
Canada - Ukraine Grain Project

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I work for Canada-Ukraine Grain Project as Coordinator. In my presentation I would want to inform you about farming in Ukraine, land reformation processes, legislative base for the grain market functioning, development of the grain market and the present situation at the Ukrainian grain market, and touched upon the informational systems support the domestic farmers, challenges farmers are facing with and shortly inform you about the activities of Canada-Ukraine Grain Project.

General information about farming in the Ukraine

According to the data provided by the State Statistics Committee there are 61,178 agricultural enterprises of different organizational and legal types of business in Ukraine. The most prevalent types of farming in Ukraine are: private farms and corporate farms (limited liabilities agricultural companies, industrial cooperatives), and comparatively small amount of state owned agricultural enterprise.



Sown area for agricultural crops definitely declined since 1990 (32,406,000 ha) to 27,539,000 ha in 2002. As for the structure of the sown area for agricultural crops it is necessary to mention that it has changed as well. In 1990 the structure was the following: 45% of the arable land was sown to grain crops, 37% - feed crops, 11.6% - technical crops, 6.4% - vegetables.

In 2002 it is evident that farmers started to pay more attention to marketable crops, so the structure of sown area for agricultural crops became the following: 56.1% was sown to the grain crops, 21.3% - feed crops, 14.8% - technical crops, 7.8% - vegetables.

The territory of Ukraine, by its land and climatic conditions, can be divided into three zones: marshy woodlands, forest-steppe and flat lands.

Each zone has its peculiarities regarding the farming.

Land reformation in the Ukraine

The first steps towards the reformation of the agricultural sector were made in December 1990 by the adoption of the Decree "About land reform". At the same time the Land Code of Ukrainian Republic was adopted as well. That year the Law of Ukraine "About rural (farm) enterprises*" was adopted. Within the next two years the whole range of laws was worked out and adopted. In general these laws became a background for the reformation of the land and industrial relations in agrarian sector. Such laws were adopted: law of Ukraine "About entrepreneurship" (07.02.1991), law of Ukraine "About property" (7.02.1991), law of Ukraine "About entrepreneurial activities in Ukraine" (27.03.1991), law of Ukraine "About collective agricultural enterprise" (14.02.1992), law of Ukraine "About economic entities" (19.09.1992).

These decrees and laws initiated the process of privatizing, land parceling in agrarian enterprises and creation of collective agricultural corporate enterprise on the base of state owned agricultural enterprises. This was the first step towards the reformation of the agrarian sector.

New impulse and further development of land relations was made by the adoption of the law of Ukraine "About forms of the land ownership" which was adopted in January 1992 by Parliament of Ukraine. Three forms on land ownership were proclaimed: state, collective (corporate), private. Then on March 1992 new Land Code was adopted. This Land Code strengthened the already adopted three forms on land ownership, defined main measures regarding the land privatization, conditions and the rules of land transfer into usage and ownership. The Decree of Ukraine "About fastening of the land reformation processes and land privatization" which was adopted in 1992 as well, identified measures and tasks regarding the further development of land reforms. Since the Decree adopted the mass process of agricultural lands transfer into collective and private ownership started. By this the state monopoly on land was stopped. Another important and in time Decree was adopted by President in November 1994, "About regulations of land sharing which was transferred into the corporate ownership". According to the Decree, co-owners of land which is in the corporate ownership have to obtain the certificates which prove their rights on the land share. President's Decree "About urgent measures on agrarian sector reformation" which was adopted in 1999 was the finalization of the current stage of the land reformation process. It is necessary to notice that this Decree carried more administrative and political features but was the determining factor in fulfilling organizational measures on further reformation promotion. The process of land sharing and privatization was not smooth and easy but it is necessary to mention that the Decrees and Laws adopted were rather progressive by nature. Further development of the land reformation issues indicated that the whole range of the questions were impossible to solve in the frames of the existed Land Code. So the Land Code was revised and in October 2001 new Land Code was adopted. Some articles of the new Land Code greatly changed the legislation regarding the land ownership. For the first time not only private people but also legal entities gained rights on land private ownership. The corporate ownership on land was eliminated. Non residents according to the new Land Code obtained rights on purchasing of non agricultural lands.



Legislative base for the grain market functioning

After the Soviet Union break down, the Ukraine inherited the old system of the agrarian market functioning. Mostly the system of agricultural marketing was based on the state order, especially the system of the grain selling. This means that agricultural producers had to sell their grain to the state agents at prices determined by the state. Up to 1999 the scheme of commodity barter was very popular in Ukrainian agricultural marketing system. This negatively influenced the development of the civilized agricultural market because of many reasons.

After 1999, the situation on the agricultural market started to stabilize, inflation rate became lower, national currency got firmly established, and the volume of barter operations decreased. All these changes became a reason for the further development of the legitimate food market development in Ukraine.

In June 2000 President of Ukraine adopted a Decree “About immediate measures on stimulating of the production and development of the grain market”. This Decree formulates main concepts of the new state policy in sphere of grain market development. Further on January 2001 the Ministry of Agrarian Policy adopted the program “Grain of Ukraine 2001-2004”. This program foresees the main directions of complex measures regarding the grain branch development and measures which effect the enlargement of the grain production volumes.

One of the most important legislative acts which will influence on the formation and development of the domestic grain market is the Law of Ukraine “About grain and grain market in Ukraine”. The law was adopted in July 2002. This law regulates the relations regarding the grain supply, storage and market circulation. The most obvious innovation is the declaration of the warehouses documents circulation (simple and double



warehouses certificates and warehouses receipts). This creates additional opportunities for more effective market based circulation of grain. Within the last couple of years the legislation regarding the grain market functioning develops very rapidly. But still there are many drafts of laws and decrees have to be processed and adopted by the Ukrainian government. Such as: draft of law about simple and double warehouses certificates, technical rules on warehouses certification, draft of law on land market etc.

