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PRAGUE
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DIPLOMA THESIS

**FOREIGN TRADE OF UKRAINE BY GRAIN: THE
CASE STUDY OF EXPORT**

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DECLARATION

I hereby declare that I have worked on my Diploma Thesis titled “Foreign Trade of Ukraine by Grain: The Case Study of Export” solely and completely on my own and that I have marked all quotations in the text. The literature and other material I have used are mentioned in the Bibliography Section of the Thesis.

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SOUHRN

Obilí je jedna ze světově nejdůležitějších základních komodit a jedna z nejpotřebnějších. Pro Ukrajinu má obilí strategický význam a tvoří podstatnou část obratu zahraničního obchodu země. Za posledních deset let se zahraniční obchod Ukrajiny s obilím dynamicky rozvíjí. Jeho výsledkem je, že se Ukrajina stala třetím největším vývozcem obilí ve světě v hospodářském roce 2008/2009 (s vývozem obilí 25 milionů tun). Ale v ukrajinském zahraničním obchodu s obilím stojí řada problémů spojených se špatnou infrastrukturou, neexistujícím řádným obchodováním s komoditami a drahým "logistickým řetězcem", který zabraňuje Ukrajině zvýšit její obilní vývozní potenciál.

Tato diplomová práce se zabývá analýzou současné situace v oblasti zahraničního obchodu Ukrajiny s obilím a vyzdvihuje jeho význam. To ukazuje analýza hlavních plodin (pšenice, ječmene a kukuřice) v objemu vývozu obilí, hlavní geografické destinace ukrajinského obilí a definuje postavení Ukrajiny na světovém trhu s obilím. Diplomová práce rovněž zpracovává analýzu problémů, které brání Ukrajině ve zvýšení jejího vývozního potenciálu obilí a některé návrhy, jak odstranit tyto problémy.

Klíčová slova: Zahraniční obchod, obilí, obilí vývoz, vývozní potenciál, vývozní ceny, Ukrajina

SUMMARY

Grain is one of the world's most important staple commodities and one of the most hotly contested. For Ukraine grains are of strategic concern and form a significant part of the country's foreign trade turnover. For the last decade the foreign trade of Ukraine in grain has been developing dynamically. As a result, Ukraine became the third biggest grain exporter in the world in 2008/2009 marketing year (with grain exports of 25 million tons). But Ukrainian foreign trade in grain is facing a number of difficulties connected with the poor infrastructure, absence of proper commodity futures trading and the expensive "logistic chain", which prevents Ukraine from increasing its grain export potential.

This diploma thesis is concerned with the analysis of the current situation in foreign trade of Ukraine in grain stressing the importance of exports. It shows the analysis of the volume of grain exports by main crops (wheat, barley and corn), the main geographical destinations of the Ukrainian grain and the position of Ukraine on the world grain market. The diploma thesis also reveals an analysis of the problems which prevent Ukraine from increasing its grain export potential and some proposals of how to eliminate these problems.

Keywords: Foreign trade, grain, grain exports, export potential, export price, Ukraine

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1. INTRODUCTION

Grain is one of the world's most important staple commodities and one of the most hotly contested. With ever present malnutrition and starvation in many regions contrasting with huge agricultural surpluses in richer areas, it comes as no surprise that grain features highly in both human welfare and global trading issues. For Ukraine grain is of high strategic importance and forms a large part of the country's foreign trade turnover. The grain industry is the base and the source for constant development of the agricultural industry and the base of agrarian sector exports. Ukraine has all necessary conditions for the development of sustainable and stable grain market and, thus, allowing successful development of grain export.

World experience shows that grain export is considered as an important constituent of the grain market, one of the instruments of its regulation. Grain export also provides the flows of currency, additional working places within the country. It also gives the chance to increase production efficiency, to "push" the domestic market to international standards. "Export" orientation of the grain market provides the opportunities to decrease the differences between the income levels of rural and urban population, which creates the conditions for social and economic development of rural areas. There are all reasons to assume that these principles will be possible to apply to Ukraine and its grain market.

