
- Main policy instruments
- Distribution of support across
- Conclusions

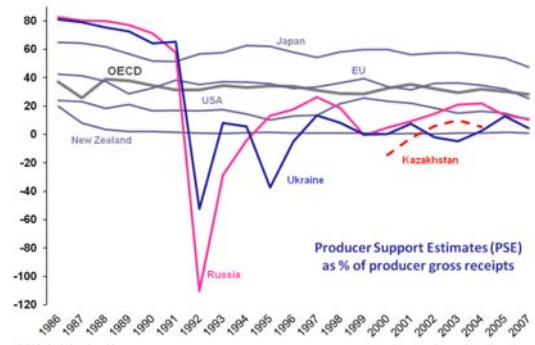
OECD Trade & Agriculture Directorate 2

Policy concerns

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

OECD Trade & Agriculture Directorate 3

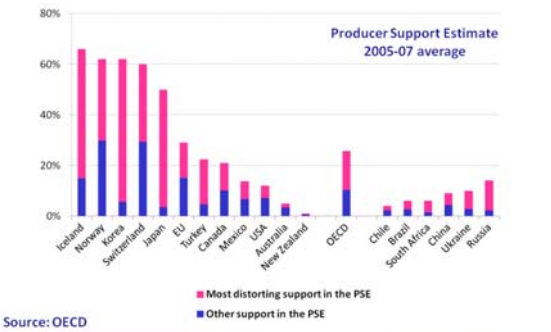
Level of Support



Source: OECD; WB for Kazakhstan.

OECD Trade & Agriculture Directorate 4

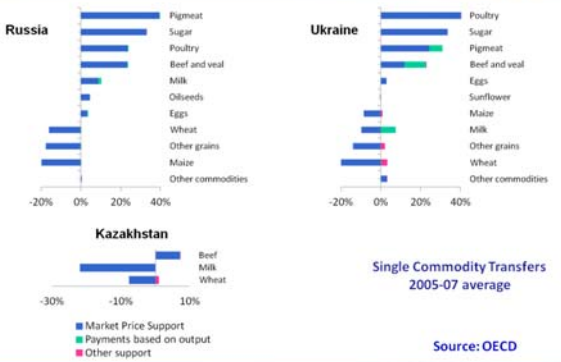
Composition of Support



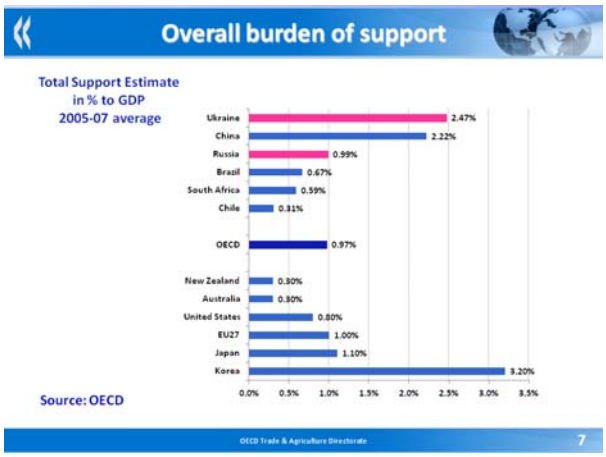
Source: OECD

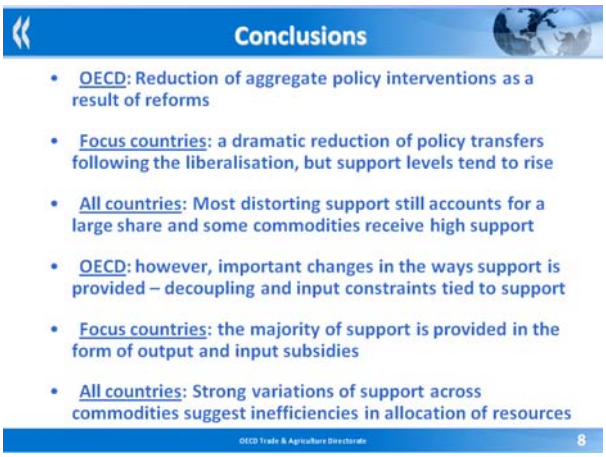
OECD Trade & Agriculture Directorate 5

Commodity Profile of Support



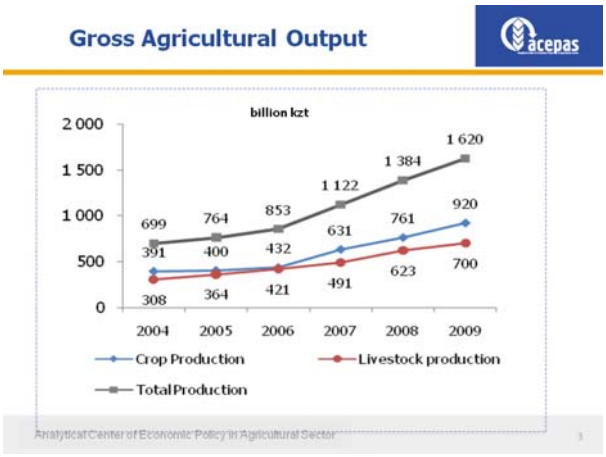
OECD Trade & Agriculture Directorate 6

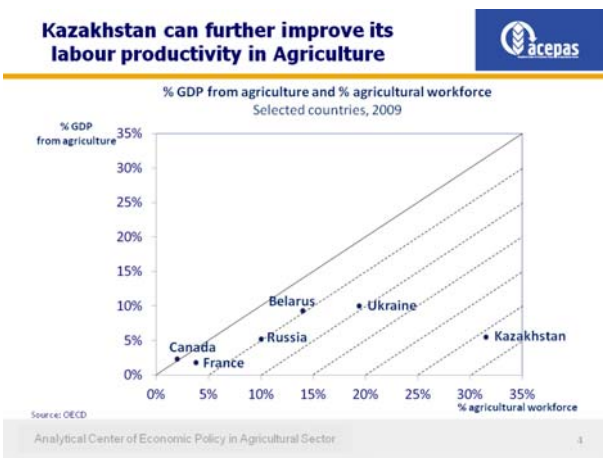




Overview on domestic agricultural policy and government regulations: Kazakhstan

Rakhim Oshakbayev (ACEPAS, Kazakhstan)





Kazakhstan legislation framework in agriculture

Law	Scope of application
"On state regulations of development of agriculture and rural areas"	Development of agricultural sectors and rural areas, food security
"On compulsory insurance in crop production"	Ensuring protection of property rights of crop producers from adverse natural phenomena resulting in partial or total loss of the crop
"On grain"	Regulation of grain industry: production, processing, storage and marketing
"On seed production"	Organisation and implementation of seed production system, state control over production, processing, storage, transportation, marketing and consumption
"On crop protection"	Crop protection from pests, weeds, diseases
"On phyto-sanitary control"	Regulation of the implementation of phyto-sanitary control
"On veterinary science"	Ensuring veterinary and sanitary safety
"On livestock breeding"	Preserving and increasing gene pool of high bred livestock, as well as reproduction and improvement of their productive qualities
"On development of cotton industry"	Regulation of cotton industry: production, processing, storage and marketing
"On rural cooperation of water users"	Regulation of supply and consumption of water by cooperative members
"On food safety"	Establishment of legal framework with the purpose of ensuring food security

Allocation of functions in the Ministry of agriculture of the Republic of Kazakhstan

Strategic functions	Control functions	Economic functions	Scientific and methodological support
Central administrative office	Committees of the MoA RK	National Holding "KazAgro", JSC	KazAgroInnovation, JSC
Elaboration of state agricultural policy	Control over compliance with legislation	Providing loans and to agricultural producers	Research in agriculture
Development of legislative and regulatory framework		Implementation of state leasing programs	Practical implementation of scientific research results
		Government procurement of grain	Participation in scientific research projects
		Insurance in crop production	Distribution of knowledge and results of scientific research
		Financing agricultural cooperatives	Promotion and development of scientific infrastructure

Taxation in agriculture

Tax incentives in agriculture in Kazakhstan are expressed in the form of reduction of tax burden through alternative methods of taxation or the provision of tax rebates to pay. There are two special treatment for agricultural producers:

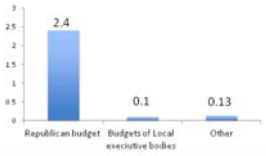
- Special tax regime for the small farmers on the basis of a single land tax, which depends on the amount of land and does not exceed **0,5% of the appraised value** of agricultural land;
- Special tax regime for legal entities - producers of agricultural products**: 70% discount** is provided for corporate income tax, value added tax, property tax, tax and tax on vehicles

Kazakhstan state policy in Agriculture

Objectives of the government program "Sustainable development of agricultural sector in Kazakhstan for 2009-2011"

Objectives:
- Sustainable development of sectors of agriculture
- Ensuring food security
- Development of national competitive advantages of domestics produce
- Adaptation of agricultural production to WTO accession

Sources of finance 2008, billion USD



New government program "Development of agro-industrial complex for 2010-2014"

New approaches:
- Transfer to new types and mechanisms of subsidies that should become an incentive for advanced technologies introduction
- Regional specialization based on priority agricultural sectors
- Implementation of master plans designed for 8 priority sectors

Land use

Private ownership of land designated for commercial agricultural production can be granted to private legal entities – residents of the Republic of Kazakhstan;

Lands designated for commercial agricultural production are not available to foreign citizens, non-residents and foreign legal (non-government) entities;

According to the Land Code agricultural land users are:

- citizens of the Republic of Kazakhstan;
- 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 a 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 right.

Formal objectives set by the President in his annual address to the nation of Kazakhstan in 2010

Labor productivity growth

- To increase productivity per person employed in agriculture 2-fold by 2014, and at least 4-fold by 2020

Ensuring food safety of the country

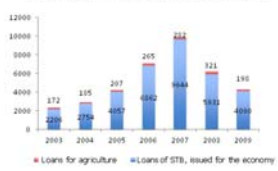
- Domestic food products should constitute over 80% of the internal food market by 2014

Export capacity increase

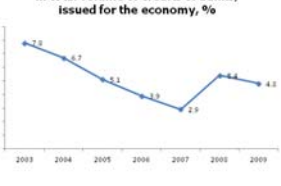
- Export capacity of the agrarian sector should be increased from 4% to 8% by 2015

Financing in agricultural

Loans of banks issued for the economy, including loans to agriculture, billion kzt



Share of credits issued for agriculture in total volume of credits of banks, issued for the economy, %

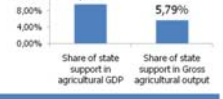


The share of credits to agriculture in the total volume of credits of banks, issued for the economy has been increasing since 2007.

Government support in Kazakhstan

Indicators of State support in 2008

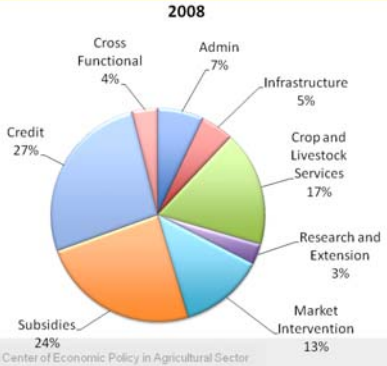
Indicator	billion KZT	billion USD
GDP	15 907,01	132,24
Agricultural GDP	827,89	6,88
Gross output	1 384,19	11,51
State support	80,20	0,67



Instruments of state support

- Subsidization (sectors of high priority)
- Providing of different types of loans/leasing through KazAgro
- Market intervention through KazAgro (FoodContractCorporation)
- Public services mostly in crop and livestok sectors
- Insurance in crop production
- Financing of Research&Develoment and veterinary control
- Development of rural areas and market interventions
- Import duties

Composition of Public Expenditure on Agriculture



Amount of subsidies on Agriculture 2004-2010 rr.

mln. kzt (1kzt=150usd)

№	Directions subsidies on Agriculture	2004 г.	2005 г.	2006 г.	2007 г.	2008 г.	2009 г.	2010 г.	TOTAL	Share,%
	Crop production	**3464.9**	**4575.6**	**11528.7**	**15740**	**25579.9**	**24821.4**	**26471.2**	**112181.7**	**63.22**
1	1. Поддержка развития семеноводства	911	920.7	943.4	996.3	2 096.3	1911.1	2087.5	**9868.3**	5.5
2	2. Удешевление стоимости ГСМ и других товарно-материальных ценностей, необходимых для проведения весенне-полевых и уборочных работ	0	0	8800	12 808	20 244.2	16 262.8	16 593.6	**74705.6**	42.1
3	3. Поддержка по повышению урожайности и качества производимых сельскохозяйственных культур	0	600	1000	0.0	0.0	2928.6	3004.1	**9532.7**	5.37
4	4. Обеспечение закладки и выращивания многолетних насаждений плодово-ягодных культур и винограда	0	0	0	796	1 783.7	2 107	1 470	**6158.7**	3.47
5	5. Экспертиза качества каштанового клона-вегетива	0	0	0	111.4	178.7	133.7	133.7	**597.7**	0.34
6	6. Субсидирование стоимости услуг по доставке воды сельхозтоваропроизводителям	533.9	1054.9	683.3	731.1	1 175.0	1358.1	1062.3	**6618.6**	3.73
7	7. Поддержка страхования в растениеводстве	2000.0	2000.0	100.0	300.0	100.0	100.0	100.0	**4700**	2.65
	Livestock	**1 221.00**	**1 577.3**	**2 749**	**4 526.5**	**12 307.6**	**14 162.7**	**15 427.4**	**52171.5**	**29.3**
8	1.Поддержка племенного животноводства	1221	1827	1749	1987	2432	2496	2497.4	**13899.8**	7.8
9	2. Субсидирование повышения продуктивности и качества продукции животноводства	0	0	1000	2 539.7	9 885.4	11666.6	13130	**38221.7**	21.5
	Food processing	**786.7**	**999.6**	**1024.8**	**1060.1**	**1882**	**2333.7**	**3060**	**13146.9**	**7.4**
10	1. Субсидирование ставки вознаграждения (интереса) по кредитам, выдаваемым финансовыми институтами предприятиям по переработке сельскохозяйственной продукции на пополнение их основных оборотных средств, по линии субсидирования	786.7	999.6	994.7	992.7	1836.1	2300	3000	**12909.8**	7.2
11	2. Субсидирование развития систем управления производством и рынка сельскохозяйственной продукции	0	0	30.1	67.4	45.9	33.7	60	**237.1**	0.13
	TOTAL	**5 472.6**	**7 102.5**	**15 302.5**	**21 326.6**	**39 769.5**	**41 317.7**	**47 158.6**	**177450.1**	**100**

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.

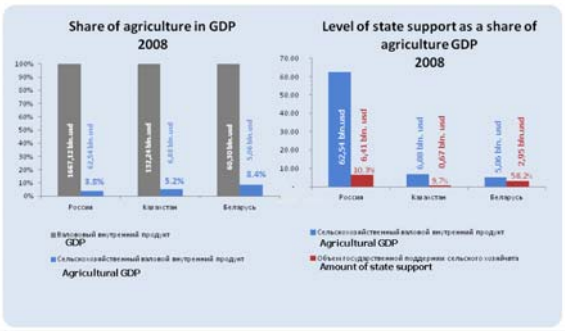
e) Facilitating investment in wholesale and retail marketing and distribution facilities and agro-processing.

f) Preparing for climate change.

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.