All these factors show that the agricultural industry and its legal regulation are developing very actively and carry a positive character.

Development of the grain market in the Ukraine

The last two marketing seasons (2001/2002, 2002/2003) were quite successful for the Ukraine from the grain business point of view. Grain gross harvest was the biggest during the last eight years. This made an impulse for active development of the grain trade, internal consumption. The export infrastructure started to develop rapidly. During this period Ukraine became rather valuable market player due to the high gross harvest, development of the export infrastructure and favorable state of the world grain market.

In 2002 Ukraine produced 38,792,000 tons of grain, average yield was 2.72 ton per ha. It is a bit less than in 2001 (39,671,000 tons). Area seeded with grain crops decreased from 14,648,000 ha in 2001 down to 14,246,000 ha in 2002. Weather conditions influenced and caused some losses that period.

In 2002/2003 marketing year Ukraine exported almost 11 m tons. This was the biggest amount exported since the Ukraine gained independence. At the same time Ukraine enlarged the geography of the grain export. The Ukraine started to sale grain to EU countries, USA, Canada. Ukrainian grain was supplied to South-East Asia, South Africa and Japan.

The structure of the Ukrainian export in 2002/2003 marketing year was: 60% wheat, 26.9% - barley, 7.9% - corn, 2.6% - rye, 1.5% - peas, 0.2% - others.

In 2002/2003 the domestic consumption of grain was equal to 29.6 m tons. It is 2.3 m tons more then in 2001/2002. The structure of the domestic consumption of grain in 2002/2003 was following: feed purposes - 18.1 m tons, milling purposes - 5.7 m tons, for seeding - 3.1 m tons, losses - 1.5 m tons, others - 1.3 m tons.

Unfavorable weather conditions in winter, when around 62% of all winter grains were damaged, late spring and summer drought negatively influenced on the last year yield and certainly on the general situation at the Ukrainian grain market. According to the State Statistics Committee the gross harvest of grain in 2003 was around 20 m tons (as of November 2003).

Informational system supports the farmers

Actually, the informational system which supports the farmers in Ukraine is not as developed as it is in Canada or EU countries. This system is still at the stage of development. One and very big progress was made in this respect is the creation of the National Association of the Agricultural Extension Services in Ukraine. On the base of the Association the National Training Center was created. This center has 25 local representations in 24 regions of Ukraine. This center was created due to the state funding, profit that they are making due to the consumption of their services. Also this extension service training center collaborates with the international technical assistance projects.

The main task of the Training Center and the net of extension services local centers is to facilitate the increase of rural population level of life, provide educational and informational support of agricultural producers, development of rural business undertakings and solving of problem of unemployment in rural areas.



Activities of Canada-Ukraine Grain Project

The main task of the Canada-Ukraine Grain Project is to support Ukrainian institutions in their efforts to: improve the reliability and consistency of Ukraine's grain quality assurance system; improve the price discovery mechanisms and the transparency of the grain market; improve the operations of commodity exchanges through introduction of modern trade technologies; improve access and institutional capabilities in the area of agricultural credits and market systems leading to an overall increase in liquidity in the agricultural sector, strengthen competitiveness and increase farm incomes; stimulate and reinforce private initiative throughout the process of agrarian reform.

The Canada-Ukraine Grain Project is funded by the Canadian government through the Canadian International Development Agency. The project is implemented by the Canadian Grain Commission, CanEd International Inc, Meyers Norris Penny LLP. The major Ukrainian partners are Ministry of Agricultural Policy, Central State Inspection on Quality and Certification of Agricultural Products, commodity exchange "Ukrainian Futures Commodity Exchange", Ukrainian Grain Association, State Enterprise "State Registers of Ukraine", grain producing companies, grain trading the processing companies, banks and credit unions, insurance companies, other GOs and NGOs which are interested in the development of the grain sector in Ukraine.

The Project provides technical assistance in three components: Rural Credit Systems Component; Grain Quality Assurance Component; Commodity Exchanges Component.

1. Rural Credit Systems Component

This component is focusing on: supporting the practical implementation and circulation of warehouse certificates and the introduction of a Ukrainian warehouse certificate collateral based credit system; developing and delivering training program on warehouse certificates and a Ukrainian rural credit system; developing criteria for certifying grain warehouses with State Registers of Ukraine.

2. Grain Quality Assurance Component

The Canada-Ukraine Grain Project is focusing on preparation of recommendations with regard to accreditation of the leading Ukrainian laboratories in international standards, delivery of training for the specialists in grain quality determination laboratories, preparation of the related to the grain quality assurance methodological materials, analysis of existing Ukrainian grain standards and provision of the practical assistance in all areas of grain quality.

3. Commodity Exchanges Component

Activities are implemented with the participation of the Ukrainian Futures Commodity Exchange and commodity exchanges located in targeted regions.

The project will analyze existing Ukrainian legislation regarding commodity derivatives and their circulation and will prepare proposals for its improvement; develop rules of commodity exchange trade and commodity exchange arbitration at the Ukrainian Futures Commodity Exchange; participate in preparation of rules for clearing house operations to handle commodity derivatives circulation; consult on the development of software for handling circulation of commodity derivatives.

The Project expertise is also focused on improvement of the commodity exchanges activities at the targeted regions.

* There are two types of agricultural legal entities in Ukraine: farms and corporate agricultural enterprises.