But Ukrainian foreign trade in grain is facing a number of difficulties connected with the poor infrastructure, absence of proper commodity futures trading and the expensive "logistic chain", which prevents Ukraine from increasing its grain export potential. That is why Ukraine is still searching for its niche on the world grain market, undertaking different changes and problems from season to season. In order to eliminate these problems and to improve the situation it is vital that the state be involved in providing special measures and support to the grain exports, conducting sound foreign trade policy in agriculture that would improve not only grain exports but also the whole economy of the country.

2. MAIN OBJECTIVES, HYPOTHESIS AND METHODOLOGICAL TOOLS

Objectives

The first objective is to analyze the features of the foreign trade of Ukraine in grain and to reveal the main tendencies in its development. Another objective is to reflect the main problems in grain export competitiveness in Ukraine. The next objective is to develop the measures for the improvement of the potential and competitiveness of Ukrainian grain exports.

Hypothesis

Ukraine has not fully realized its export potential in grain, in spite of its record volume of exports.

Methodology

In general, the methods which were used in the diploma thesis can be divided into statistical and economic. In the analytical part of the thesis the analysis was done with the help of time series and graphs. A balance method was also utilized in this study. It was used to reflect the balance of grain demand and supply. In the thesis comparative analysis was utilized. This helped to reflect the development trends in the foreign trade of grain. The theoretical part of the thesis is based on the synthesis of scientific literature sources. In order to measure the export competitiveness of grain, the indexes of export competitiveness were used.

3. LITERATURE OVERVIEW

3.1 The Reasons for International Trade

International trade has been in existence since ancient times. It has grown enormously in modern times. Today, on a global average, nearly 15 per cent of the national product ends up in foreign markets and an almost equivalent percentage of the domestic consumption is met by goods imported. In the case of developing countries this ratio is about 20 per cent. International trade is the backbone of our modern, commercial world, as producers in various nations try to profit from an expanded market, rather than be limited to selling within their own borders.² There are many reasons that trade across national borders occurs, including lower production costs in one region versus another, specialized industries, lack or surplus of natural resources and consumer tastes.

Countries engage in international trade for two basic reasons, each of which contributes to their gains from trade. First, countries trade because they are different from each other. Nations, like individuals, can benefit from their differences by reaching an arrangement in which each does the things it does relatively well. Second, countries trade to achieve economies of scale in production. That is, if each country produces only a limited range of goods, it can produce each of these goods at a larger scale and hence more efficiently than if it tried to produce everything. In the real world, patterns of international trade reflect the interaction of both these motives. As a first step toward understanding the causes and effects of trade, however, it is useful to look at simplified models in which only one of these motives is present.⁷

In the modern time international trade is much related and done through the companies that decided to be involved in international business. Countries are represented by companies that are involved in international trade. They add a large value to Gross Domestic Product and, thus, make their inputs into the development of national economy. The expansion of enterprises into the global marketplace becomes a necessity not only because of the confines and limitations of their domestic market, but also because, in a globalized world, the market share in the domestic market becomes

² Cherunilam, F.: International Business: Text and Cases, 4/e., Tata McGraw-Hill Ltd., New Delhi, 2007

⁷ Krugman, P., Obstfeld, M.: International Economics: Theory and Policy, 6e., Pearson Education Inc., USA, 2003.

threatened by foreign competitors. Several specific factors drive enterprises to seek business development and growth through international and global operations, namely markets, cost, competitive factors and the international business environment.

1. Market factors

Information and communication technologies, the massive development of international tourism, widespread cultural exchange and the improvement of living standards in a number of developing countries has resulted in the emergence of consumer groups in different countries and regions of the world with comparable educational backgrounds, lifestyles, purchasing power, needs for goods and services and aspirations to high quality. This scenario, combined with the liberalization of international trade and availability of global distribution channels, opens up wide opportunities for enterprises to market their products and services on a global scale.

2. Cost factors

Market leadership compels companies to invest heavily in research, development and innovation to bring about new products or to improve and differentiate existing products.⁸ In the car industry for example, the introduction of a new model may represent an investment to the tune of one billion dollars. In the pharmaceutical industry, the cost associated with the successful development of a new drug is of the same order of magnitude. In the consumer goods sector, the cost of promoting a new brand could be as high as \$100 million. A single domestic market would not allow companies to achieve the economies of scale necessary to cover such costs, making it necessary to plan operations with the global market in mind.