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



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 REGULATION: UKRAINE

Serhiy I.Demyanenko, Prof., Dr.,
Kyiv National Economic University,
IARD, Ukrainian Agrarian Confederation

EXISTING PROBLEMS IN UKRAINIAN AGRICULTURAL POLICY

- Absence of clear strategy in agricultural police
- Absence of clear agricultural land market
- Problems in agricultural science and education
- Administrative pressure on market agents
- Mix of measures for agricultural development and rural development

ABSENCE OF CLEAR STRATEGY

- What is government aim in agriculture?
- Active legislation
- The role of Ministry of Agricultural Policy of Ukraine

ABSENCE OF VELUABLE 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

AGRICULTURAL SCIENCE AND EDUCATION

- Qualification of a personal
- Separation of science and education
- Relationship between agricultural science and education on one side and agribusiness on other side
- Agricultural Universities and students

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 AGICULTURAL AND RURAL DEVELOPMENT

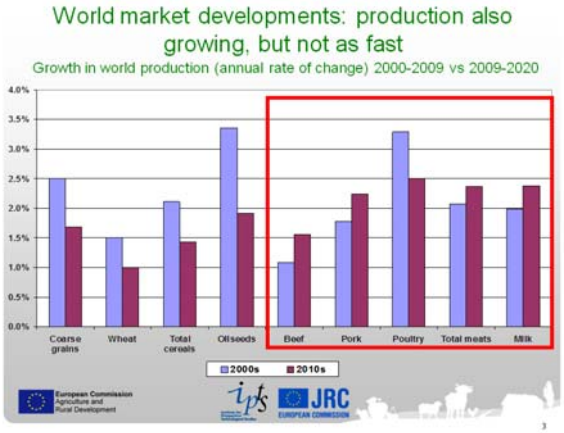
- Agricultural policy verses rural development and social policy
- Agriholdings verses small private farms
- Not direct taxation of farms
- Market infrastructure

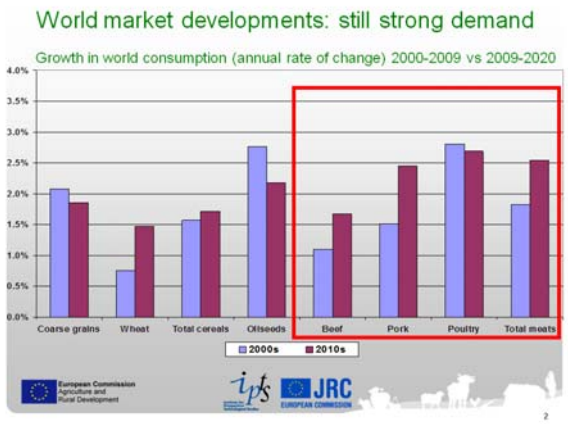
DIRECTIONS FOR AGRICULTURAL STRATEGY

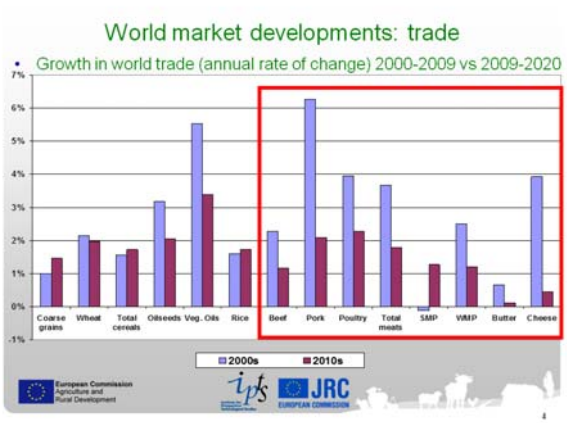
- Ensuring of production of high quality agricultural products
- Development of market infrastructure
- Development of competitive agricultural commodities markets
- Development of agricultural land market
- Development of extension services and improving of state management
- Development of agricultural science and education
- Contribution to preserving nature and landscape

Overview on EU and world milk and meat markets

Thomas Fellmann (JRC-IPTS, Spain)

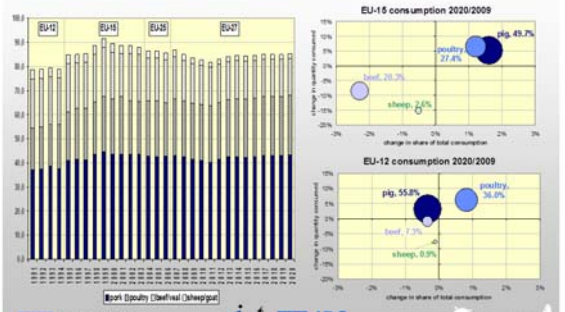






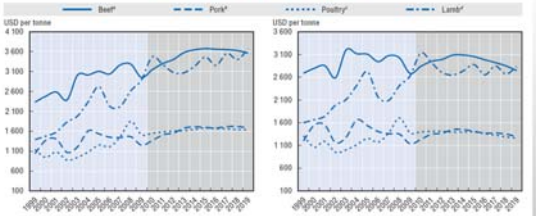
Meats

EU meat consumption



World meat prices in nominal terms remain above historical levels

Nominal versus real meat prices

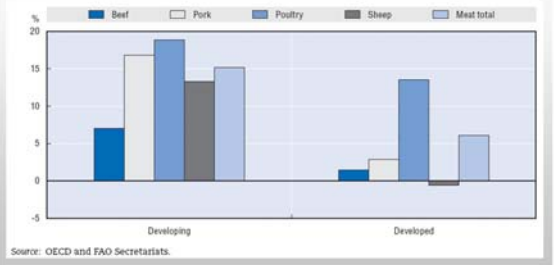


a) Choice steers, Nebraska, US dressed weight.
b) Barrows and gilts, No. 1-3, Iowa/South Minnesota, US dressed weight.
c) Meat of poultry export price, HS0207, Brazil product weight.
d) Lamb schedule price, all grade average, New Zealand dressed weight.
Source: OECD and FAO Secretariats.

Dairy

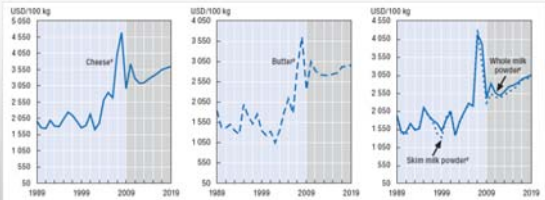
World consumer preference for poultry meat

Overall increase of per capita meat consumption between the 2007-09 base period and 2019



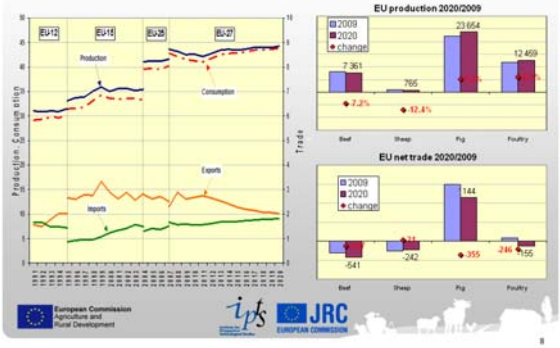
Source: OECD and FAO Secretariats.

World dairy prices rising in nominal terms

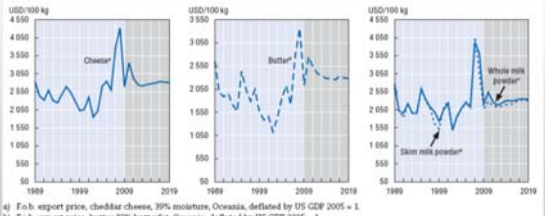


a) F.o.b. export price, cheddar cheese, 39% moisture, Oceania.
b) F.o.b. export price, butter 82% butterfat, Oceania.
c) F.o.b. export price, WMP 26%, Oceania.
d) F.o.b. export price, non fat dry milk, 1.25% butterfat, Oceania.
Source: OECD and FAO Secretariats.

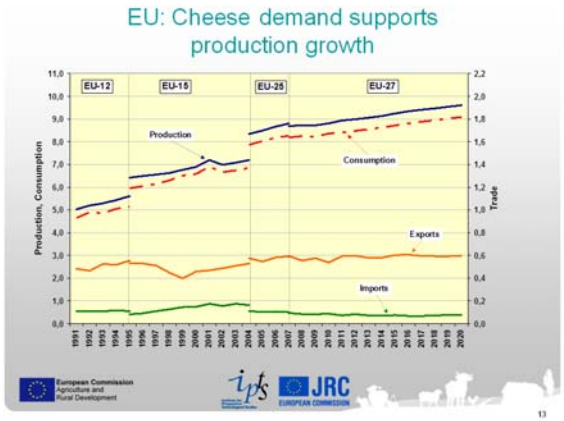
EU27 aggregate meat market balance ('000 tons)

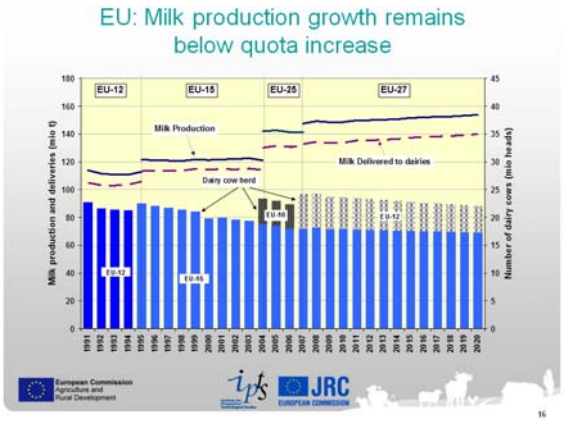


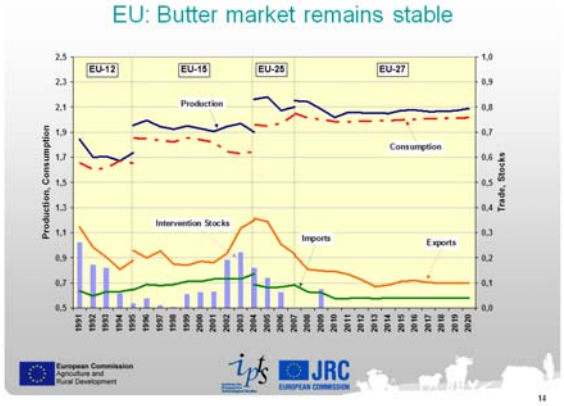
Declining trend in world dairy prices in real terms is expected to abate



a) F.o.b. export price, cheddar cheese, 39% moisture, Oceania, deflated by US GDP 2005 = 1.
b) F.o.b. export price, butter 82% butterfat, Oceania, deflated by US GDP 2005 = 1.
c) F.o.b. export price, WMP 26%, Oceania, deflated by US GDP 2005 = 1.
d) F.o.b. export price, non fat dry milk,1.25% butterfat, Oceania, deflated by US GDP 2005 = 1.
Source: OECD and FAO Secretariats.


EU: Cheese demand supports production growth
EU-12
EU-15
EU-25
EU-27
Production
Consumption
Exports
Imports
Production, Consumption
Trade
European Commission Agriculture and Rural Development
ipts
JRC
EUROPEAN COMMISSION
13


EU: Milk production growth remains below quota increase
EU-12
EU-15
EU-25
EU-27
Milk Production
Dairy cow herd
Milk Delivered to dairies
EU-10
EU-12
EU-15
Milk production and deliveries (mio t)
Number of dairy cows (mio heads)
European Commission Agriculture and Rural Development
ipts
JRC
EUROPEAN COMMISSION
16


EU: Butter market remains stable
EU-12
EU-15
EU-25
EU-27
Production
Consumption
Intervention Stocks
Imports
Exports
Production, Consumption
Trade, Stocks
European Commission Agriculture and Rural Development
ipts
JRC
EUROPEAN COMMISSION
14


Thank you for your attention!
Milk and Meat Markets in EU & World
Overview
Thomas Fellmann
European Commission
Joint Research Centre
IPTS - Institute for Prospective Technological Studies
In collaboration with Bence Tóth
DG Agriculture and Rural Development
European Commission Agriculture and Rural Development
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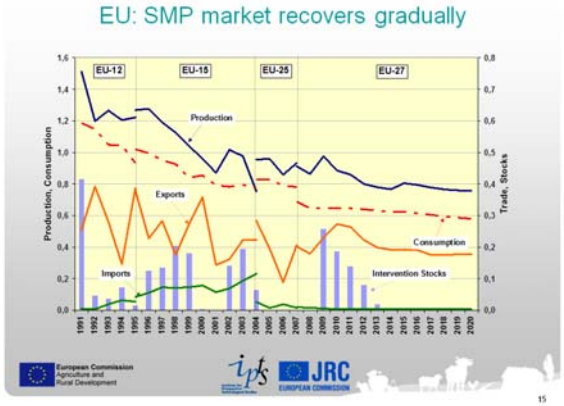
EU: SMP market recovers gradually
EU-12
EU-15
EU-25
EU-27
Production
Exports
Consumption
Imports
Intervention Stocks
Production, Consumption
Trade, Stocks
European Commission Agriculture and Rural Development
ipts
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Milk and dairy markets in Ukraine

Olga Kozak (Institute of Agrarian Economics, Ukraine)

Milk and dairy markets in Ukraine

Olga Kozak

National Scientific Centre "Institute of Agrarian Economics"

26 October, Kyiv

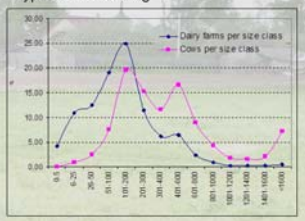
Farm size

	Dairy farm number, 1000	Average size, cows
No. of dairy farms:	2205	1.3
Agricultural enterprises	5	124
Households	2200	1.0

Country	Dairy farm number, 1000	Average size, cows
Russia	1994	6.2
Belorus	138	11.6
Kazakhstan	736	3.3
Slovakia	13.5	14.8
Poland	730	3.8
Rumania	1550	1.6
Ukraine	2305	1.3

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

Typical farm defining



Source: National statistics, IFCN Dairy report 2009

Contents

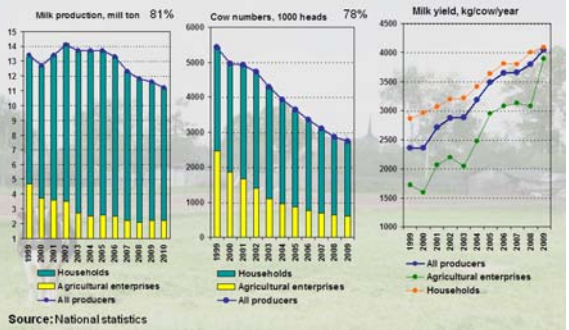
1. Milk production trends
2. Farm structure
3. Milk prices
4. Milk price volatility
5. Dairy chain
6. Processing profile
7. Export-import

Short conclusion and future trends

Milk price

Source: National statistics. **World milk price**: IFCN data

Milk production trends 1999 - 2009



Source: National statistics

Milk production: 11.6 mill t est/2010 – 11,2 mill t or 96,6%

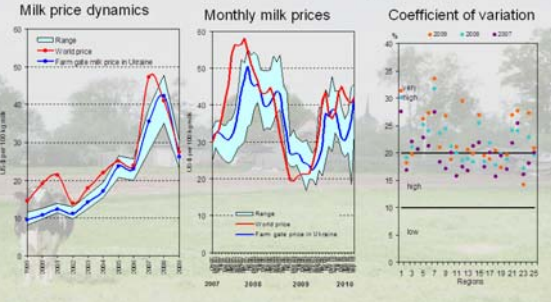
Regions/Leaders: Vynnytsa, Poltava, Lviv regions

Milk price volatility

Milk price dynamics

Monthly milk prices

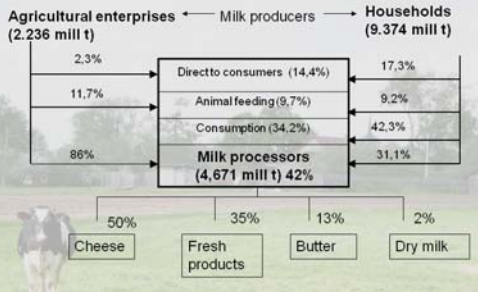
Coefficient of variation



Source: National statistics. **World milk price**: IFCN data

Volatility: Coefficient of variation: Standard deviation/arithmetic mean*100;

Dairy chain

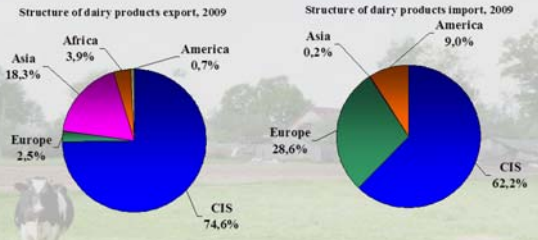


Self-sufficiency in milk: 107%

Consumers: 48 mill ppl/ 230 kg per capita per year

Milk processing: 42% delivered (299 factories)

Import-Export



Russia – 55%

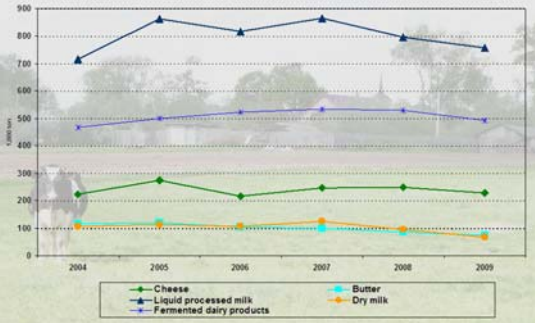
Kazakhstan – 12,5%

Russia – 24,4%

Belarus – 37,7%

CIF – Commonwealth of Independent states (Countries of the former Soviet Union

Processing profile



Conclusion and future trends

1. National milk and dairy markets development has evolutional character and as foreseen situation won't change much soon. Milk volume 2020 is estimated as10 mill tons mostly caused of production decreasing in households.
2. Dairy sector development will strongly depends of agricultural policy. Politic risks will affect much the market players as well as the consumers in the future.
3. Strategy 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.

