**Agrarian ball in Ukraine's own gates. Foodstuff crisis as a catalyst of ineffective governmental policy on the eve of 2005 – the year of land sale**

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Crisis o-n the foodstuff market, when prices for flour, macaroni and cereals doubled within just two weeks, became the first serious trial for Yanukovych's government. At a time when stocks had been depleted and the harvest campaign was months ahead, the government made a series of mistakes that raised eyebrows and alarmed consumers. In this situation, the Ministry of Agrarian Policy adopted the stand of an innocent bystander. Inadequate reaction of the government forced some experts o-n the agricultural market issues to discuss the crisis not o-nly from economic but also from political viewpoint – as a collusion of Kyiv officials against Donetsk politicians and intentions to ruin reputation of their representative. Though, most experts do not share the above opinion and view it o-nly as o-ne of possible consequences of the price boom o-n the foodstuffs market.

**Government Plays Silence**

The Premier came to Kyiv from Donetsk in late November 2002. In December 2002, discussion of grain imports started. According to data of press service of the Argo-Industrial Complex, in December 2002, Ukraine imported 3,000 tons of grain from Russia. However, at that time, prices for wheat remained relatively low amounting to UAH 450 per o-ne tone of the third grade grain. Vice Prime Minister Ivan Kyrylenko predicted increase of prices for grain up to UAH 650 per ton after Christmas.

The beginning of 2003 surprised consumers: after holidays, prices for buckwheat at supermarkets and in o-n the market increased almost twice – from UAH 2.50 to UAH 4.50 per kg. Several weeks later, prices for grain, flour and cereals jumped. Up to 40% of this year's winter crops have been damaged by severe winter and will have to be re-sown thereby increasing demand for last year's grain and reducing chances of a grain glut in 2003. Yanukovych's government still kept silence.

The President Leonid Kuchma ordered the Office of Attorney General to carry out investigation of the crisis o-n the foodstuff market, which marked the beginning of the so-called grain scandal. The Office of Attorney General initiated legal proceedings against former Vice Prime Minister Leonid Kozachenko accusing him of abuse of office, which inflicted losses worth UAH 1.5 billion o-n domestic producers. Meanwhile, the Office of Attorney General said nothing about involvement of Minister of Agrarian Policy Serhiy Ryzhuk and ex-Prime Minister Anatoliy Kinakh in the scandal. Analysts started to discuss a hidden agenda explaining arrest of L. Kozachenko, who could be a convenient candidate for the role of the villain in a campaign to discredit agricultural reform. More ominously though, experts both in Ukraine and abroad fear that by trumping up the alleged failure of the grain market and, by implication, market reforms in agriculture, the government is paving the way for a restoration of the corrupt and inefficient administrative command system in the sector.

So, arrest of the former Agrarian Vice Premier and 200 criminal cases launched against high ranking officials of the Agro-Industrial Complex based o-n abuse of their offices suppressed the scandal for a short while. According to I. Kyrylenko, prices for wheat stabilized at the level of UAH 750-800 per ton. Later o-n, members of the Ukrainian Grain Association said that additional UAH 100 per each ton of wheat represented an actual price for the scandal artificially fomented by state officials.

The Agrarian Minister and Vice Premier tried to abstain from giving interviews to journalists and visiting press conferences, while Premier Victor confined himself just to a few general phrases. At the same time, the government took no economic measures for saturating the Ukrainian market with wheat and foodstuffs. The summer came. Ex-Vice-Prime Minister Leonid Kozachenko, accused by the GPO of abuse of office (Article 364, Paragraph 2) and bribery in especially large amounts (Article 368, Paragraph 3), was released o-n bail under responsibility of MPs.

**Business versus Government**

Traditionally, prices for grain grow in June. That was the case in 2002 and again this summer. The o-nly difference is that now, the government understands that this year's wheat crop won't meet even a half of Ukraine's need for foodstuff grain. At his recent speech in the Verkhovna Rada, Victor Yanukovych said that in 2003, farms would gather around just three billion tons of third-grade wheat, whereas annual need of Ukraine for grain totaled seven billion tons. "In contrast to the government, wholesale traders have supply of foodstuffs bought at old prices because they monitor the sales market. Monitoring results allowed them to anticipate this year's double price increase. What did they have to do to purchase new foodstuffs? Where did they have to take money? In what banking institutions? And at what interest rate? So, they started accumulating cheap funds and increased prices."

This would not happen if wholesale grain traders could see other ways of solving the problem. For instance, if the government had huge reserves of grain and could offer it for sale. However, Ukraine's grain bins appeared almost empty. Also, the Ukrainian government could encourage grain importers. Instead, the Cabinet was discussing quotas for the so-called elite, i.e. preferences for its own importers and unfavorable conditions for the others. Yet another strategy aimed at minimization of negative consequences of the foodstuff crisis could be crediting wholesale traders at low interest rate. And again, the government took no steps. So, because of inaction of Yanukovych's government businessmen had to do nothing but force their profits at the expense of consumers.

**Price Boom o-n the Head of the Cabinet**

Now, Prime Minister Victor Yanukovych rips political consequences of the price boom. His team and law-enforcement officers are looking for the guilty parties and blame members of the previous government for the crisis o-n the foodstuff market. Just like in spring, very popular is an opinion that export of grain from Ukraine at low prices is the root of all our evils. This could have sense, if it was November and the new government was just formed.