3. Competitive factors

One of the reasons for enterprises to pursue global strategies is to keep or gain advantage over competitors in foreign markets and also to stave off competition in the home market. Going global creates economies of scale and, consequently, the flexibility to beat the competitors in the home market through undercutting prices if needed. On the other hand, another effective strategy to hold a competitor at bay could consist of bringing the pressure of competition into its own home market.

4. The international business environment

⁸ Maitah M., *Essentials of International Trade*, CZU, Prague, 2009

The trend towards liberalization of trade and investment flows, which emerged in the 1980s and took an irreversible course, gave impetus to the globalization of markets as well as to the globalization of enterprises' operations. The advances in communication and information technologies also contributed to the globalization process in as much as they provided the instruments that made global operations easier and more manageable. Newly emerging markets also recognize the economic benefits, technological progress and growth opportunities that globalization can bring to them, which encourages further and friendlier measures to attract international investors and business enterprises.

International trade opens a lot of advantages which stimulate economic growth. Being based on trade countries have gotten the opportunity to specialize in several spheres of economy and at the same time they have gotten the opportunity to import those products which they do not produce.

3.2 Basic Terminology Needed for the Analysis of International and Foreign Trade

For the analysis of international trade it's necessary to define and to use the basic terminology and indicators.

International trade is the exchange of goods and services between different countries.

International trade is the economic interaction among different nations involving the exchange of goods and services, that is, exports and imports.⁵

In most countries, it represents a significant share of gross domestic product. As supported by conventional economic theory, trade promotes economic efficiency by providing a wider variety of goods, often at lower costs, notably because of specialization, economies of scale and the related comparative advantages.

If we are talking about a separate country and its national economy it's necessary to define "foreign trade".

Foreign trade is trading of one country with others which consists of exports and imports. Foreign trade is embodied mainly through commercial agreements which are

⁵ John B. Taylor, Weerapana A.: Economics, Sixth Edition, Houghton Mifflin Company, USA, 2009.

brought into action with the help of international sale contract (or foreign trade contract). Foreign trade is much affected by such factors as conditions of financing, methods of payment, currency conditions of a contract and the competitiveness of goods and services that are traded.

The set of indexes which are related to international and foreign trade can be classified into several groups: the indexes of volume, the indexes of structure and the indexes of result.

1. The system of indexes of the international trade development is based on the indicators of volume. They include such indicators as export, re-export, import, re-import, foreign trade turnover (total trade), general trade, special trade and physical volume of trade.

1.1. Export is any resource, intermediate good, or final good or service that producers in one country sell to buyers in another country.²⁴ The fact of export is recorded at the moment when goods cross the border. Export is measured in monetary units for a certain period, usually for one year. It can also be measured in physical units when homogeneous goods are concerned. These goods are coal, oil, grain and etc.

According to the definition of the Statistical Committee of The United Nations Organization exports are defined as movement of goods out of a country, which are:

- 1) produced or extracted in this country
- 2) previously imported and:
 - processed on the customs territory of the country
 - processed under customs control
- 3) Re-exports refer to foreign goods exported from any part of the economic territory of a country in the same state as previously imported.²³

1.2. Import is any resource, intermediate good or final goods or services that buyers in one country purchase from sellers in another country. Import is measured in monetary units for a certain period, usually for one year. It can also be measured in physical units when homogeneous goods are concerned. These goods are wheat, oil, cement and etc.

²⁴ The U.S. Government's Official Web Portal: www.U.S.A.gov

²³ The Official Web Site of the United Nations Organization: www.un.org

According to the definition of the Statistical Committee of The United Nations Organization imports are defined as movement of goods into a country, which are:

1) Of foreign origin and are brought from a country of production with the following aims:

- final consumption;
- processing or final consumption;

2) used for inward processing;

3) brought from the free zones territories and bonded warehouses;

4) Re-imports refer to domestic goods in the same state as previously exported (or having undergone processing that did not change their origin) which reenter any part of the economic territory of their country of origin (e.g., domestic goods returned after not being sold).

