Grain Trade Policy

August 20, 2004

Ukraine

Summary

Ukraine is a net grain exporter (mainly wheat, barley and corn). Most of the grain exported from Ukraine is destined for the Middle East and North Africa, followed by the EU-15. Russia and Kazakhstan supply almost all of Ukraine's grain imports under free trade agreements (FTA). If grain production falls short of domestic demand, the government usually introduces a tariff-rate quota (TRQ) or reduces import duties. U.S. exports of grain accounted for a mere $1.3 million in 2003, down 16 percent from the previous year; rice accounted for 88 percent of the total. [Note: 2002 was an unusual year for Ukrainian grain imports from the United States, as it imported more than $1 million worth of "other grains" (HS1008 - mainly buckwheat) and pulses under U.S. food assistance programs.]

Market Access

Tariffs

Ukraine has maintained the following import duties on major grains.

Ukraine Tariffs*

Ukrainian HS Code	Description	Preferential Import Duty Rate (%)	Limitations, not less than (Euro/MT)
1001	Wheat and Meslin (excl. seed)	--	40
1001.1	Durum Wheat (excl. seed)	--	40
1002	Rye	--	20
1003	Barley	--	20
1004	Oats	--	20
1005	Corn (excl. seed)	30	20
1006	Rice	10	3
1007	Grain Sorghum	--	2

* Current as of August 12, 2004

The TRQ is usually introduced if grain production in a particular year is low and imports under the existing FTA cannot meet domestic demand. Most recently, the Government of Ukraine (GOU) reduced wheat and rye import duties to zero in MY 2003/2004 following the lowest grain production on record. Low wheat production in 1999 resulted in a 500,000 MT TRQ on wheat imports and a 0.01% duty in MY 1999/2000. The tariff on corn imports was eliminated from June through September 1999 in order to ensure adequate corn supplies for the food processing industry.

Sanitary and Phytosanitary Measures

Among the three international organizations that establish international standards, guidelines and recommendations under the Agreement on the Application of Sanitary and Phytosanitary Measures under the World Trade Organization (WTO), Ukraine is a member of only one, the International Office of Epizootics. Although Ukraine has not signed the International Plant Protection Convention, it generally follows international phytosanitary standards in regulating imports. The importers of all plant products, including cereals and legumes, must receive an import permit from the Main State Inspection on Plant Quarantine of Ukraine. Aside from phytosanitary import requirements, the State Department of Veterinary Medicine of Ukraine requires that each shipment of feed grains, oilseeds and meals, be accompanied with a veterinary certificate issued in the exporting country. Please refer to Ukraine Food and Agricultural Import Regulations and Standards Report that can be downloaded from: http://www.fas.usda.gov/itp/ofsts/fairs_by_country.asp

Domestic Support Policies

Ukraine is not a member of the (WTO); therefore, the level of domestic support in agriculture has not been bound. In fact, the GOU has increased support provided to large and medium-sized commercial farms since 1999. Grain producers in Ukraine enjoy a vast array of programs, including price stabilization, direct subsidies, privileged taxation, subsidized interest rates on commercial loans and price fixing for domestically produced agricultural inputs (mostly diesel fuel and mineral fertilizers). In June 2004, the GOU passed new legislation which requires the Executive branch to establish minimum and maximum wholesale prices for the following grains (in addition to other agricultural commodities): wheat and wheat flour, rye, barley, oats and corn. This legislation will likely be implemented starting from MY 2005/2006.

Price Support

Following the 2001 bumper grain crop, the GOU expedited a legislative review designed to introduce price stabilization measures, including pledge and intervention purchases of grain. On July 4, 2002, the Parliament of Ukraine passed the Law on Grain and Grain Market Development in Ukraine. According to this legislation, the Executive branch must conduct the so-called "pledge"[1] purchases of grain and to create a grain intervention fund. In addition to the price support feature, the pledge purchases aim to improve farmers' access to short term financing as they allow farmers to maintain ownership of grain until next March following the harvest year. The State Joint-Stock Company (SJSC) Khlib Ukrainy (Bread of Ukraine) is currently the State Agent conducting pledge purchases of grain. The state intervention (as opposed to the pledge purchase) is aimed to assure price stability and is usually conducted by the State Committee of Ukraine on the State Material Reserves (SCUSMR). The SCUSMR has purchased grain either at the pledge price level or at prevailing market prices depending on available financing.

In spite of the existing legislation, price stabilization efforts have not helped to support prices at the farm level nor have they prevented significant price fluctuations. Wheat prices in Ukraine have increased by 40-50 percent over a two-month period when the country switches from a net exporter to a net importer

[1]Under a "pledge" purchase, the State agent purchases grain from farmers at fixed ("pledge") prices after July 1 while farmers maintain the right to resell this grain before March 1 of the following year. Farmers must reimburse the State agent for both the "pledge" price and the cost of grain storage if their grain is sold to another buyer by March 1. The GOU is required by law to announce the pledge price for grain for the following marketing year by March 31. The pledge prices must exceed average production costs plus a certain profit level.

position or decrease to the same degree during an adjustment to net exports. Noncompetitive prices offered to farmers and the lack of financing are the major reasons behind the unsuccessful price support policy so far. [Note. Prices offered by the GOU for milling-quality wheat equaled UAH 420 per 1 MT ($76/MT) in July 2000 and UAH 605 per 1 MT ($113/MT) in July 2003. At that time, these prices were lower than prevailing market prices by 40% and 50% respectively. State purchases were insignificant due to the lack of budget financing and amounted to only 0.2-0.4 million tons in MY 2001/2002 and in MY 2002/2003 (the time period when Ukraine had bumper grain crops) due to limited budget financing.]