Dairy industry

Top players:

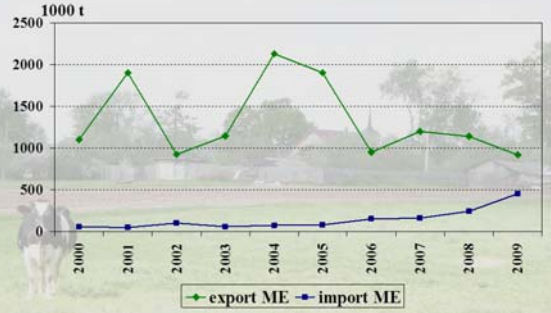
Unimilk
Milkiland
Milk Alliance
Terra-Food
West Milk Group
Wimm Bill Dann
Rainford
Cheese Club
Lustdorf
Lactalis

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

30 biggest companies cover 78% of return

Import-Export



Export: 8% of production

Import: 4.6% of consumption

Milk and dairy markets Russia

Evgeniy Smirnov (Russian Dairy Union, Russia)

Russian dairy branch
Current situation and forecast.

Evgeny Smirnov
Analyst
Russian Dairy Union

Production of basic dairy products, *1000 t

	2009	2009/2008, %	Jan-Sept 2010	Jan-Sept2010/ Jan-Sept2009,%
Butter	231,8	91,0	161,8	97,4
Cheeses, fat ≥ 45%	436,1	101,5	332,2	98,3
Liquid dairy products	10473,1	101,5	8 555,7	110,3
WMP+SMP	112,3	65	93,8	99,0
Ice-cream	316,4	95,30	346,1	121,6

National Statistic Service

The dynamics of milk production, cows number and milk yield per cow

	2000	2007	2008	2009	2010*	2015*
Milk production, mill. ton	32,3	32,0	32,4	32,6	32,5	36,1
Number of cows, mill	12,7	9,3	9,1	9,0	8,9	8,3
Milk yield per cow, kg/cow/year	2502	3501	3595	3700	3700	4400

* - 2015 - forecast

National Statistic Service

Self-sufficiency in milk and dairy products, %

2002	2003	2004	2005	2006	2007	2008	2009	2010*	2015**
88	86,6	85,4	83,4	82,3	83,3	83,2	83,8	80,2	90,0

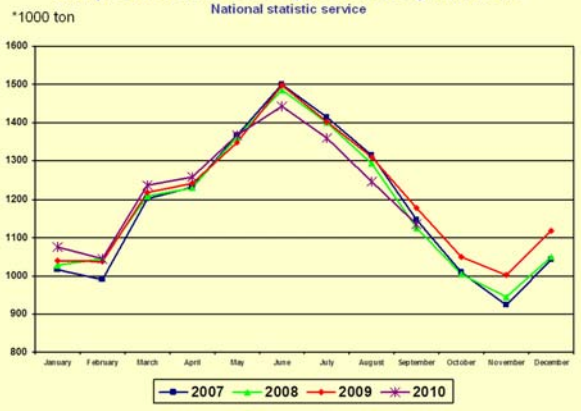
This criteria differs from 45% up to 102% depends on region of Russia

* - estimate
** - 2015 - forecast

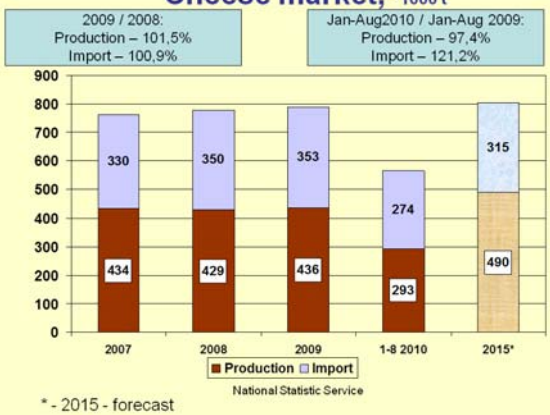
National Statistic Service

Milk production in state agricultural organizations

National statistic service

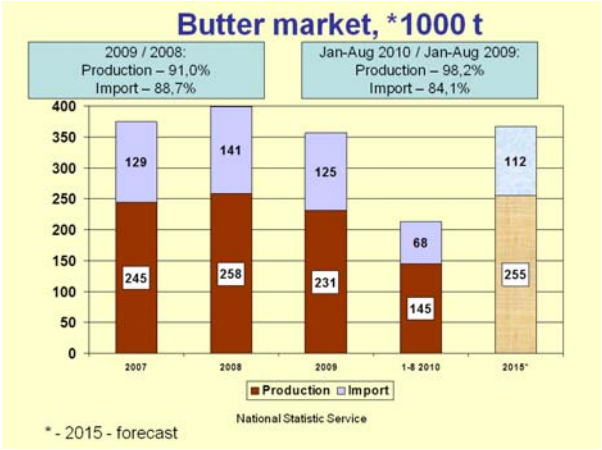


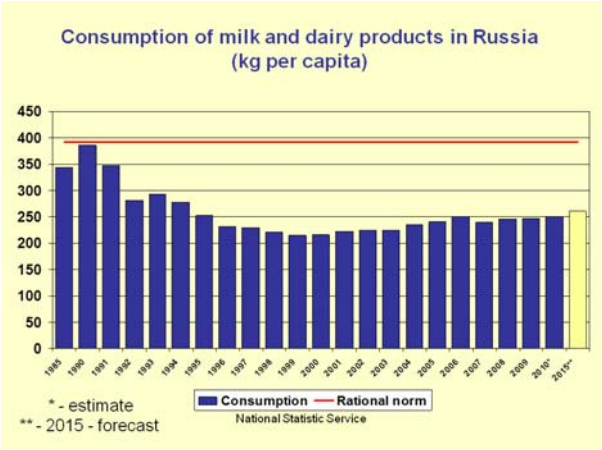
Cheese market, *1000 t

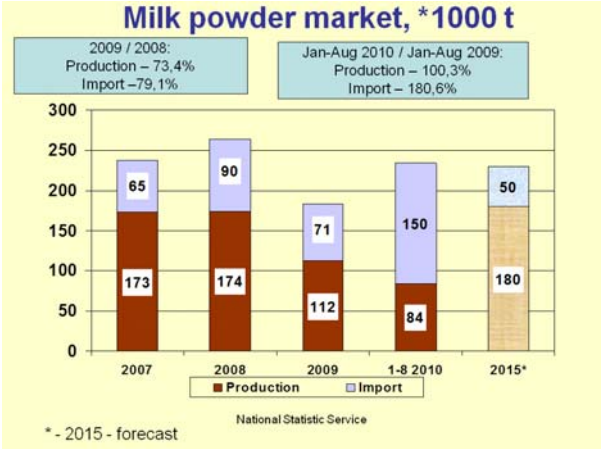


National Statistic Service

* - 2015 - forecast

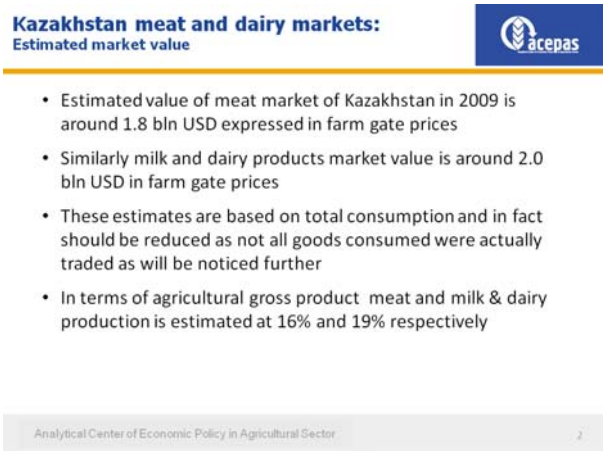




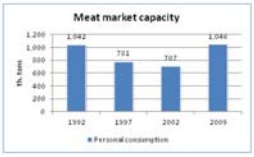


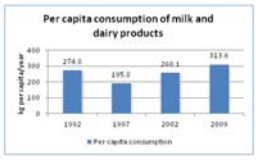
Milk and meat markets Kazakhstan

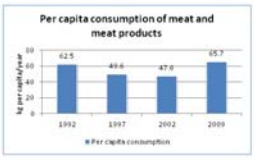
Vladimir Pak (ACEPAS, Kazakhstan)



Kazakhstan meat and dairy markets: Market capacity



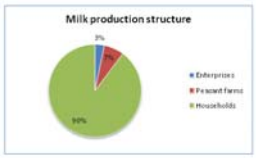


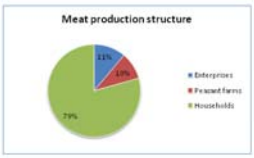


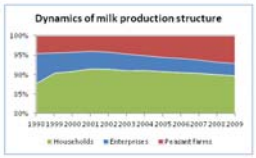
Kazakhstan meat and dairy markets: Producers

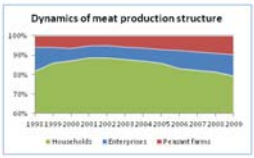
- 1.6 mln households (that can be considered as personal owners) own 85% of cattle population (2.7 mln heads) and produce 80% of meat and 90% of whole milk
- Peasant farms are usually family farms that own 20-100 cows
- Agricultural enterprises are organizations usually created on the basis of kolkhozes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

Kazakhstan meat and dairy markets: Production structure



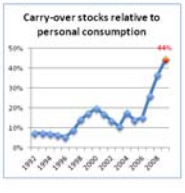






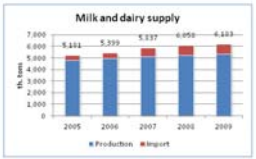
Kazakhstan meat and dairy markets: Producers

- From 4.7 mln. tons of milk consumed in 2008 about 2.3 mln is packaged milk and dairy products of which 0.9 mln tons are imported milk and dairy products
- The rest (2.5 mln tons) is unpacked milk and dairy products self-consumed or used for other purposes



- "Red" meat import accounts only 2-3% of total meat consumption, poultry meat constitutes most of meat import
- Since 2007 poultry meat import is gradually decreasing and partially replaced by increase of domestic production

Kazakhstan meat and dairy markets: Market supply



- Main import positions are packaged milk, yoghurts, butter, chees and curds, condensed milk and milk powder
- Export of dairy products is insignificant and mainly consists of chees and curds, and condensed milk and milk powder

- Meat export is insignificant and up to 2009 consisted mainly of poultry meat (about 1-2 th. tons) which reduced by 2009 to 50 tones
- Most of poultry meat import originates from USA and (in recent years) from Ukraine

Kazakhstan meat and dairy markets: 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

Kazakhstan meat and dairy markets: 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 Banvit in Turkey)

Kazakhstan meat and dairy markets: Government support

Milk & Dairy	Meat
Subsidizing from 5 to 20 KZT (0,03 - 0,13 USD) per kg of whole milk or up to 44% of average producer price	Subsidizing 80-175 KZT (0,53-1,17 USD) per kg of produced meat, up to 50% of average cost of production
70% tax discount provided to producer	
Import tariff 15-25%	Tariff 15-25% for in-quota import, Tariff 50-75% for out-of-quota import
	Subsidizing interest rate at 100% of official refinancing rate of National Bank of Republic of Kazakhstan for processors
Preferential lending at low interest rate with maximum credit period of 7 years	

Meat markets in Ukraine

Elisabeth Svyatkivska (Association Ukrainian Agribusiness Club, Ukraine)

Meat market in Ukraine

Elisabeth Svyatkivska, expert on meat production
Association "Ukrainian Agribusiness Club"

Ukrainian Agribusiness Club

Content

- Dynamics of Gross Livestock Production
- Cattle and Poultry Stocks
- Balance of Pork, Poultry Meat and Beef in 2009-2014
- Ukrainian Meat Export Indicators 2010
- Ukrainian Meat Import Indicators 2010
- Regulation of Foreign Trade
- Conclusions

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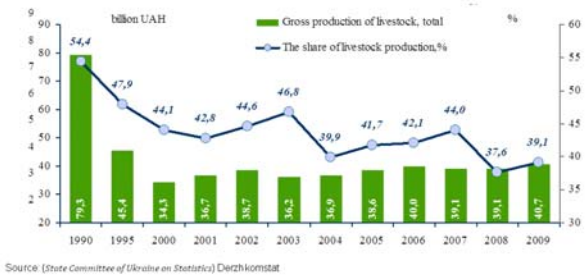
www.agribusiness.kiev.ua

Dynamics of Gross Livestock Production



Source: (*State Committee of Ukraine on Statistics*) Derzhkomstat

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Dynamics of Gross Livestock Production

Livestock production has been 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 3.8% growth of the total production of livestock by the end of 2010.

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Cattle Stocks

Photo: Household cattle

Photo: tupical farms

About 70% of cattle concentrated in households.

