

SUSTAINABLE DEVELOPMENT OF THE UKRAINIAN GRAIN SECTOR: THE NEED FOR A MORE INTENSE DIALOGUE BETWEEN THE PRIVATE AND THE PUBLIC SECTORS

Organised by the Food and Agriculture Organization of the United Nations (FAO) and the European Bank for Reconstruction and Development (EBRD) with the support of UkrAgroConsult.

ROUND TABLE MINUTES

Moderator: Mr Victor Andriyevsky, Director, Agricultural Markets Development Institute

2.00–2.30 p.m. – Opening remarks/statements

- Andre Kuusvek, EBRD, Director for the Ukraine

Mr. Kuusvek stressed the importance of the grain sector in the Ukrainian economy and the fact that it has a strong potential for the production and export of larger grain volumes through improved yields and increased acreages. He said that this would be facilitated by a more structured dialogue between the public and private stakeholders in the grain sector.

Encouraged participation of the private sector in policy discussions: The Ukraine is the bread basket of Europe. Mr. Kuusvek said that the WTO and free trade agreements would now play a great role and requested, therefore, that interests be stood up for and contributions made to the negotiations between the government of the Ukraine and the EU.

He expressed the hope that the FAO/EBRD study would improve the understanding of bottlenecks which need to be resolved and the hope that specific recommendations for the improvement of the policy dialogue between private and public stakeholders would be received during the round table discussion.

- Mikhail Rudenko, Head of Foreign Economic Relations Department, Ministry of Agricultural Policy of the Ukraine

Increased open dialogue: Mr. Rudenko greeted all the round table participants and expressed the hope that the results of the RT discussions would lead to a more open and honest dialogue. He stated that the round table was an occasion to work out a strategy and recommendations based on the results of the FAO/EBRD report. He said that it would also be a good time to identify and implement some corrections of the state policy market.

Export potential: Mr. Rudenko stressed the huge export potential of the Ukrainian grain market and highlighted in particular how this provided an opportunity for the Ukraine to come out of the current global financial crisis.

In the current marketing year, Mr. Rudenko said, the Ukraine is expected to account for 4%, 1% and 8% of the world production of wheat, corn and barley. During the same period, its share in the world trade of these commodities is expected to be significantly higher at 9%, 6% and 31%.

Logistics and transportation: Mr. Rudenko observed that the Ukrainian grain market is currently diversifying and becoming more **dynamic**. He noted that a few factors play an important role: logistics, transportation structure and other issues which demand

dialogue between businesses, IFIs and the government in order to develop policies aimed at resolving some structural problems.

The Ukraine is also a big transportation corridor for grain from Russia and Kazakhstan, Mr. Rudenko remarked, and this is a key factor to take into consideration when discussing the logistics and transit potential of the country.

Free-trade zone: Mr. Rudenko urged the audience to support the government in discussing the free trade zone agreement as there is insufficient participation from the private sector in the discussions on free trade and the government feels a need for higher private sector involvement.

- Dmitry Prikhodko, Economist, FAO Investment Centre

Mr. Prikhodko extended a welcome to the RT participants on behalf of FAO and expressed his pleasure at seeing such a varied audience.

KEY issues to discuss: Mr. Prikhodko gave a brief description of FAO's mandate to fight against hunger and the role of the investment centre in this process.

He noted that FAO studies have shown that the global potential of the production development of grain is limited but that there are certain countries in our region with a great potential, such as the Ukraine, Russia and Kazakhstan.

Description of the study: Mr. Prikhodko described the report as a draft version and stated that the final report would be prepared following and taking into account points raised during the round table discussion. He informed the audience that the report would be translated into Russian. The report, he said, contains, among other things, a grain market review, mid-term perspectives and forecasts of the market's development, an examination of the state regulation policy, a study of the role of different organisations and agencies active in the policy-making process, an examination of the main factors which limit the development of the sector, and a presentation of recommendations to carry on the dialogue between the public and private sectors.

Topics for joint dialogue: Mr. Prikhodko highlighted the existence of many disagreements on the topic of joint dialogue and, in particular, on the grain market (i.e. VAT refunds, standards, etc.). He suggested, therefore, that the dialogue between the authorities and businesses should focus on the following topics:

- Creation of a unified transparent system of forecasting and production of grain;
- Access to the EU market;
- Future state support in the Ukrainian grain business, including discussion of problems linked to government and tax support which have a direct impact on the sector and which will help with the Ukraine's efforts at accession to the WTO.

