



USDA Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Template Version 2.09

Voluntary Report - public distribution

Date: 6/10/2005

GAIN Report Number: UP5011

Ukraine

Grain and Feed

Ukraine introduces minimum prices on grains in MY 2005/2006

2005

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Report Highlights:

The GOU announced minimum prices for wheat, barley, corn, rye and oats for MY 2005/2006. Uncertainty over grain market interventions and minimum price enforcement could negatively affect grain exports during the period after harvest for the next marketing year.

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

Executive Summary

The Government of Ukraine (GOU) has proceeded with implementing the controversial Law on State Support of Agriculture in Ukraine (the Law) despite earlier declarations that all WTO inconsistent provisions would be amended. Minimum price levels that have been announced in the media exceed expected market prices. Considering the state budget has inadequate funding for an effective market intervention, the GOU may decide to implement strict administrative price controls to enforce minimum prices. Uncertainly over grain market interventions and minimum price enforcement could result in grain traders delaying purchases by two-to-three months after the harvest this year. Such a delay could have a negative effect because Ukraine will miss a narrow window of opportunity to supply grain to the world market.

Product Coverage for MY 2005/2006

On May 26, 2005, the GOU approved the methodology for calculating minimum prices for wheat, barley, rye and oats for marketing year (MY) 2005/2006 (July 2005-June 2006) and for corn and sunflower seed (September 2005-August 2006). The GOU decided not to establish minimum prices for wheat flour, soybeans, flax seed, and rapeseed in MY 2005/2006, the other commodities regulated by the Law.

Methodology

The resolution authorizes the Ministry of Agricultural Policy (MAPU) to calculate minimum prices based on information provided by the State Statistics Committee of Ukraine (SSCU). Two formulas will be applied for calculating minimum prices – one for commodities that are officially profitable and the other for commodities that are not profitable.

For profitable commodities, the minimum price will be calculated using the average price for the past five years adjusted for inflation (consumer price index) and then adjusted for expected inflation in the year the calculation is made. This formula will apply to calculating minimum prices for wheat, barley, rye, corn and sunflower seed.

The minimum price for commodities that have not been profitable must be calculated by multiplying the average cost of production by a 5 percent rate of return and then by a forecasted production cost index for the year the calculation is made. This formula will be used to calculate the minimum price of oats.

Announcement of Minimum Prices

The law requires that minimum prices be announced no later than 30 days prior to the beginning of the marketing year (i.e. no later than June 1 for wheat, barley, rye and oats). As of today, there has been no official statement announcing minimum prices. Minister of Agricultural Policy, Olexander Baranivskyi, announced some prices on June 1 during an interview on Inter TV Channel. Although minimum prices have not been officially released, information has leaked out through the media that suggest prices will be set at artificially high levels.

The following information on minimum prices was published by one of the Ukrainian agricultural news and analytical agencies (prices per 1 MT):

Soft wheat, 3rd class (min 12% protein) – UAH 690 (\$136)
Soft wheat 4th class (min 11% protein) - UAH 540 (\$107)
Soft wheat 6th class (feed-quality wheat)- UAH 490 (\$97)

Rye - UAH 330-550 depending on quality (\$65-109)

Feed Quality Barley - UAH 390-420 depending on quality (\$77-83)

Malting Quality Barley – UAH 490-600 depending on quality (\$97-119)

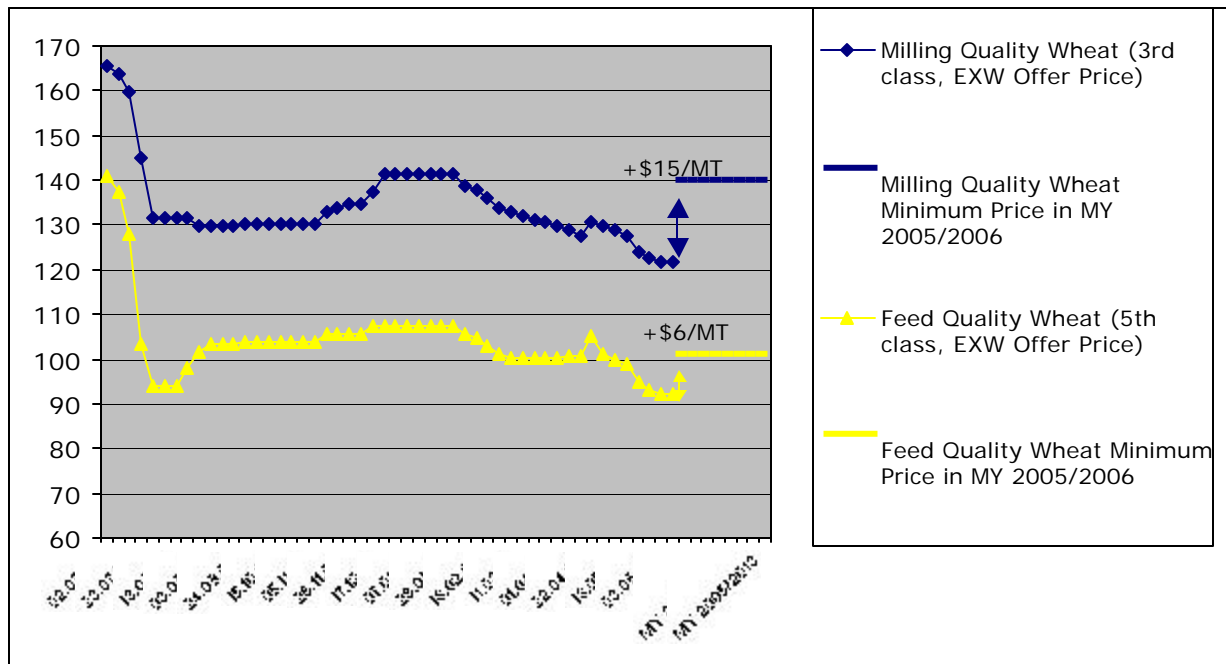
Corn – UAH 450-550 depending on quality (\$89-109)