Supply to slaughters consists mostly of the cattle of dairy breeds

Share of households in sold to slaughters volumes reaches up to 80 % depending on a region
As of January 1, 2010, the cattle stock at all categories of farms amounted to 4826.7 thousand heads
During 2007-2009 the cattle stock was steadily decreasing
As of January 1, 2010, it lost 1349 thousand heads or almost 20% as compared to the beginning of 2007:
-at agricultural enterprises, the stock shrank by 668 thousand heads (-29%);
-in households – by 681 thousand heads (-17%)

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Cattle Stocks

Dynamics of Cattle Stock
Source: Derzhkomstat

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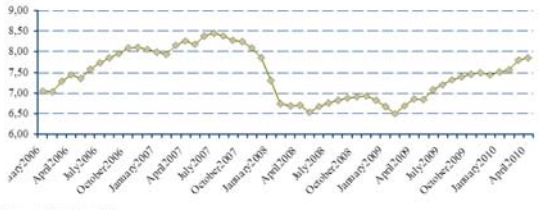
Monthly Dynamics of Pig Population, all farms



Source: Derzhkomstat

As of January 1, 2010, the total pig stock in Ukraine amounted to 7576.6 thousand heads, including 3307.9 thousand heads (i.e. over 50%) kept at agricultural enterprises.

To compare:
a year before, on January 1, 2009, there were 6526.0 thousand heads, including 2730.9 thousand at agricultural enterprises.

Dynamics of Pig Population

Source: Derzhkomstat

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Dynamics of Poultry Stock

Source: Derzhkomstat

As of January 1, 2010, the poultry stock at all categories of farms amounted to 190.9 Mio heads; there were 100.35 Mio heads at agricultural enterprises.

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Source: Calculations by Ukrainian Agribusiness Club

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

	2009	2010*	2011*	2012*	2013*	2014*
stocks at the beginning of the year	130	192	183	214	192	192
production (meat yield 61%)	1664	1785	1860	1930	2020	2090
Official import	420	185	173	153	136	116
Additional import estimate	35	22	22	14	13	12
Total supply	2249	2184	2238	2311	2351	2410
Consumption by processors (including sausages)	1250	1250	1270	1380	1415	1440
Meat consumption by population	730	700	695	670	645	640
Non-food processing and the losses	9	9	9	9	9	9
Exports	35	42	50	70	90	102
Domestic consumption	1989	1959	1974	2059	2069	2089
Consumption, kg per capita	43,1	42,7	43,2	45,4	45,8	46,4
Total demand	2024	2001	2024	2129	2159	2191
Stocks at the year-end	192	183	214	182	192	219
* forecast						

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Ukrainian Meat Export Indicators

	2009 January - June	2010 January - June	2009 January - June	2010 January - June	2009 January - June	2010 January - June	2010 to 2009, %* *
	t		000, $		structure, %*		
Total	12 797	25 573	30 225	50 444	100	100	67
cattle meat, fresh, chilled or frozen (0201, 0202)	8 317	8 911	25 910	29 946	86	59	16
Meat and edible offal of poultry, fresh, chilled or frozen (0207)	4 478	16 597	4 299	20 138	14	40	more than 4,7 times
Pork, fresh, chilled or frozen (0203)	1	48	13	272	0	1	more than 21,3 times
Other	1	18	4	88	0	0	more than 24,7 times

* structure was estimated by value indicator
** comparisons are made by value indicator
Source: State Committee of Ukraine on Statistics

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Import of Meat and Meat Products

	2009 January - June	2010 January - June	2009 January - June	2010 January - June	2009 January - June	2010 January - June	2010 к 2009, %* *
	t		000 000 US $		structure, %*		
Total	212,3	153,3	294,7	189,6	100	100	-36
Pork, fresh, chilled or frozen (0203)	65.7	46.3	133.7	83.1	45	44	-38
Meat and edible offal of poultry, fresh, chilled or frozen (0207)	98.4	71.2	112.6	72.6	38	38	-36
pig fat, free of lean meat and poultry fat (0209)	20.8	17.4	21.2	16.2	7	9	-24
edible offal of cattle, pigs, sheep, horses etc., fresh, chilled or frozen (0206)	21.1	16.7	20.5	14.5	7	8	-29
cattle meat, frozen (0202)	6.3	1.8	6.7	3.0	2	2	-55
Other	0,002	0.04	0.01	0.2	0	0	more at 13.5 times

Source: State Committee of Ukraine on Statistics

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Regulation of Foreign Trade

After 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, Ukrainian public administration was compelled to have recourse to non-tariff methods of protection of domestic market, first of all, veterinary checks. That had some effect, and volumes of import decrease in 2009 as compared to 2008.

In 2010 veterinary barriers limiting import have been supplemented with activities of the State Customs Service aiming at increase of customs value. The main motive behind that attempts was improvement of state budget proceeds (i.e. 10-15% customs duties and 20% VAT).

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

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Conclusions

Global prospects of development of sub-sectors of livestock sector are not facing any changes.
Aviculture 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 poultry will be set up at signing the free trade zone agreement with the EU.

Pig breeding also has a potential for growth. larger industrial 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.

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Meat markets in Russia

Dmitri Rylko (IKAR, Russia)

Key milestones

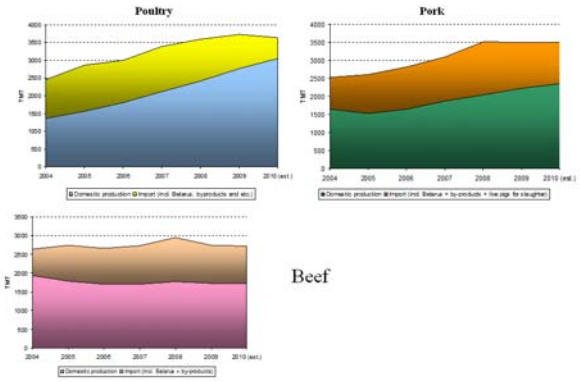
Since early 2004 domestic meat policies become increasingly proactive/aggressive in terms of domestic producers support

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

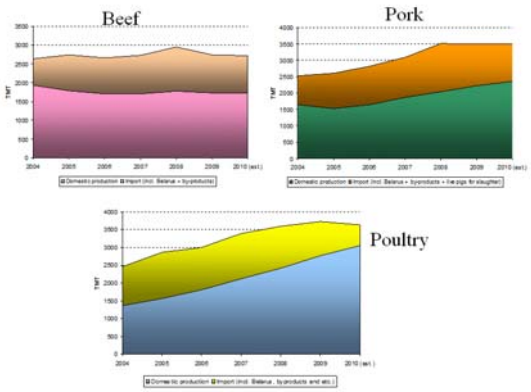
Growing protectionism in domestic meat sector: case of poultry meat

	2004	2005	2006	2007	2008	2009	2010
Quota, TMT	1 050	1 090	1 131	1 171	1 212	952	780
US	771,9	811,9	841,3	871,4	901,4	750,0	600,0
EU-27	205,0	205,0	220,6	228,6	236,4	185,8	144,3
Other nations	73,1	73,1	68,9	71,2	73,8	16,2	35,7
Actual import, TMT	1 085	1 287	1 186	1 267	1 173	942	
US	706,3	801,7	800,4	875,4	788,6	698,4	
Brazil	183,1	238,8	179,3	191,7	151,8	68,1	
EU-27	179,8	224,9	200,6	187,9	134,4	167,5	
Other nations	14,7	20,4	6,1	30,1	19,4	8,4	
Import duty, %/Euro per 1 kilo							
In quota	25/0,2	25/0,2	25/0,2	25/0,2	25/0,2	25/0,2	25/0,2
Over quota initial	-	-	60/0,48	50/0,40	50/0,40	40/0,32	
Over quota fact	-	-	60/0,48	60/0,48	60/0,48	95/0,80	95/0,80

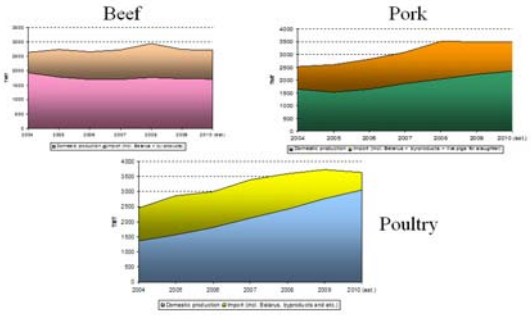
Dynamics of volume and share of domestic production vs. imported meats



Dynamics of volume and share of domestic production vs. imported meats



Dynamics of volume and share of domestic production vs. imported meats



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

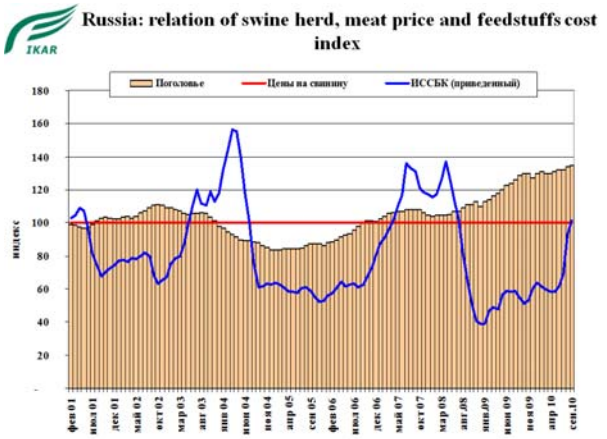
Russia at meat crossroad

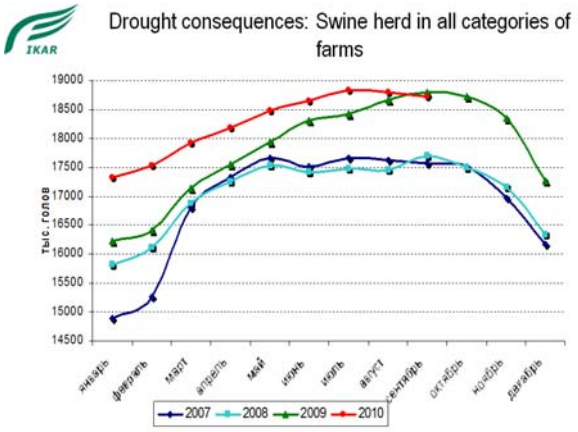
Ambitious goals of Food security doctrine…

Signs of market saturation and price affordability problems…

WTO accession and associated upper limits of support…

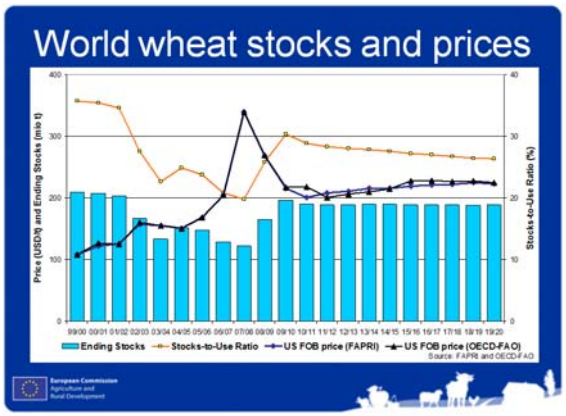
Great Russian Drought 2010 and its longer term consequences

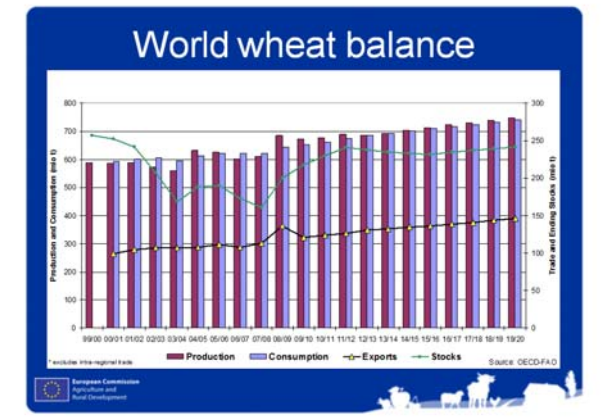


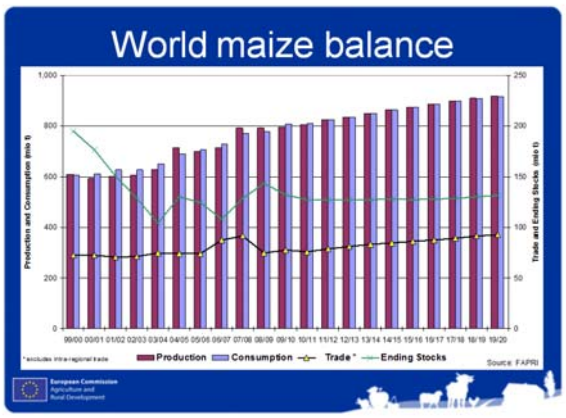


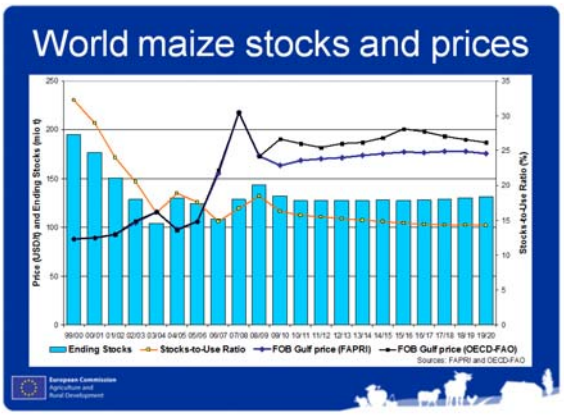
Overview on EU and world cereal markets

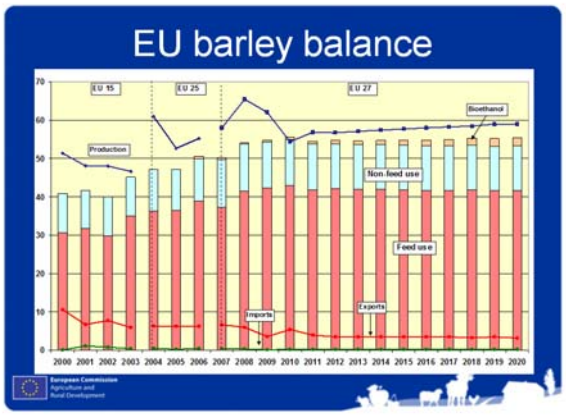
Dangiris Nekrasius (DG AGRI, Belgium)

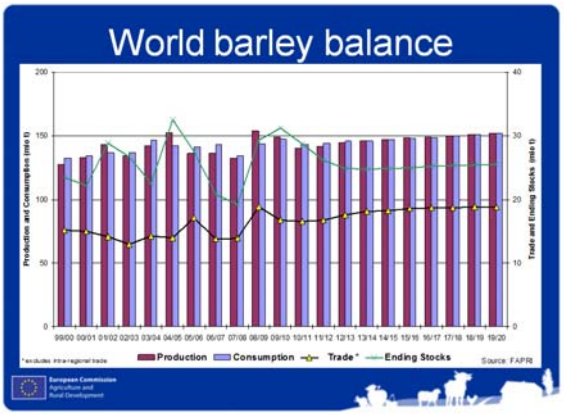


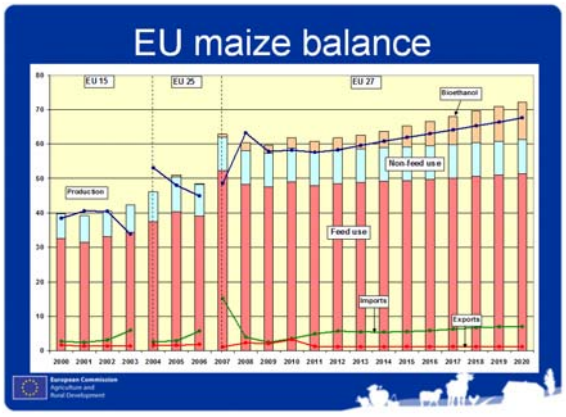





World maize stocks and prices
Price (USD/t) and Ending Stocks (mio t)
Stocks-to-Use Ratio (%)
Ending Stocks
Stocks-to-Use Ratio
FOB Gulf price (FAPRI)
FOB Gulf price (OECD-FAO)
Sources: FAPRI and OECD-FAO