Mr. Prikhodko gave general thanks to EBRD, the Ministry of Agrarian Policy and business representatives and expressed his hope that the study would allow for better future dialogue.

2.30–3.00 p.m. – The report presentation

- **Sergey Feofilov, UkrAgroConsult**

Mr. Feofilov described the aim of the round table discussion as an opportunity to present the draft version of the report which would subsequently be improved taking into account the discussions and would be presented later as guidance for future events.

PPT attached for details on the presentation: in summary, Mr Feofilov presented the picture of the Ukrainian grain sector as a whole although the output of agrarian sector did not yet achieve 1991 level. He noted that the production of the private sector had grown considerably and that private enterprises were the moving force for the future development of agriculture in Ukraine.

Current crisis: Mr. Feofilov stated that Ukrainian agriculture is still facing a crisis – from the production of the animal sector, the growth of unemployment, he said, is accompanied by some efficiency increase.

WTO accession: The Ukraine, said Mr. Feofilov, has made some serious tariff reduction commitments for grain, meat and other products. This, he observed, will provide positive changes for both growth and efficiency (competition in domestic market growth which in turn pushes for improved efficiency).

Penetrating new markets: Mr. Feofilov commented that other positive developments included the growth of grain exports to new markets, i.e. South East Asia. As an example, he gave the export of wheat to Indonesia and other highly competitive markets, despite strong competition from Russia and Kazakhstan.

Private capital impact on the grain sector: There is a clear growth in the capacity of Ukrainian ports thanks to private investments in large terminals, Mr. Feofilov said.

Elevators: Mr. Feofilov also observed good growth of investments in in-land elevators which, he noted. allowed for good profit as the prices of elevators increased, return on investments was received, and growth in the current grain season and in prices was observed. He felt that fingers could not be pointed at private investors for that.

Price falls: Mr. Feofilov stated that farmers react to commodity prices in making their crop planting decisions. He revealed that absolute figures of changes in areas could be seen, along with an expansion of areas where the most profitable crops were farmed and a decline of areas farming the least profitable ones.

Public support: The next factor which is important to improve the competitiveness of Ukrainian agriculture and increase production, Mr. Feofilov said, is public support.

Impact of government regulations: Mr. Feofilov highlighted a growth of grain purchases performed by the government, among them procurement, interventions, and other state purchases.

He suggested that the regulation of the market performed by the government could be felt and had a negative impact on the development of the agricultural sector; in 2007 / 2008, he said, quotas for exports were introduced and, although they were subsequently cancelled after several various government resolutions were adopted to regulate the quotas. The losses were considerable, he said.

VAT refunds: Mr. Feofilov revealed that exporters' losses amounted to 10 % of overall revenues due to VAT refund delays (assuming 6 month VAT refund period). Highlighting the 23 million tons of exports expected this season, he asked the audience to imagine

the amount of losses caused by delays in refund of export VAT. More dialogue is needed between industry associations and government authorities in terms of efficiency of some decisions taken at the governmental level, he noted.

3.00–5.00 p.m. – Discussion of the main recommendations for public-private dialogue areas:

- Future EU-Ukraine Free Trade Agreement and potential role of agricultural industry organizations;
- Creation of a single government system to forecast grain supply and demand in Ukraine;
- Ukraine's state support to agriculture in-line with WTO commitments;
- Other issues that affect sector development and that are of interest to round table participants.

The moderator gave the floor to the Ukrainian Grain Association representatives

- Volodymir Klymenko: President of the Ukrainian Grain Association

Brief description: Mr. Klymenko gave a description of the association, which currently employs 10 employees and was founded 11 years ago after studying how foreign associations (UK, USA) work. He described the association's principle of work as being collaboration with companies who are participants of the association, to develop decisions and prepare proposals to the cabinet of ministers, participate in the development of laws, work with other associations, etc. The association is a member of various public-private consultative bodies, he said. Examples given were the Tax Administration of Ukraine, Ministries of Transport, Agriculture, etc.

Improvement of system: Mr. Klymenko stated that the Ukrainian Grain Association is export oriented; – they exported 13.2 million tons of grain this year. He added that the Ukraine can export 30 million tons of grain and that local infrastructure is ready to process 26 million tons of grain and more, with some companies wanting to build new port systems.

