

Summary from Round Table 2

“Soaring food prices: a window of opportunities for Russia and Ukraine?”

The discussions came to the following conclusions:

1. Russia and Ukraine adequately reacted to increased agricultural prices in the previous season: both farm land area and agricultural productivity in the two countries have been enlarged significantly. In both countries 2008 grain harvest achieved record yields compared with the last 20 years and have considerable export potential.
2. However, the market infrastructure was not prepared for such big yields — the capacity of the railways, sea ports, grain elevators is not sufficient for the increased flow of grain and other agricultural products. The situation in Ukraine is slightly better than that in Russia and especially better than that in Kazakhstan.
3. This increased production is faced with another serious problem: a lack of corresponding solvent demand. In this situation the greatly increased supply caused a significant fall in prices. As input prices were growing steadily during the last several years, the fall in prices led to the decrease in margins in agriculture and accordingly to the losses in the incomes of the producers.
4. The high yields highlighted the urgent need to solve several other problems in agricultural development in the region:
 - land tenure issues are still a big constraint for the producers. In Ukraine, there is still a moratorium on land transactions; in Russia, transaction costs in the land market are very high;
 - the deficit in skilled labour and professional management is another bottleneck to further progress in agricultural production and the food industry in the region;
 - government policy remained unpredictable and, in many cases, inefficient, which creates additional risks for agribusiness and ultimately hampers investment in agriculture.
5. The region needs heavy investment in market infrastructure. For instance, only for its own needs Ukraine can absorb about USD 7 billion in investment in grain elevators, and this figure can be higher if the needs of transportation from Russia and Ukraine are taken into consideration.
6. There is also a need for improvement in the agricultural policies in the region. Despite the adoption of medium-term state programmes in every country, the governments often react as fire teams, increasing the riskiness of agribusiness.
7. In the post-soviet transition process in both countries a particular structure of agriculture was formed; large-size (sometimes huge) enterprises, as well as smallholders, have found their own niches in the market and complement each other. There should be no further room for debate on which form of enterprise is more efficient. The governments should support small-scale producers and not hinder the large-scale producers.
8. The issues of biofuels were also discussed during the session. Ukraine has launched an ambitious programme for development of rapeseed-based biofuels. The participants came to the conclusion that the effectiveness of this programme is doubtful. In Russia, on the other hand, no notable growth in rapeseed production is expected.
9. The participants were in full agreement that the transition period in both countries is over, and that the results achieved in each country constitute a distinct, specific model of market economy. The international community should no longer consider the economic evolution processes in these countries as stages of a unified transition pathway.