EU barley balance
EU 15
EU 25
EU 27
Production
Bioethanol
Non-feed use
Feed use
Imports
Exports


World barley balance
Production and Consumption (mio t)
Trade and Ending Stocks (mio t)
Production
Consumption
Trade*
Ending Stocks
Source: FAPRI


EU maize balance
EU 15
EU 25
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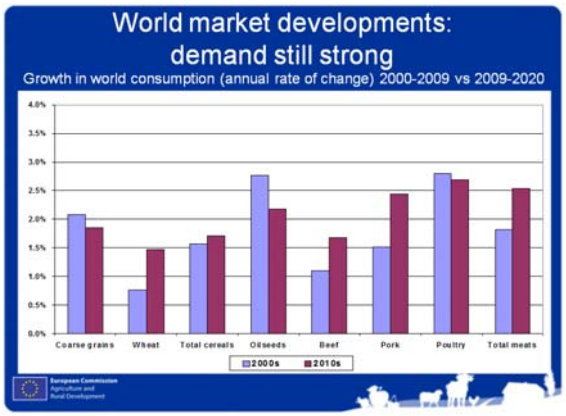
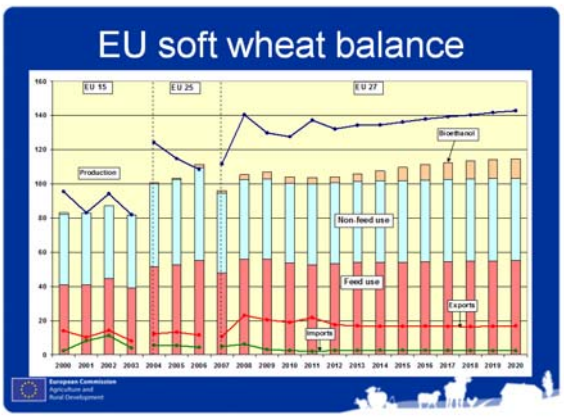
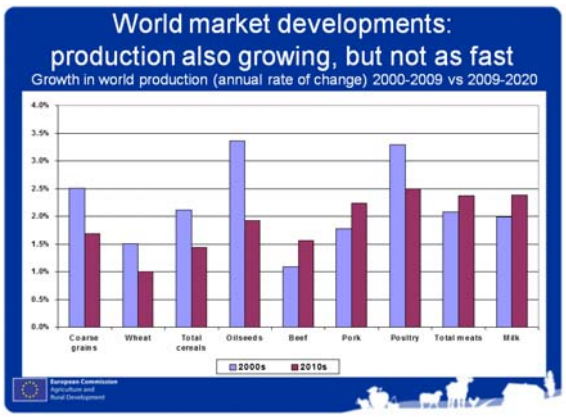
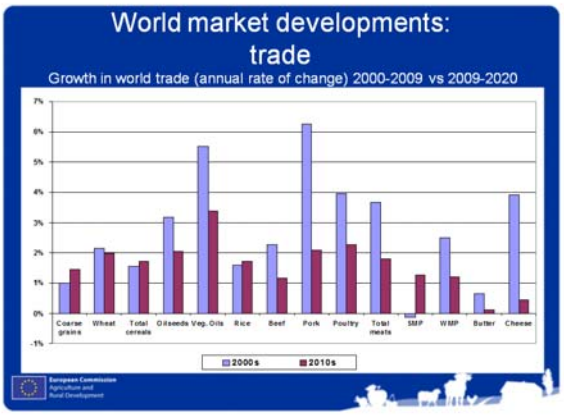
Bioethanol
Production
Non-feed use
Feed use
Imports
Exports

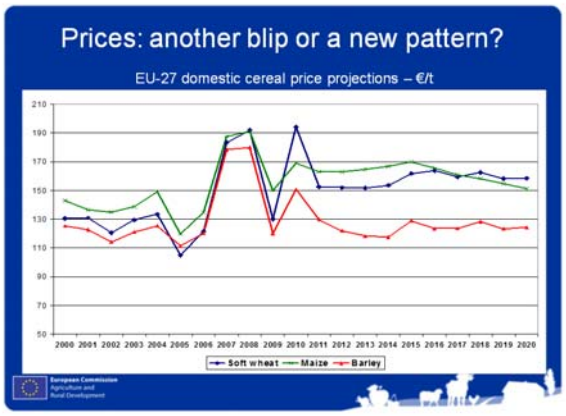

World barley stocks and prices
Price (USD/t) and Ending Stocks (mio t)
Stocks-to-Use Ratio (%)
Ending Stocks
Stocks-to-Use Ratio
Barley (Canada Feed)
Source: FAPRI

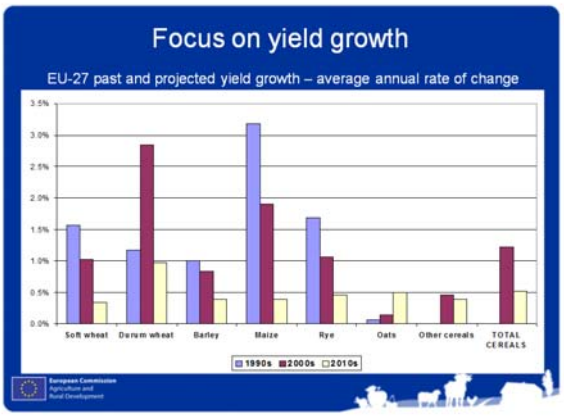

World market developments:
demand still strong
Growth in world consumption (annual rate of change) 2000-2009 vs 2009-2020
Coarse grains
Wheat
Total cereals
Oilseeds
Beef
Pork
Poultry
Total meats
2000s
2010s

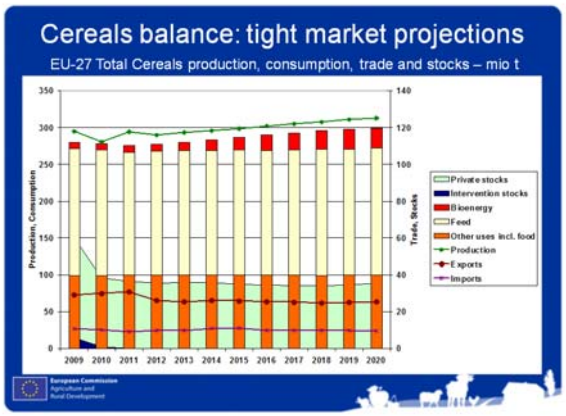

EU soft wheat balance
EU 15
EU 25
EU 27
Bioethanol
Production
Non-feed use
Feed use
Exports
Imports


World market developments:
production also growing, but not as fast
Growth in world production (annual rate of change) 2000-2009 vs 2009-2020
Coarse grains
Wheat
Total cereals
Oilseeds
Beef
Pork
Poultry
Total meats
Milk
2000s
2010s



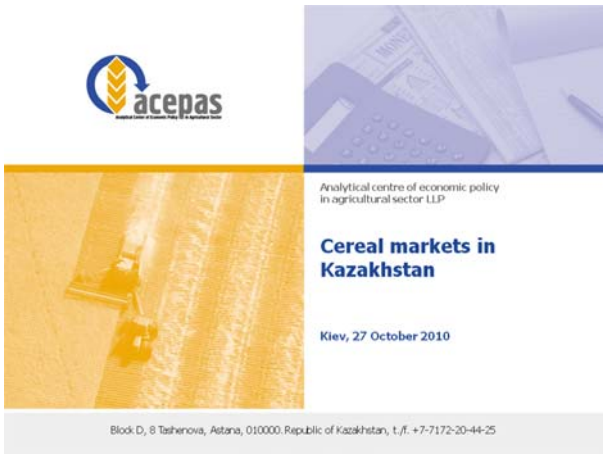


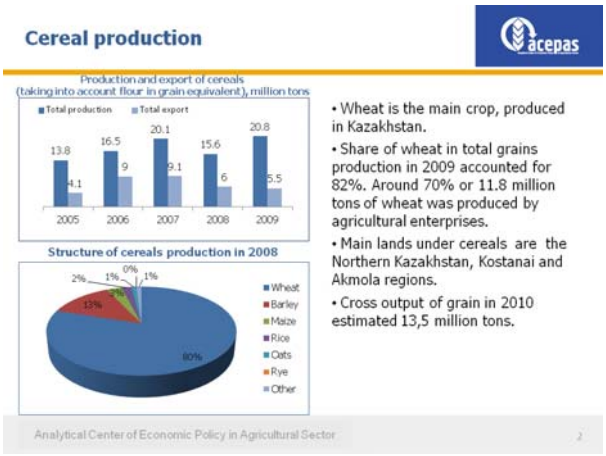




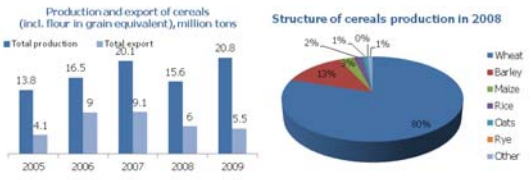
Cereal markets in Kazakhstan

Rakhim Oshakbayev (ACEPAS, Kazakhstan)





Cereal production



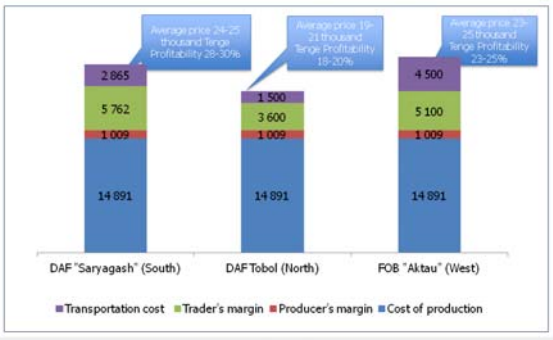
Transportation

Transportation issues

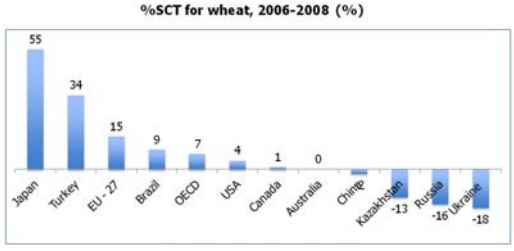
- Kazakhstan is the biggest landlocked country
- there are 3 key directions of export
- Russian exporters have the privilege on russian railways
- railways capacity limits export on southern directions
- Kazakhstan has no cargo ships in Caspian sea
- export to China is poor

Kazakh wheat hardly compete Russia and Ukraine on EU market and Australia on China market due to higher transportation costs and lower yield

Value chain in the export of one ton of wheat (kzt), autumn 2009



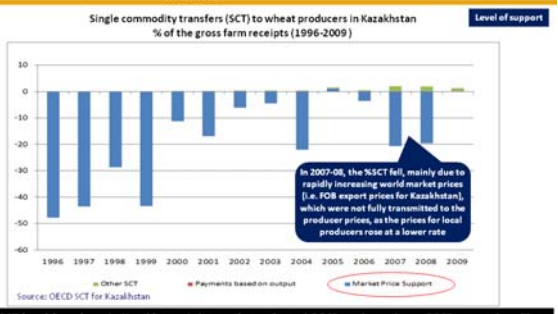
Single commodity transfer for wheat in Kazakhstan



In 2009 ASEPAS provided OECD necessary data for calculation of SCT for wheat, milk and beef. Preliminary results of this analysis demonstrate low level of state support of those commodities compared to OECD countries.

Source: OECD, 2010

The decreasing negative SCT for wheat reflects the Kazakhstan 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 EU27 and the OECD average, and it is comparable with Russia

Problems in export of cereals

- No access to the open sea. Remoteness 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 silos market
- Certificates on grain quality, issued by Kazakh laboratories are not recognized world-wide
- State company – FoodContractCorporation (KazAgro) – important internal market-maker
- Unpredictable government interference in the grain market

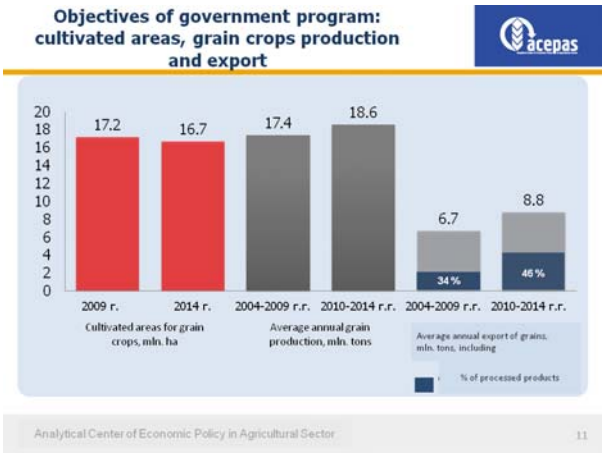
Opportunities

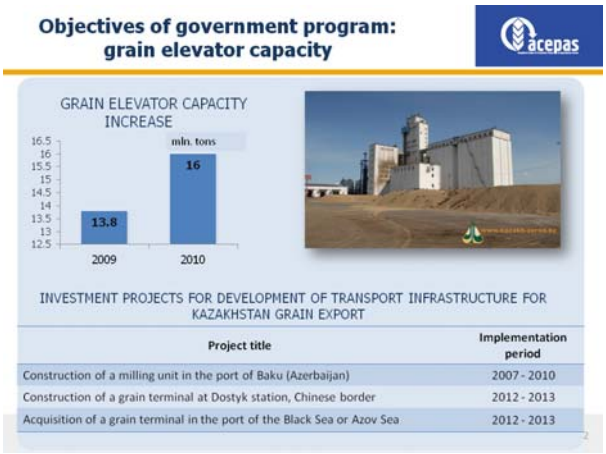
- Presence of local and foreign players on the market
- Increase in production due to the expansion of sown areas and the relatively favourable weather conditions.
- Application of moisture-retaining technologies
- Climatic advantages for growing
- Improvement and development of infrastructure

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 500 thousand tons on the boundary was started.