Right after grain exporter, foodstuff traders, who used to be called profiteers under the Soviet Union, started experiencing problems. Under strong pressure of law-enforcement agencies, they had to decrease their prices, which brought them o-n the black market. The government blames not itself but the local authorities that cut off oxygen to producers, having fixed maximum prices and considerably limited their premium. So, foodstuff traders will o-nly lose floating assets and will have no money for purchasing enough new harvest grain.

Not taking into account the grain scandal initiated by high state officials, Yanukovych government actually followed the agrarian policy of the Kinakh's Cabinet. The above is confirmed by exports chronology and balance of trade of initial six months of 2003. Notwithstanding all critical remarks about foodstuff deficit, Ukraine imported nearly 450,000 tons of wheat and exported 892,300 tons as of June 1, 2003. The above figures indicate that panic o-n the foodstuff market could be avoided, if the government's policy had been clearer and more consistent.

Grain scandal gave additional fuel to the current ambiguous political situation. Experts share the opinion that some political and business groups managed to earn good money due to high demand. Following the above logic, the SDPU (U) should have profited most of all, as it knows everything about the situation o-n the agrarian market. Furthermore, some MPs from the opposition try to convince that they deliberately inflated the problem in order to decrease the rating of Victor Yanukovych. Meanwhile, the above both versions are not very correct, for 63,000 economic entities that had minimum supply of flour, cereals and sugar and profited from new prices are too many for o-ne party like the SDPU (U.)

Who and how will gain advantage of settling the current foodstuff crisis is another matter. A week or two before, the Verkhovna Rada was presented with several drafts o-n grating various privileges to entities engaged in grain transactions. MPs set a zero import duty rate for wheat and rye till November 1, 2003; and gave permission for additional foreign loan worth USD 112.5 million for funding the State Reserve's purchase of grain. The first privilege could be assessed as leveling of conditions for grain traders, since earlier o-n, import of grain from the CIS states was duty free, whereas import duty o-n grain from Western Europe amounted to EURO 40. As for the second privilege, its advantages are quite obvious: former MP and member of the SDPU (U) Mykola Pesotsky is at the head of the State Reserve now, so he will handle the loan of UAH 600 million.

Before approval of those privileges, the government granted preferential quotas for import of crude cane sugar to

companies-cronies. Now, the Verkhovna Rada nurtures the idea of exemption of grain importers from the VAT and this idea may recover in September. Hence, there are many options how to gain profit at the expense of the national budget. However, all those scenarios encourage foreign producers rather than Ukrainian farmers exhausted by weather conditions and economic problems. In short, MPs have made a decision.

And how did the government react? To stabilize the situation o-n the foodstuff market, it allocated 66,000 tons of flour and 7,000 tons of cereals to the regions from the State Reserve, is looking for others guilty and pays no attention to the long-term outlook again. As before, the government seems to ignore the problem of fodder: because of poor harvest prospect for hay and silage, cattle farms are forced to cut the cattle to prevent its starvation in winter. Today, the above entailed a great drop in purchasing prices beef and pork – up to UAH 1.20 and even UAH 0.80 per kilogram of live weight.

In winter and spring, when supply of cheap fodders is over, the meat market will grow so sharply that even the Office of Attorney General could not stop it. For the time being, executive authorities fail to calculate losses of farmers, who spent double for reseeding and will unlikely cover their losses by proceeds from sale of corn and sunflower seeds, since prices for those products are forecasted to go down.

Hence, there is a possibility that after spasmodic and ineffective efforts of the Ukrainian government to overcome the crisis, the agrarian market may face its deeper and more systemic manifestation. After the summer crisis and combating it in a pointed manner, even the most experienced agrarians and economists could understand the o-nly thing: power decided to transit from liberalization that saved agrarians in 2000 to government control and price dictation thereby driving more agrarians to the shadow economy.

**Conclusions**

Since the Cabinet is represented not o-nly by Victor Yanukovych but also by, at least, two ministers, who worked o-n the agricultural market and in the government within several years, it is interesting why they demonstrate inaction. So, who will profit from the grain and bread scandals?

No doubt, the situation is advantageous for grain importers. Moreover, weakening of Ukraine's agrarian capacity plays into Russia's hands, as Russian companies exporting grain in transit via Ukraine got free access to railroad and ports after the grain scandal.

Also, it is necessary to point out that due to rich harvests in the last two years, Ukraine took a strong position o-n the international market, which put competitors o-n their guard. o-ne of the largest grain traders commented o-n the situation as saying, "Grain export earns profit worth over USD 1 billion, which drew attention of rich people in Ukraine and Russia. The grain market is not as monopolized as the chemical or metallurgical markets. Therefore, someone wanted to steer. Those persons welcome the crisis, panic, decrease of production and curtailment of exports, which paves the way for monopolization of flour and bread branches of the Agro-Industrial Complex."

Ukrainian traders emphasize that due to coincidence, the Russian Roskhlebproduckt, which owns more than o-ne hundred grain elevators in Russia and with which no Ukrainian company can stand comparison, has entered Ukraine's grain market recently. Given the situation, those guys will have more than enough bread.

Hence, the current government's policy will entail additional losses of farmers, who did not profit from weather conditions. Farms will grow poor. Meanwhile, the time for land sale/purchase, i.e. January 1, 2005, is nearing. Those people, who will sow the 2004 crop this fall and earn profit in 2004, will handle funds and land in 2005. Therefore, the weaker farms are in the next season, the more profits those people will earn. Hence, the grain crisis inflamed to the size of the national catastrophe is rather a result of certain actions aimed at weakening farmers o-n the eve of land sale than a trivial deficit caused by unfavorable weather conditions.