Importance of dialogue in overcoming key obstacle: Mr. Klymenko recounted that when the VAT law was passed by parliament new entrants onto the market (companies registered in the Ukraine for less than 12 months) experienced difficulty in getting refunded. He observed that people are invited to invest in the Ukraine, but that obstacles are also created for them. He noted that it was the Association's task to clean up these obstacles during discussions with the government.

Importance of unified forecasts: Mr. Klymenko highlighted several serious agencies/sources where people make 10-year forecasts indicating how much additional grain should be produced, who will buy the grain and how the problem of insufficient nutrition will be solved.

He stressed the importance of FAO working closer with the US Department of Agriculture estimates. If farmers in the Ukraine face conditions where they find it unprofitable to sell, he said, how can this go hand-in-hand with the request to increase production? It is thus important first of all to change our mentality, he said, and to create a real forecast of consumption of grain in the world for the next 10 years. That way, Mr. Klymenko claimed, we can discover real need, find out what share is not consumed, identify international support and reconcile and unify data forecasts.

Mr. Klymenko also mentioned the warehouse receipts and agrarian fund.

- Dmitry Prikhodko, Economist, FAO Investment Centre

Mr. Prikhodko described the Ukrainian Agrarian Association as one example of a handful of associations that function well without any state support. What mistakes were made before the quotas were introduced, he asked.

Reply – Official national certified balance: It was suggested that there had been a very strange situation in Ukraine for quite some time. He said that people wait for the 11th day of every month to see the publication of the balance produced by the United States. He felt that Ukraine was also in need of a balance commission and a regularly published forecast balance. The goal, he said, was to have an official balance, signed by a list of participating experts, with a methodology approved and issued by the Ministry.

- Mikhail Rudenko, Head of Foreign Economic Relations Department, Ministry of Agricultural Policy of Ukraine

Mr. Rudenko suggested that this should be a topic for partnership between the government and business. He felt that it was important to bring all interested parties together, with on one side the government playing a key role regarding risks on investments, food safety and security. We are correcting errors performed in the past, he said. He described how FAO and the EC were providing support on this, i.e. through satellite monitoring maps of crops. He expressed his hope that the satellite would be used this year to help increase precision.

- Dmitry Prikhodko, Economist, FAO Investment Centre

Harmonisation of worldwide forecasts: Worldwide long-term forecasts are carried out by 3 to 4 main institutions, Mr. Prikhodko said; 2 forecasts originate from the United States done by USDA and Iowa State University/FAPRI, a third is carried out by the FAO and the OECD. He remarked that for the time being it would remain improbable that member countries of FAO would be ready to give a mandate for closer cooperation on forecasts, but he felt that experts in FAO do communicate with US experts.

International stocks: Mr. Prikhodko remarked that subject was currently being discussed within the framework of the G8 and G20 meetings at the St Petersburg's conference during the World Grain Summit in June. One of key subjects discussed would be the creation of international intervention grain stocks, Mr. Prikhodko said.

- Sergey Stoianov, Vice President, Ukrainian Agrarian Confederation

Focused on political instability and the lack of a clear agrarian policy in the country:

- Mr Evgeni Leng, Vice President of Ukrainian Bakers Association, Director of Ukrzernopromagro

Politics is everywhere: There is a need to implement stability, Mr. Leng said. He felt that the methodology of grain balances and forecasts were hardly accurate. The statistics, he said, are compiled based on data provided by county administration, which

is then often changed to fit political trends and if necessary provide a more pessimistic picture.

Mr. Leng suggested that there is no clear agricultural policy appropriate for a European country in the 21st century.

Mr. Leng criticised the IFIs EBRD, WB and IFC as institutions established as instruments of development which are supposed to make investments. He reported that only 10–12 % of their activities are direct investments in the primary agricultural sector, the remaining activities dealing with the food and processing industry related to particular products and food retail. He maintained that they are therefore more commercial banks and less support institutions.

Business in Ukraine is an art of survival especially under condition of the financial crisis, Mr. Leng said.

In response to the question of clarifying the bakers association's position on the introduction of grain export quotas in 2006/2007, he said that such a decision was needed in order to assure stable bread prices. He felt, however, that a mistake had been made in giving the government an instrument (export quotas) which was later abused in favour of other industries. Barley and corn exports, he said, were limited and that had nothing to do with food security. He remarked that the quotas were removed and that the Ukraine had promised the WTO to not use this measure without a need.