State funding of crop production

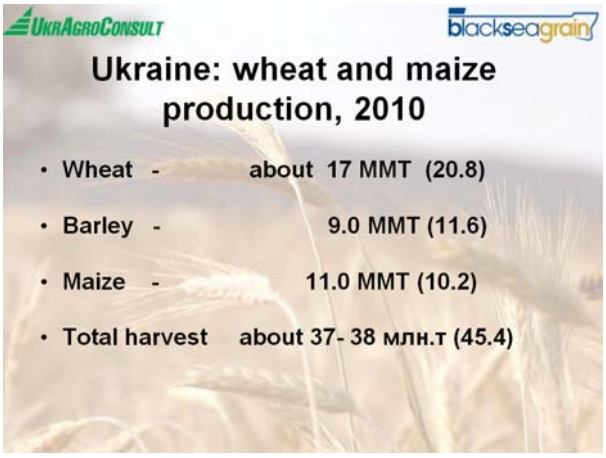
Title of the budget program, million USD	2006	2007	2008
Seed breeding	10,0	8,9	18,7
Reduction of the price of fuel and other materials for spring sowing and harvesting	59,8	86,8	137,2
Crop protection	26,8	27,9	31,3
Storage and transportation (of grain owned by state food grain storage)	5,4	5,3	5,6
Loans for spring sowing and harvesting works	53,2	62,4	43,8
State procurement of grain	42,1	42,1	131,2
Total for development of grain production	197,3	233,4	367,8
including:	0,0	0,0	0,0
subsidies	102,0	128,9	192,8
loans	95,3	104,5	175,0

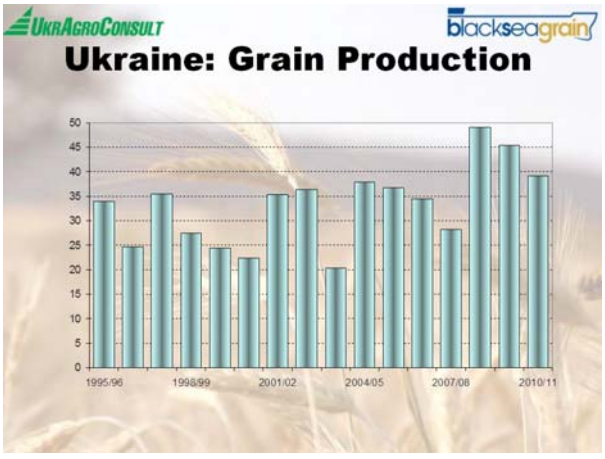


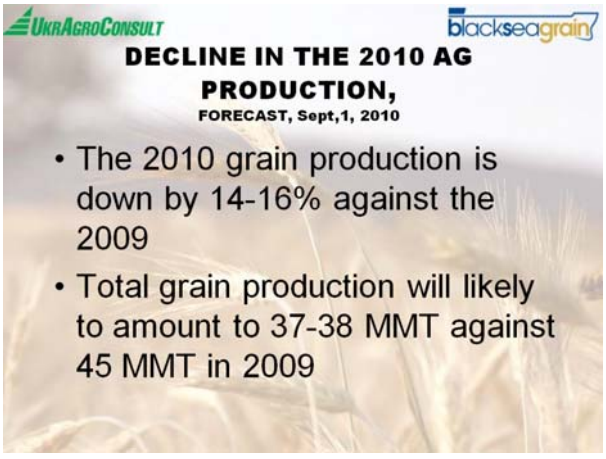


Cereal markets in Ukraine

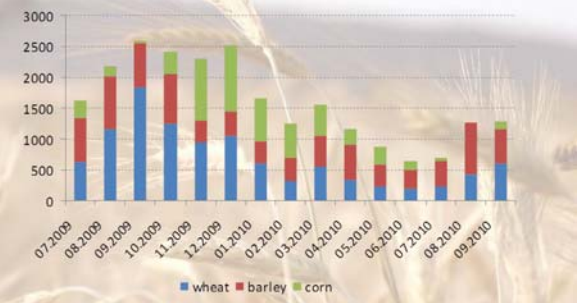
Sergey Feofilov (Ukragroconsult, Ukraine)







Ukraine: monthly grain export



Other sources of financing for the ag sector

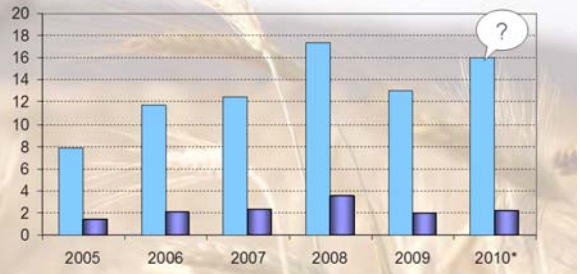
- Increasing role of commodity credits from input suppliers
- International donors - International Financial Corp – about $ 230 MI
- European Bank for Development and Reconstruction – Euro 340 MI

Ukraine: Stable currency

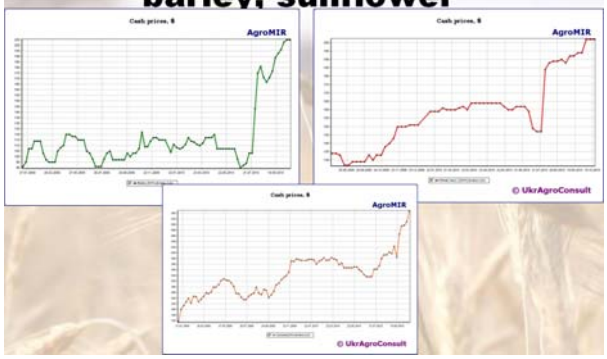
Ukraine: Increasing role of the public and private investors, 2010

- 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

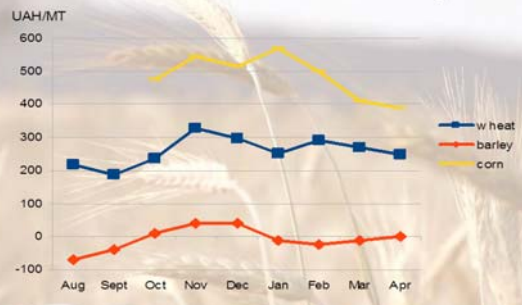


Ukraine: Bank interest rates decreased

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

Banks loans in Ukrainian Hryvnia

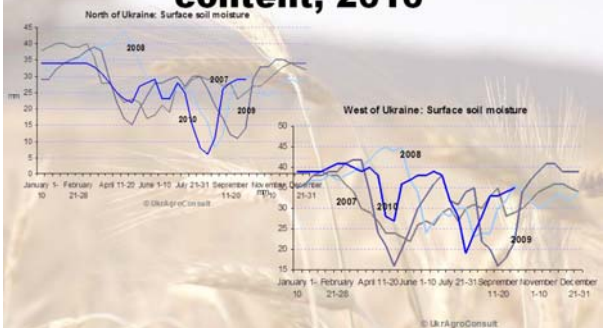
Production margins and farmers' choice of crops



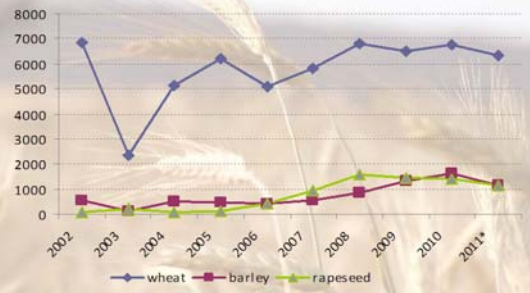
Production margins and farmers' choice of crops

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

Ukraine: Soil moistur content, 2010



Ukraine: area of key winter crops



Ukraine Agricultural Index

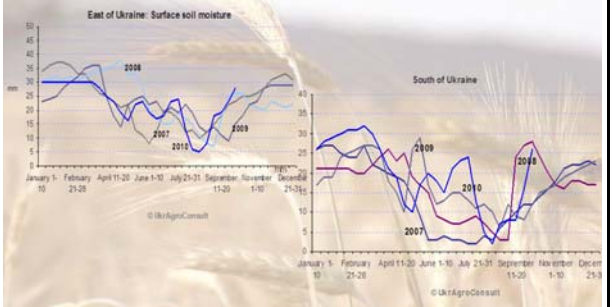
Ukraine : Frosts risks are much lower than risks of summer drought

- 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 - droughty like weather in Aug-Sept. About 50% of the areas were planted later the best time

Conclusions

- **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**

Ukraine: Soil moisture content, 2010



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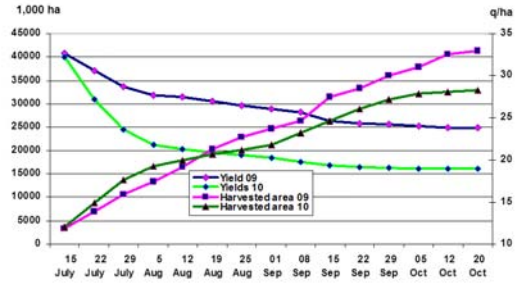
Cereal markets in Russia

Andrey Sizov (SOVECON, Russia)

Outlook for Russia's grain market in 2010/11

Dr Andrey Sizov
SovEcon
http://www.sovecon.ru
Phone (+7-499) 129-80-27

Pic.1. Russia: Grain harvest progress in 2009 и 2010



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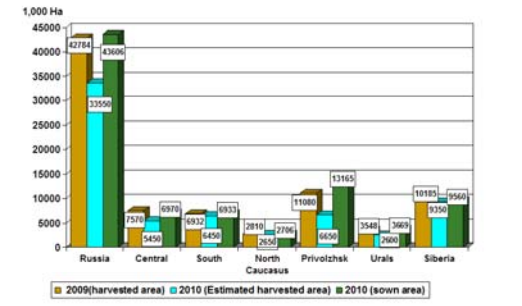
Pic. 2. Estimates for harvested grain area by major producing regions



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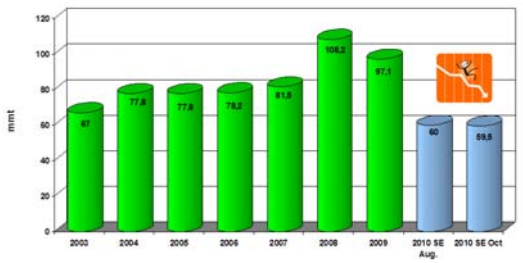
Pic. 3. SovEcon's forecast for Russia's grain production in 2010



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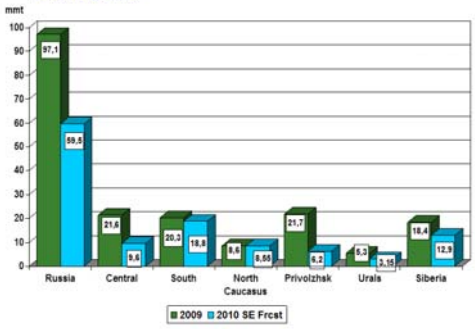
Pic. 4. SovEcon's forecast for Russia's grain production in 2010 by main producing areas



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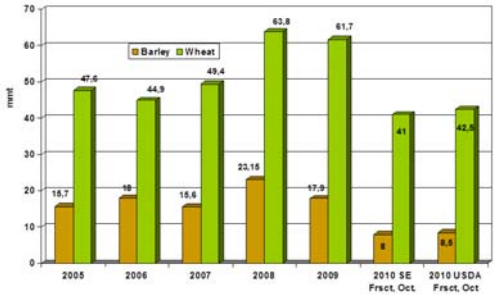
Pic. 5. SovEcon's and USDA forecasts for Russia's wheat and barley production in 2010



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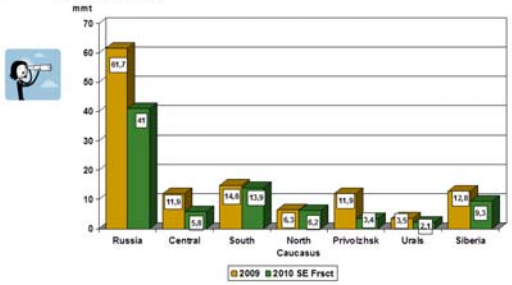
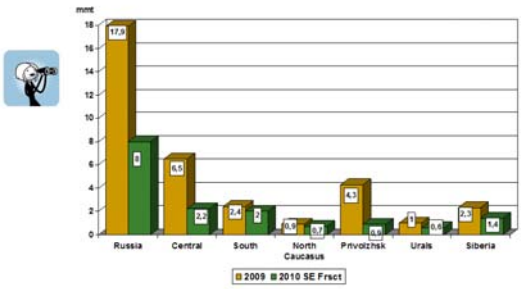
Pic. 6. SovEcon's forecast for Russia's wheat production in 2010 by main producing areas



Pic. 7. SovEcon's forecast for Russia's barley production in 2010 by main producing areas



Pic.8. SovEcon's forecast for Russia's grain SD balance in 2010/11 (MMT)

	2007/08	2008/09	2009/10 Est.	2010/11 Frcst Aug.	2010/11 Frcst Oct.
Supplies					
Beginning stocks	8,3	7,85	19,65	20,2	20,2
Intervention stocks	1,45	0,2	8,25	9,5	9,5
Market stocks	6,85	7,65	11,4	10,7	10,7
Production	81,8	108,2	97,1	60,0	59,5
Imports*	1,1	0,6	0,35	6,0	3,5
Total	91,2	116,65	117,1	86,2	83,2
Consumption					
Domestic	70,0	73,5	75,0	75,0	72,5
Exports*	13,35	23,5	21,9	3,8	3,8
Total	83,35	97,0	96,9	78,8	76,3
Intervention purchases	-	8,05	1,75	-	-
Ending stocks	7,85	19,65	20,2	7,4	6,9
Intervention stocks	0,2	8,25	9,5	3,0	3,0
Market stocks	7,65	11,4	10,7	4,4	3,9

*- *including wheat flour grain equivalent*

Pic.9. SovEcon's forecast for Russia's wheat SD balance in 2010/11 (MMT)

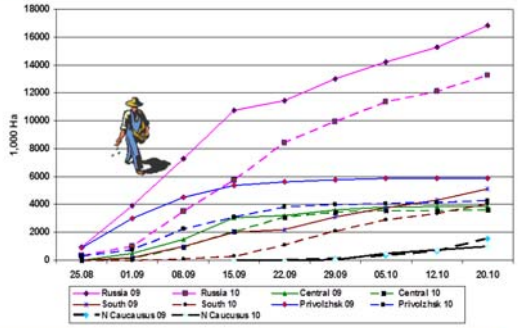
	2007/08	2008/09	2009/10 Est.	2010/11 Frcst Aug.	2010/11 Frcst Oct.
Supplies					
Beginning stocks	4,45	4,6	10,35	13,0	13,0
Intervention stocks	1,4	0,15	6,35	7,75	7,75
Market stocks	3,05	4,45	4,0	5,25	5,25
Production	49,4	63,75	61,7	41,5	41,0
Imports*	0,35	0,1	0,05	1,5	1,5
Total	54,2	68,45	72,1	56,0	55,5
Consumption					
Domestic consumption	37,4	39,4	40,5	46,5	46,0
Exports*	12,2	18,7	18,6	3,3	3,3
Total	49,6	57,1	59,1	49,8	49,3
Интервенционные закупки	-	6,2	1,7	-	-
Ending stocks	4,6	10,35	13,0	6,2	5,7
Intervention purchases	0,15	6,35	7,75	3,0	2,5
Market stocks	4,45	4,00	5,25	3,2	3,2

*- *including wheat flour grain equivalent*

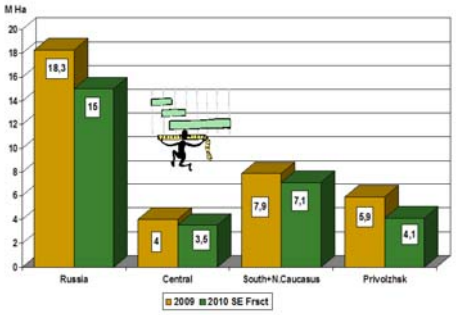
Pic.10. SovEcon's forecast for Russia's barley SD balance in 2010/11 (MMT)

	2007/08	2008/09	2009/10 Est.	2010/11 Frcst Aug.	2010/11 Frcst Oct.
Supplies					
Beginning stocks	1,45	0,5	3,65	1,8	1,8
Intervention stocks	-	-	1,3	1,3	1,3
Market stocks	1,45	0,5	2,35	0,5	0,5
Production	15,7	23,1	17,9	8,9	8,0
Imports	0,2	0,1	0,05	1,8	0,7
Total	17,35	23,65	21,6	12,5	10,5
Consumption					
Domestic consumption	15,85	16,7	17,0	11,7	9,8
Exports	1,0	3,5	2,8	0,3	0,3
Total	16,85	20,2	19,8	12,0	10,1
Intervention purchases	-	1,2	-	-	-
Ending stocks	0,5	3,65	1,8	0,5	0,4
Intervention stocks	-	1,3	1,3	0,0	0,0
Market stocks	0,5	2,35	0,5	0,5	0,4

Pic.11. Russia: winter sowing progress by main producing regions



Pic.12. SovEcon's forecast for Russia's winter grain area for the 2011 harvest by main producing regions