Oats – UAH 550-630 depending on quality (\$109-125)

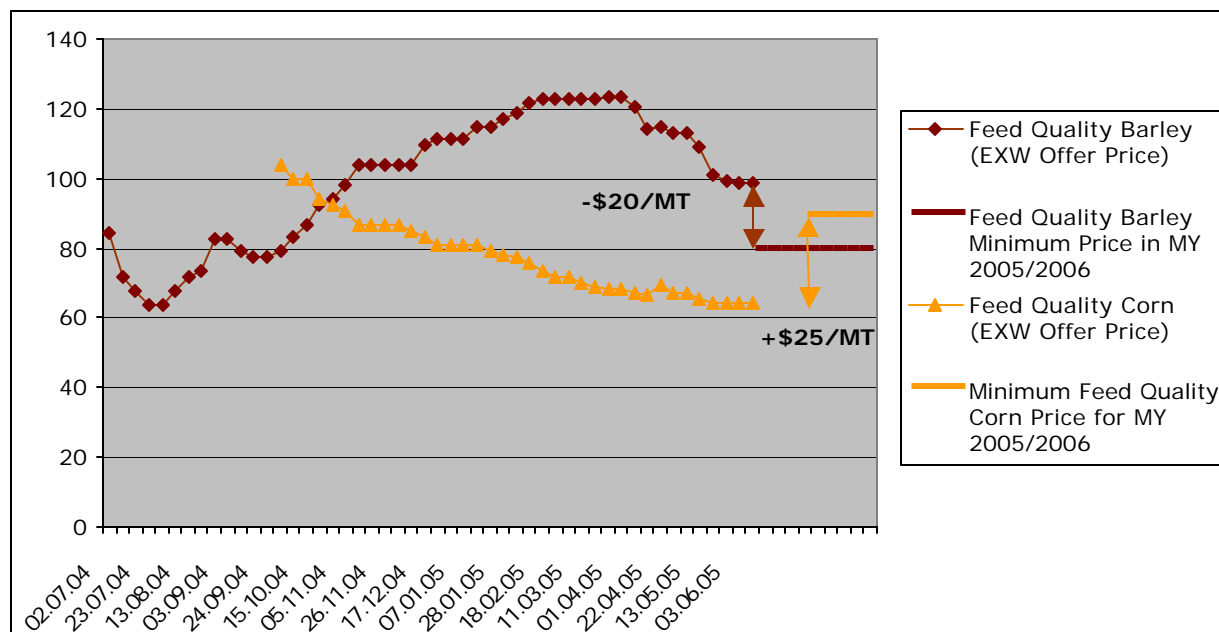
Mr. Ivan Tomych, Chairman of the Verkhovna Rada's Committee for Agricultural Policy and Land Relations, criticized the government for announcing, what he considers, low minimum grain prices. He indicated that the minimum price should have been set at UAH 794 per metric ton for 3rd class wheat considering increased costs for diesel fuel and mineral fertilizers. Mr. Tomych, who was seriously considered for Minister of Agricultural Policy in the new Ukrainian government, also chairs the Association of Private Farmers of Ukraine.

Conversely, the Ukrainian grain trading industry believes prices are set too high. The GOU has claimed its minimum price for the next marketing year will be at least 11% higher than the current price for milling quality wheat. FAS-Kiev sources in the grain trading industry claim they will not purchase wheat at "\$20 above the market price". The price for 3rd class wheat has recently hit UAH 615 per ton (EXW) and is expected to continue falling after the new harvest arrives in July. Barley is the only commodity that would not likely fall under minimum price regulation in MY 2005/2006 due to higher market prices as compared with the minimum price level. The following graphs show price trends for wheat, barley and corn as compared with the level of minimum prices set for MY 2005/2006.

Comparison of Minimum Wheat Prices with Market Prices



Comparison of Barley and Corn Minimum Prices with Market Prices



Administrative Enforcement vs. Market Intervention?

It is not clear how much the GOU is willing to spend on grain market interventions this year. The Parliament of Ukraine approved only UAH 8 million (\$1.6 million) in the 2005 State Budget to create the Agricultural Fund, the GOU entity that will be responsible for grain market interventions. No other funding has been assigned in the budget specifically for this purpose. Most analysts agree that the government will not be able to spend more than UAH 100-200 million (\$19.8-39.6 million) from its reserve fund for the purpose of grain market interventions during the period of July 1-December 31, 2005. This amount would allow purchases of only an estimated 150,000-300,000 tons of milling wheat out of nearly 17 million ton production in 2005. Therefore, it is highly unlikely that the GOU will be able to conduct an effective market intervention.

Statements already made by Minister Baranivskiy regarding possible GOU actions to support minimum prices are worrisome. He promised to use sanctions against those who sell grain below the minimum price – a wrong signal for all market players. Considering the lack of government funds, the scenario of administrative enforcement of minimum grain prices is real.

Possible Impact on Grain Exports

FAS Kiev does not recommend changing current USDA export estimates for Ukraine in MY 2005/2006 at this point. Historically, Ukraine has had no problems with exporting grain in excess of domestic consumption. Uncertainly over grain market interventions and minimum price enforcement could result in grain traders delaying purchases by two or three months following the harvest this year and consequently delaying export shipments. Such a delay could have a negative effect because Ukraine will miss a narrow window of opportunity to supply grain to the world market.