In order to replenish grain stocks, the GOU announced that it would purchase milling-quality wheat at UAH 780/MT in MY 2004/2005 (an equivalent of US $147/MT). The GOU intends to buy 3 million tons (MMT) of all grains, including milling and feed quality wheat, barley, corn, buckwheat and other cereals. Approximately 1 MMT of all kinds of grain were delivered to the elevators under the umbrella of state purchases as of August 10, 2004, or nearly 4% of all grain harvested at that time. However, farmers have already complained that the GOU is not prepared to buy at declared prices and that they could/do not receive payments in a timely manner. In the meanwhile, the price for milling-quality wheat was 10% below the pledge price.

Crop Disaster Payments and Subsidies for Planted Winter Wheat

There is not an effective crop insurance system in Ukraine; therefore, the Government provides disaster payments to farmers on an "as necessary" basis. Due to unfavorable weather conditions, approximately 5.4 million hectares of winter grains (primarily winter wheat), or 64% of the planted area, did not survive the winter of 2002-2003. Following this unprecedented winterkill, the GOU provided to farmers UAH 20 million ($3.7 million) in April 2003 and UAH 356 million ($70 million) in June 2003 to partially compensate them for their losses. Since Ukraine's Parliament authorized payments for the entire CY 2003, the GOU used some remaining funds as a subsidy to those farmers who planted winter grains in fall 2003.

Tax Privileges for Farmers

Farmers in Ukraine have enjoyed privileged taxation as compared with other businesses since 1999. Although privileged taxation is not product specific, grain farmers are amongst its major benefactors. The fixed agricultural tax replaces 12 taxes, including a company profit tax, land tax, vehicle tax, communal tax, social security and pension fund payments. The exemption from paying the value-added tax (currently set at 20%) upon the sale of grains, oilseeds and other crops is another major tax break available to Ukrainian farmers. The value of support provided to large and medium-sized farmers in the form of foregone budget revenues was estimated by some analysts at UAH 2.7 billion ($509 million) in 2002, or $27.5 per 1 hectare of crop land.

World Trade Organization

Ukraine applied for membership in the WTO in 1993. The last meeting of the Working Party (WP) was held in October 2003. The WP is likely to meet again during the second half of September 2004 to examine a first version of the draft Report of the Working Party. Ukraine continues to hold bilateral negotiations on market access and protocol issues (i.e. SPS) with WTO members. As of August 12, 2004, the GOU has signed the protocols on market access with 25 countries, while negotiations with the United States, Australia, China, Japan, Turkey, Ecuador, Columbia, Moldova and other countries continue.

U.S. Non-Party Agreements

Ukraine has signed bilateral trade agreements with each of the countries of the Former Soviet Union and Macedonia. Lithuania, Latvia and Estonia denounced their FTAs with Ukraine upon joining the EU in May 2004. Under the existing FTA, cereals imported and exported are free of import duties, but are subject to the 20% import VAT.

In addition to the existing FTA, the Governments of Ukraine, Russia, Kazakhstan and Belarus signed an Agreement "establishing the United Economic Space" (UES) in September 2003. The goal of this agreement is to establish a single market for goods, services, capital and labor. It is expected that the agreement will be implemented in stages. The first stage is creation of a free trade zone with no exemptions.

Ukraine's Free Trade Agreements

Country	Signed	Ratified	Revised	Comment
UES Agreement (Belarus, Kazakhstan, Russian Federation and Ukraine)	2003	2004	-	FTA with fewer exceptions will be created amongst the four countries. Grains will most likely continue to enter duty free.
Russian Federation	1993	Effective since 1994	1995	Grains enter duty free
Tajikistan	2001	2002	-	Grains enter duty free
Uzbekistan	1994	1998	1995	Ukraine imposes import duties on grains.
Kazakhstan	1994	1998	1997	Grains enter duty free
Kyrgyzstan	1995	1997	-	Grains enter duty free
Belarus	1992	1999	1998	Grains enter duty free
Georgia, Republic of	1995	1996	-	Grains enter duty free
Azerbaijan	1995	1996	-	Grains enter duty free
Moldova, Republic of	1995	1996	2003	Grains enter duty free; however, the revision of this FTA is not completed pending Ukraine's Accession to the WTO.
Armenia	1994	1996	-	Grains enter duty free
Turkmenistan	1994	1995	-	Grains enter duty free
Macedonia, the Former Yugoslav Republic of	2001	2001	-	Import duties to be gradually reduced and eliminated over a ten-year period. Macedonia imposes a 5,000 MT TRQ on barley (HS 1003) and 20,000 MT TRQ on corn (HS 100590) imported from Ukraine. Ukraine imposes no restrictions on grain imported from Macedonia.

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