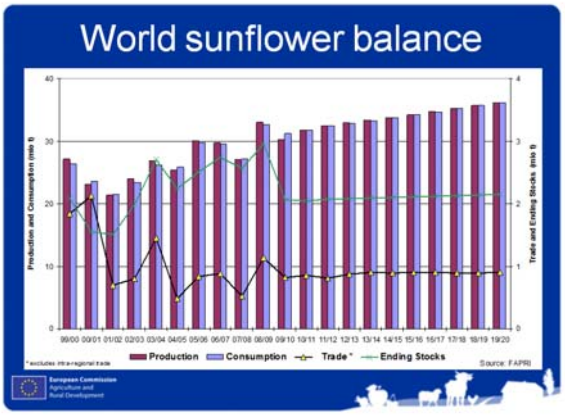


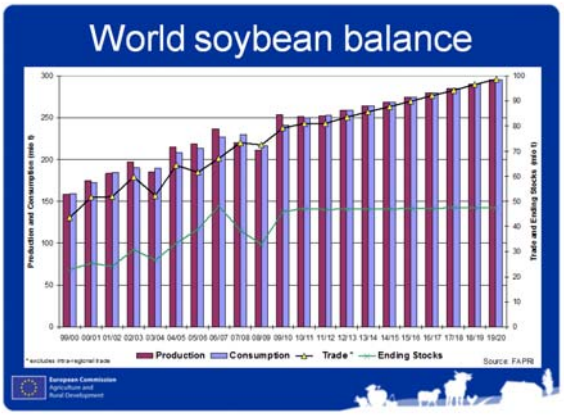
Market implications

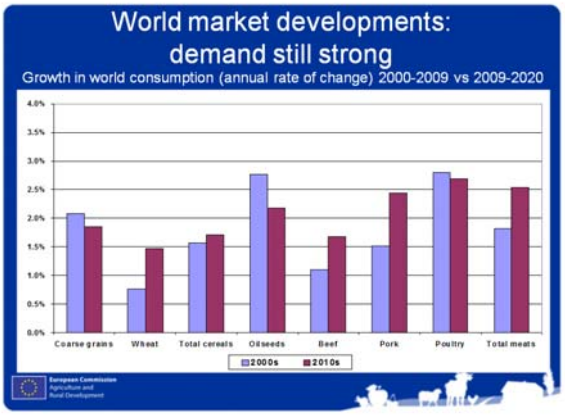
- Tight grain balance in 2010/11, despite the ban on grain exports;
- Wheat balance is seen rather comfortable but just seen. A fast growing demand for wheat, including milling wheat from feed industry;
- Barley & corn. Quite tight balance is underpinning fast growing domestic prices. Feed barley prices, which are now well above milling wheat prices, are pushing 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.

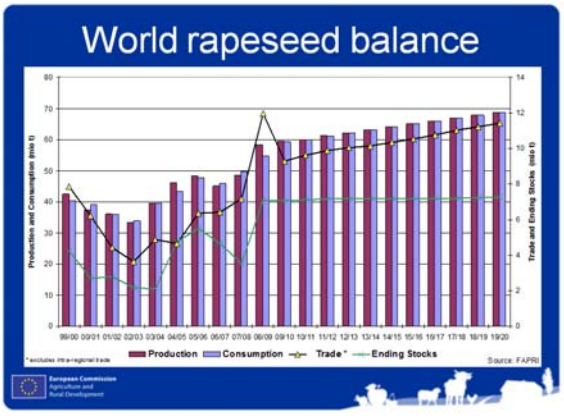
Overview on EU and world oilseeds and biofuels markets

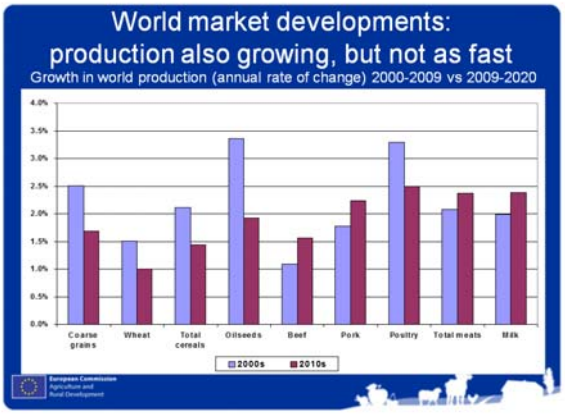
Dangiris Nekrasius (DG AGRI, Belgium)

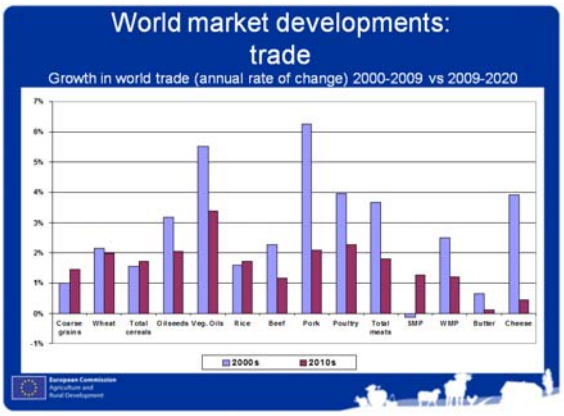


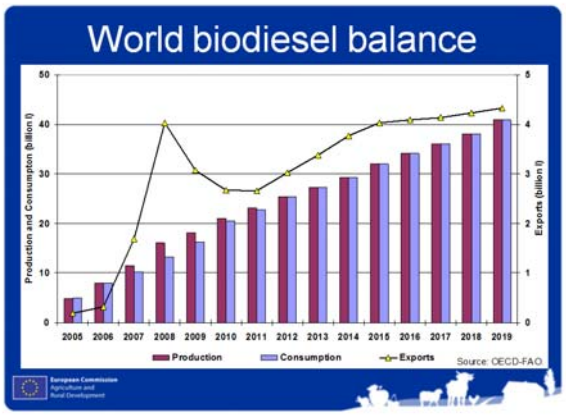


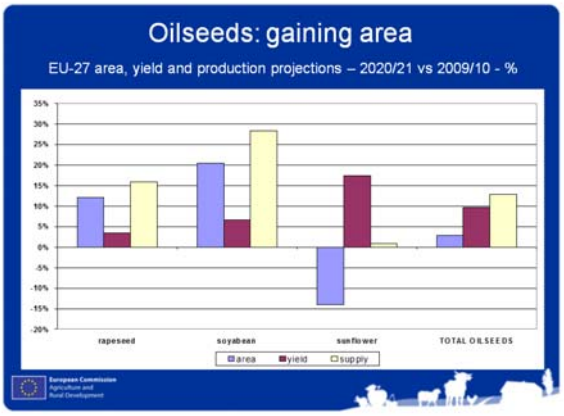


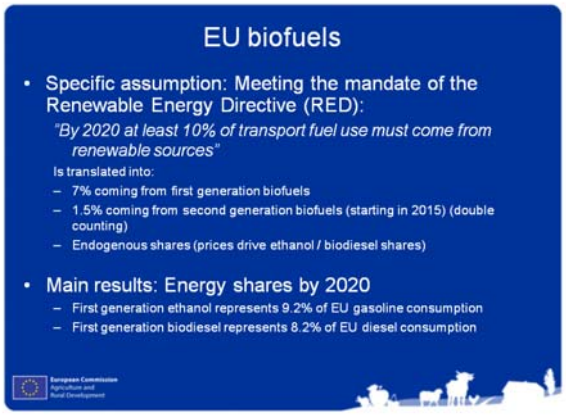


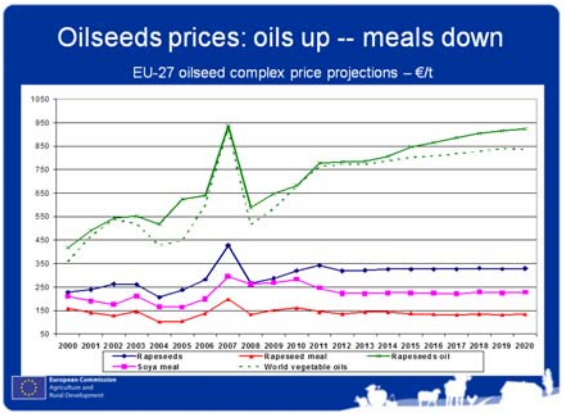


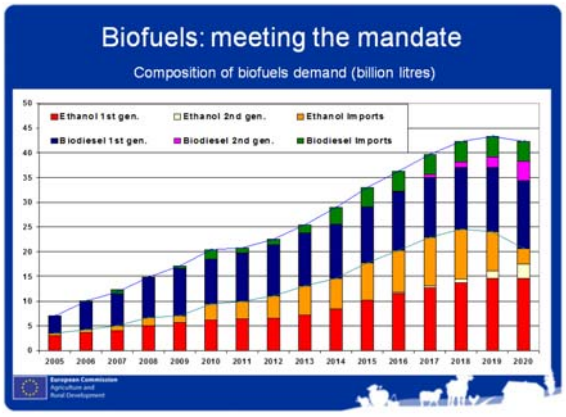

World market developments: trade
Growth in world trade (annual rate of change) 2000-2009 vs 2009-2020
Coarse grains
Wheat
Total cereals
Oilseeds
Veg. Oils
Rice
Beef
Pork
Poultry
Total meats
SMP
WMP
Butter
Cheese
2000s
2010s

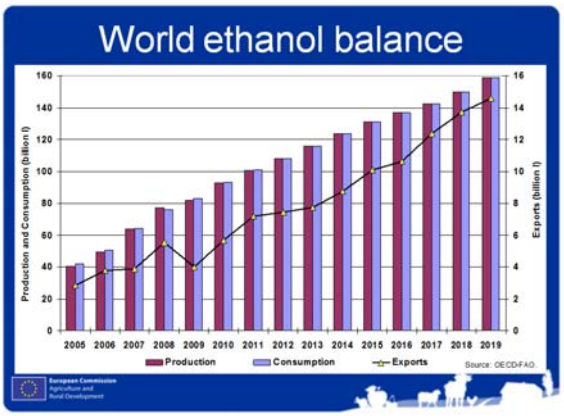

World biodiesel balance
Production and Consumption (billion l)
Exports (billion l)
Production
Consumption
Exports
Source: OECD-FAO

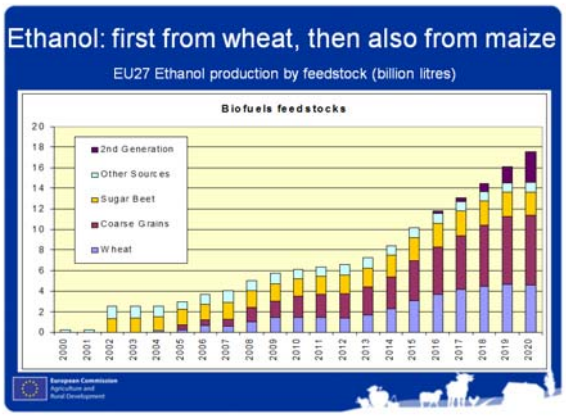

Oilseeds: gaining area
EU-27 area, yield and production projections – 2020/21 vs 2009/10 - %
rapeseed
soyabean
sunflower
TOTAL OILSEEDS
area
yield
supply


EU biofuels
• Specific assumption: Meeting the mandate of the Renewable Energy Directive (RED):
"By 2020 at least 10% of transport fuel use must come from renewable sources"
Is translated into:
– 7% coming from first generation biofuels
– 1.5% coming from second generation biofuels (starting in 2015) (double counting)
– Endogenous shares (prices drive ethanol / biodiesel shares)
• Main results: Energy shares by 2020
– First generation ethanol represents 9.2% of EU gasoline consumption
– First generation biodiesel represents 8.2% of EU diesel consumption


Oilseeds prices: oils up -- meals down
EU-27 oilseed complex price projections – €/t
Rapeseeds
Rapeseed meal
Rapeseeds oil
Soya meal
World vegetable oils

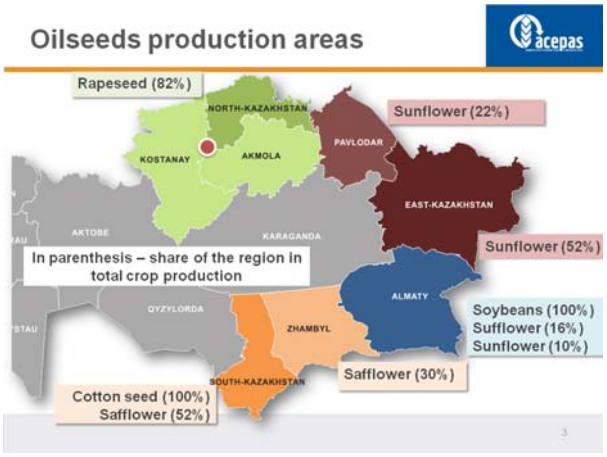

Biofuels: meeting the mandate
Composition of biofuels demand (billion litres)
Ethanol 1st gen.
Ethanol 2nd gen.
Ethanol Imports
Biodiesel 1st gen.
Biodiesel 2nd gen.
Biodiesel Imports

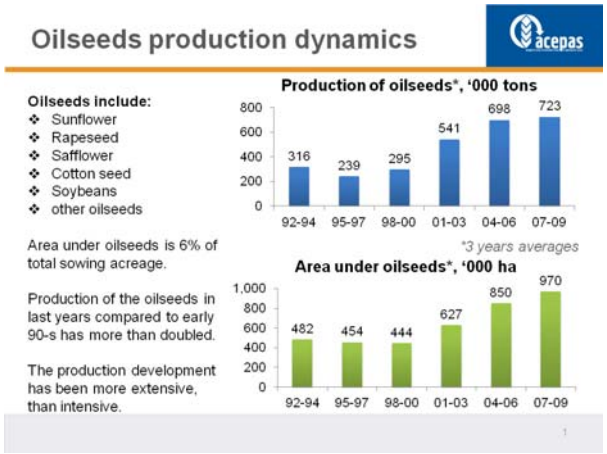

World ethanol balance
Production and Consumption (billion l)
Exports (billion l)
Production
Consumption
Exports
Source: OECD-FAO

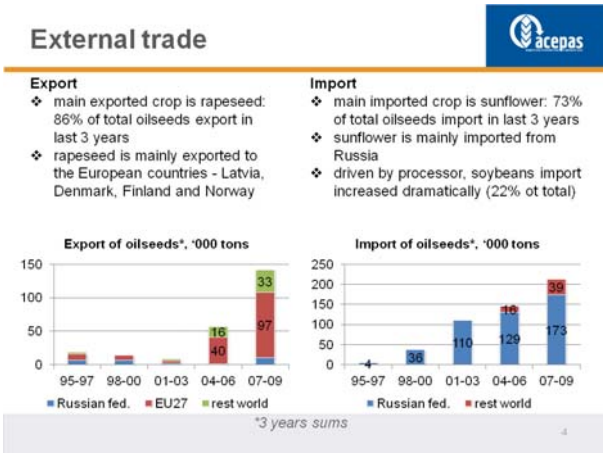

Ethanol: first from wheat, then also from maize
EU27 Ethanol production by feedstock (billion litres)
Biofuels feedstocks
2nd Generation
Other Sources
Sugar Beet
Coarse Grains
Wheat