- Andre Kuusvek, EBRD, Director for the Ukraine

Mr. Kuusvek observed that a clarification was necessary in order to stress that IFIs such as the EBRD are based on sound banking principles, and that their definition of agribusiness was wider than primary agriculture only, including food processing industry and retail. The EBRD, Mr. Kuusvek said, has already started investing in primary production and would like to do more. He suggested that the low hanging products had been taken first and the more difficult ones, such as primary production, would hopefully be reached but it was not always easy to have all the necessary resources (in terms of people, not money).

- Yuriy Mikhailov, Propozytsya Magazine

Mr. Mikhailov stressed the need to increase the quality of people employed at the various levels of the government of Ukraine, including members of the Ukrainian parliament.

- Rodion Rybchynsky, APK-INFORM

Mr. Rybchynsky stressed that was important not to forget that in certain cases production results did not depend on the participating organisations but on unstable weather (i.e. lack of rain for a month) and the growth of the banking sector. He suggested that the market years 2008–2009 be disregarded and not taken into consideration when doing long term forecasts, rather that there should be a return to the 2006 data, 2006 being a standard year rather than an exception.

Standards, commodity exchanges, regulatory mechanisms – all such activities, Mr. Rybchynsky reminded, are funded by IFIs such as the EBRD, IFC, USAID with the aim of

helping participants except for ourselves – He warned participants about using IFI's assistance and then accusing them and he suggested that there should be a change in this attitude.

Mr Roman Korinets: Consultant, the Ukraine Parliament's Committee of Agriculture and Land Relations

Importance of getting involved from the start: Mr. Korinets asked how participants could influence the policy-making process. He felt that if the private sector continued to believe that the authorities were stronger than the round table participants, the business sector would remain weak and poorly organised and would not make much progress.

How about legislations? The business sector, Mr. Korinets believed, did not use these opportunities appropriately. He felt that associations seemed to make noise only after decisions were taken by the government. Mr Korinets' suggestion was to act before the legislation was approved as private business representatives could receive documents when they were still under preparation.

Mr. Korinets remarked that the system perhaps does not work well under crisis but that when the crisis is be over, there will be no consolidated work due to the fear of uniting together. He warned that the participants were still not working together; and called for a more united approach in order to influence the decisions of the state authorities.

Signs of change – advisory body. The president of the Ukraine and the financial mechanisms of the agricultural sector in Ukraine want to create a consulting council under the president as an advisory body, Mr. Korinets said. In the future, he said, although the presidents may change, the advisory bodies will stay thus. He suggested that participants should try to become members of this new and yet to be created entity.

5.00 p.m. – Closing remarks

- Dmitry Prikhodko, Economist, FAO Investment Centre

Mr. Prikhodko thanked participants for the active discussion. He noted that within recent years, and despite all criticism, there were signs of positive changes in the Ministry.

He stressed that the purpose of the FAO/EBRD report was not to focus on the most challenging subjects, but rather to focus on common grounds necessary for dialogue. He announced the follow-up to the RT on 20 and 22 May 2009 in Yalta, where the focus would be on the future of trade between the Ukraine and the EU. He invited all participants to attend.

Mikhail Rudenko, Head of Foreign Economic Relations Department, Ministry of Agricultural Policy of the Ukraine

Mr. Rudenko observed that it was clear that the Ministry of Agrarian Policy still did not entirely fulfil all its functions, but that this was a universal problem which was due to a lack of complex administrative reform, and production indicators. He felt that the role the Ministry was only as the first contact point and that it therefore received all the criticism. Another major difficulty, he felt, was that opposition exists within the Ministry itself.

Because discussions are now being held with the EU on the issue of a free-trade zone, Mr. Rudenko requested all private companies to become partners of the round table participants rather than enemies, and to provide helpful and concrete feedback to assist in the dialogue.

Sergey Feofilov, UkrAgroConsult

Mr. Feofilov concluded that the round table discussion had been efficient and fruitful, had focused on the main problems, and that a strategy for development was absent in the country in general, with the agrarian sector being no exception. He thanked participants for their active and dynamic participation and expressed his hope that similar discussions would lead to a fruitful future.