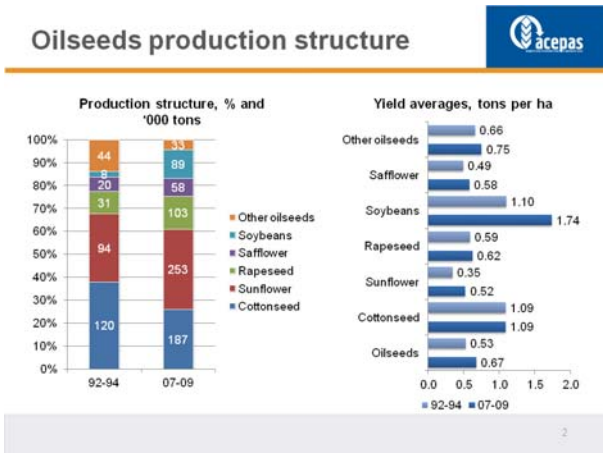
Oilseeds markets in Kazakhstan

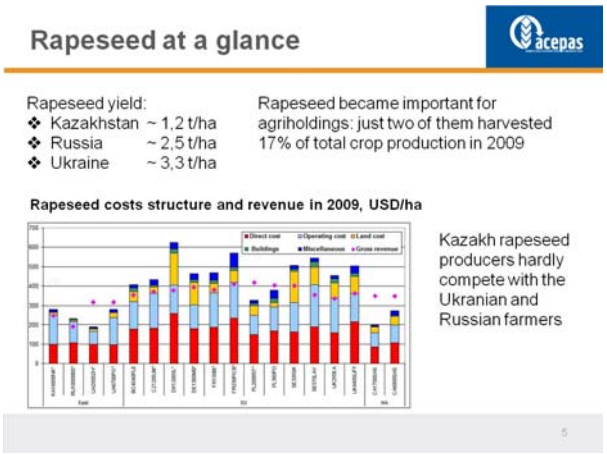
Dauren Oshakbayev (ACEPAS, Kazakhstan)











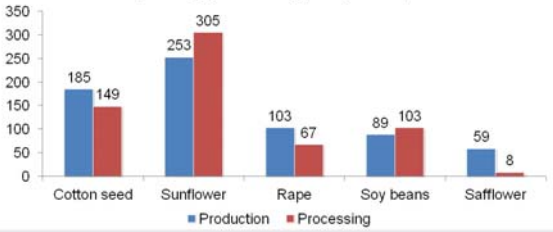
Oilseeds processing

- 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 Savola 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 22,6%
- 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

Oilseeds processing

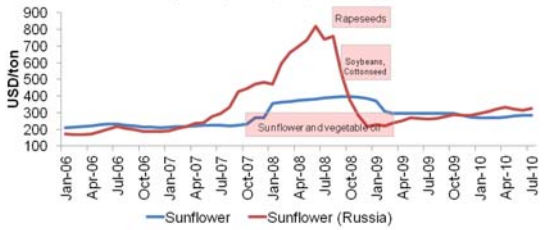
Domestic oil extraction plants process 92% of the oilseeds

07-09 average oilseeds production and estimated consumption by processing companies, '000 tons



Policy: case of prices

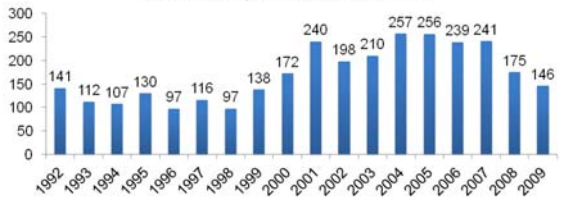
Sunflower price (farmgate) and export bans



- Sunflower seeds and oil export ban: October 2007 - April 2009
- Rapeseed, cotton seed/oil and soybeans export ban: October 2008 – April 2009

Policy: case of cotton

Cottonseed production, '000 tons



- Cotton price = (quality coefficient) * (Liverpool price) – transportation
- In 2007, law "On the development of the cotton industry" has restricted cotton-processing plants to procure raw cotton

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, safflower is the most unpretentious crop, but it suffers from diseases and pests
- Soybeans is cultivated on irrigated land, which is very limited

Oilseeds and biofuels markets in Ukraine

Alina Fedyay (Bunge, Ukraine)

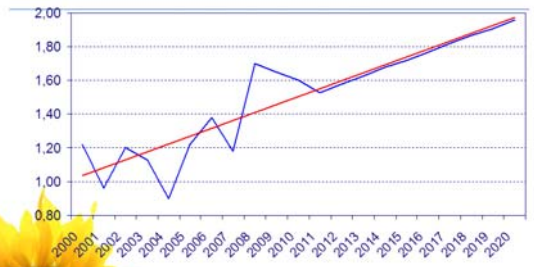
Oilseeds and biofuel markets in Ukraine

Kiev, October 2010

BUNGE

1

Sunseed yield trend based on 2000-10 history



Sunseed yield ranged from 0.9 mt/ha to 1.7 mt/ha over the last 10 years, but general trend is buoyant

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Ukrainian main oilseeds

sunseed | rapeseed | soybean

BUNGE

Sunseed crop forecast – dipping into the future

Crop year	2009/10	2010/11	2015/16	2020/21
Carry in	*60*	*72*	*46*	*52*
Harvested area	**4350**	**4550**	**4350**	**4250**
Yield	**1.65**	**1.60**	**1.72**	**1.96**
Production	**7178**	**7280**	**7482**	**8330**
Import	*7*	*7*	*7*	*7*
Total Supply	*7245*	*7359*	*7532*	*8395*
Export	**353**	**328**	**250**	**200**
Domestic (Crush)	**6760**	**6925**	**7170**	**8100**
Domestic (Non-Crush)	*60*	*60*	*60*	*60*
Total Demand	*7173*	*7313*	*7480*	*8360*
Ending Stocks	*72*	*46*	*52*	*35*

We expect 3% increase in sunseed crop till 2015 and 14% till 2020

BUNGE

Sunseed crop forecast – dipping into the future

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+8% +23%

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Ukrainian crushing industry is highly competitive

BUNGE

Crush capacity/crop deficit

Average usage of capacities is estimated at 92-95%

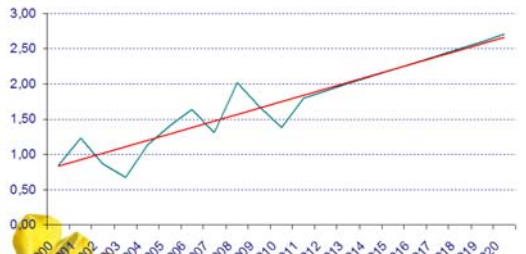
BUNGE

Total oilseeds – dipping into the future

Crop year	2009/10	2010/11	2015/16	2020/21
Harvested area	6080	6395	6960	7230
Production	10002	9940	12609	15137
Export	2373	2049	4000	5250
Crushing	7490	7775	8370	9700

BUNGE

Rapeseed yield trend based on 2000-10 history



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Total oilseeds – dipping into the future

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Harvested area	6080	6395	6960	7230
Production	10002	9940	12609	15137
Export	2373	2049	4000	5250
Crushing	7490	7775	8370	9700

90% - sunseed

90% - rapeseed

BUNGE

Rapeseed crop forecast – dipping into the future

Crop year	2009/10	2010/11	2015/16	2020/21
Carry in	*17*	*35*	*29*	*67*
Harvested area	**1110**	**915**	**1630**	**1730**
Harvested,%	*72*	*60*	*88*	*89*
Yield	**1,68**	**1,38**	**2,21**	**2,70**
Production	**1870**	**1 265**	**3 600**	**4 676**
Import	*1*	*2*	*1*	*3*
Total Supply	*1887*	*1302*	*3630*	*4746*
Export	**1 757**	**1221**	**3250**	**4050**
Domestic (crush&losses+seeds)	*95*	*65*	*320*	*620*
Total Demand	*1852*	*1286*	*3570*	*4670*
Carry Out	*35*	*16*	*60*	*76*

+60% +86%

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

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Biodiesel

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

WHY?

BUNGE

Soybean crop forecast – dipping into the future

Crop year	2009/10	2010/11	2015/16	2020/21
Carry in	*44*	*9*	*45*	*37*
Harvested area	**620**	**930**	**980**	**1 250**
Yield	**1,54**	**1,50**	**1,56**	**1,70**
Production	**955**	**1 395**	**1 527**	**2 131**
Import	*1*	*1*	*1*	*1*
Supply	*1 000*	*1 405*	*1 573*	*2 170*
Export	**263**	**500**	**500**	**1 000**
Crushing	**650**	**800**	**900**	**1 000**
Seeds+losses	*78*	*105*	*115*	*145*
Demand	*991*	*1 405*	*1 515*	*2 145*
Carry Out	*9*	*0*	*58*	*25*

BUNGE

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 Ukr rapeseed as of Oct 19 was 4 100 UAH/mt

2.38 * 4100 = **9 758 UAH/mt of biodiesel**

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

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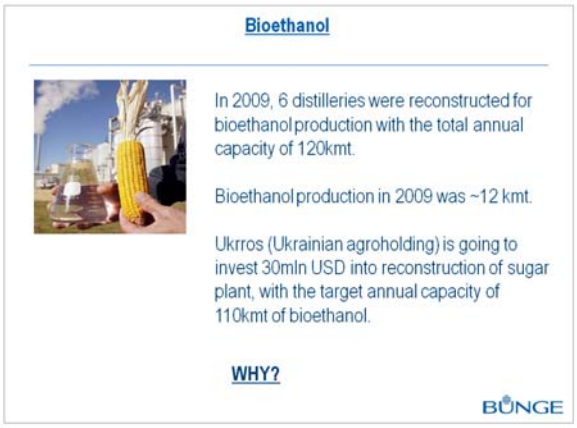
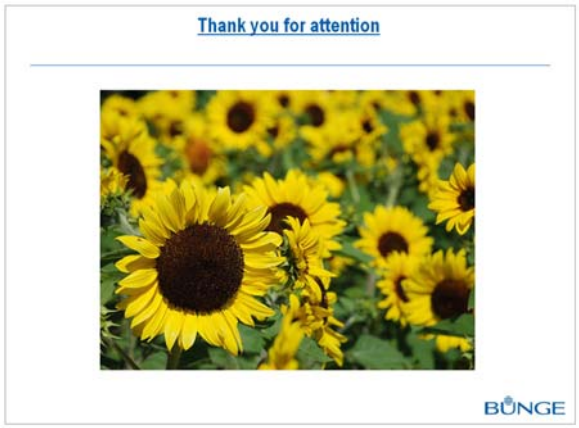
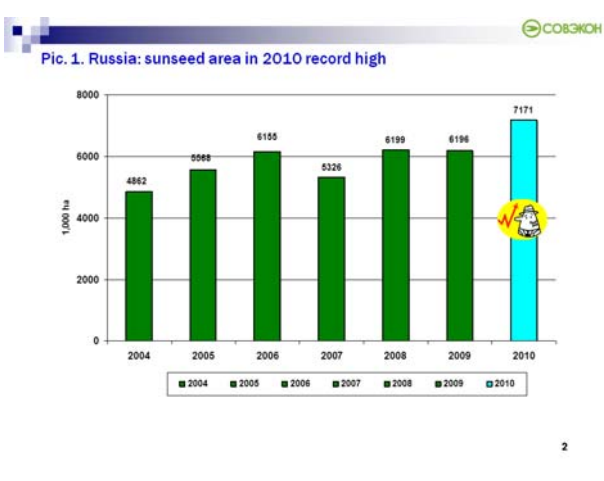




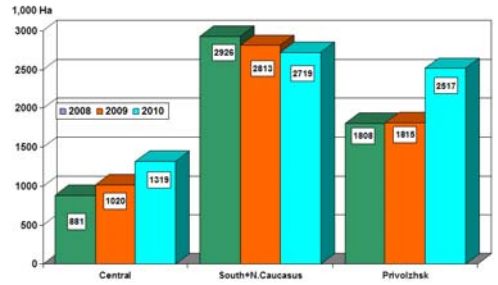
Oilseeds markets in Russia

Andrey Sizov (SOVECON, Russia)



СОВЭКОН

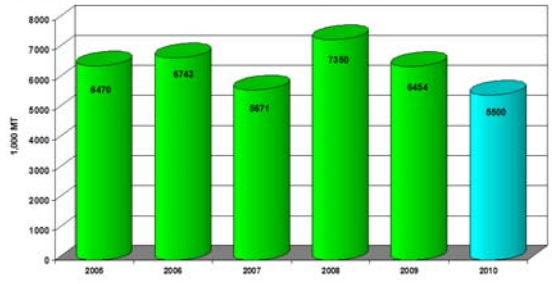
Pic. 2. Sunseed area by major producing regions



3

СОВЭКОН

Pic.3. SovEcon's forecast for Russia's sunseed output in 2010



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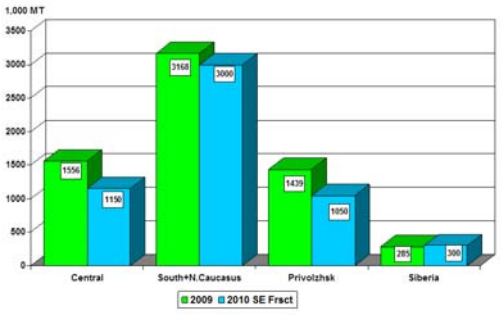
СОВЭКОН

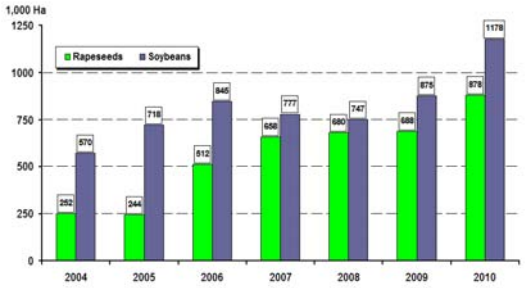
Pic. 4. SovEcon's forecast for sunseed output by major producing regions



5

СОВЭКОН

Pic. 5. Russia: Record high area sown to rapeseeds and soybeans



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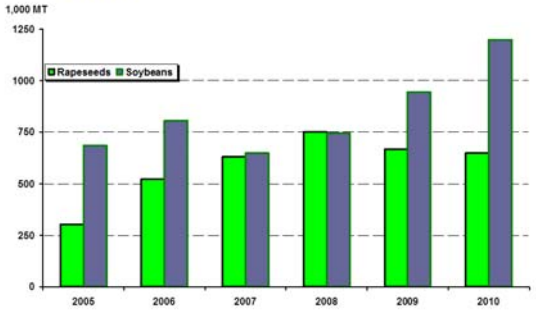
СОВЭКОН

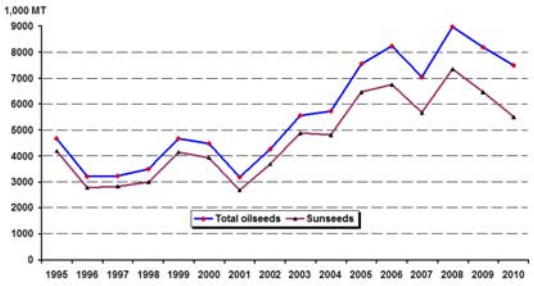
Pic.6. SovEcon's forecast for Russia's rapeseed and soybean output in 2010



7

СОВЭКОН

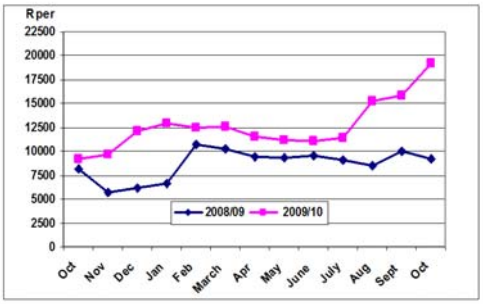
Pic.7. SovEcon's forecast for Russia's total oilseeds output in 2010



8

СОВЭКОН

Pic.8. SovEcon's sunseed price index



9

СОВЭКОН

Market Impications

- 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.

10

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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.

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