1.3. Foreign Trade Turnover (Total Trade) is the total value of both exports and imports of a country or a group of countries which is calculated for a year, month or a quarter. It also reflects the total volume of foreign trade activities. It is calculated as follows:

$$TT = E + I, \quad (1.1),$$

Where TT is Total Trade,

E – the volume of exports;

I – the volume of imports.

1.4. Two systems of recording merchandise exports and imports are in common use. They are referred to as general trade and special trade and differ mainly in the way warehoused and re-exported goods are treated. General trade figures are larger than the corresponding special trade figures because the latter exclude certain trade flows, such as goods shipped through bonded warehouses.²⁶

Unless otherwise noted, total merchandise trade is defined according to the general trade definition. It covers all types of inward and outward movement of goods through a country or territory including movements through customs warehouses and free zones.

²⁶ The Official Web Site of the World Trade Organization:

General trade is calculated as follows:

$$GT=E+I+T \quad (1.2),$$

Where GT is general trade,

E – the volume of exports;

I – the volume of imports.

T – the value of goods in transit

1.5. Physical volume of trade is the index which shows calculation of goods exports or imports in constant prices during one period (as a rule, during an annual period) in order to get information concerning mass of commodities movement without the influence of price fluctuation. The index is calculated as follows:

$$I = \frac{\sum q_1 P_0}{\sum q_0 P_0} \quad (1.3),$$

Where I is the Index of Physical volume of trade,

P_0 — a commodity price in a base period;

q_1 — the quantity of a commodity in the studied period;

q_0 — the quantity of a commodity in a base period.

The next group of the foreign trade indexes comprises the indexes of result. The main indicator of this group is Balance of Trade.

Balance of Trade is the difference between the value of goods and services exported out of a country and the value of goods and services imported into the country. The balance of trade is the official term for net exports that makes up the balance of payments. The balance of trade can be a "favorable" surplus (exports exceed imports) or an "unfavorable" deficit (imports exceed exports). The official balance of trade is separated into the balance of merchandise trade for tangible goods and the balance of services.¹⁵

The balance of trade is a key indicator of international trade for a country. It summarizes net exports, the difference between exports to the foreign sector and imports from the foreign sector. From the perspective of the domestic sector of a given nation, a favorable balance of trade is achieved if net exports are positive or the balance

¹⁵ Economic Dictionary: www.amosweb.com

of trade is in surplus. An unfavorable balance of trade is then achieved if net exports are negative and the balance of trade is in deficit.

While the "overall" balance of trade for a given country is quite important (summarizing net exports with the entire foreign sector), the balance of trade relative to another country is also noteworthy. For example, the United States might have an overall balance of trade deficit, but a balance of trade surplus with Canada.

The balance of trade is essentially another term for net exports. Net exports are the difference between exports to the foreign sector and imports from the foreign sector. In the same way that net exports can be either positive or negative, meaning exports exceed imports or imports exceed exports, the balance of trade can have either a surplus or deficit.

Balance of Trade Surplus: A surplus in the balance of trade arises if the value of exports exceeds the value of imports. In terms of "payments," this indicates that the domestic economy is receiving a net inflow of payments from the foreign sector. More payments coming in than going out means the domestic economy has more income and enhanced living standards. For this reason, a balance of trade surplus is also commonly termed a "favourable" balance of trade.

Balance of Trade Deficit: A deficit in the balance of trade arises if the value of imports exceeds the value of exports. In terms of "payments," this indicates that the domestic economy has a net outflow of payments to the foreign sector. Fewer payments coming in than going out means the domestic economy has less income and limited living standards. For this reason, a balance of trade deficit is also commonly termed a "unfavorable" balance of trade.¹⁹

The third group of indexes is related to the indicators of trade composition. This group includes the following indicators: commodity structure of export/import and regional structure of export/import. These indicators characterize export and import flows of goods by commodity composition and by regional destination.

Commodity structure of export is classification (by some features) of commodities that are exported from a country(group of countries, all countries in the world), whereas commodity structure of import is classification of commodities (by

¹⁹ References for Business: www.referencesforbusiness.com

some features) that are imported by a country. Commodity structure of country's exports shows export specialization of a country and the portion every commodity item in export.

Thus, commodity structure of export can be calculated for one country, group of countries and for all countries in the world, whereas commodity structure of import can be calculated only for a particular country or groups of countries.

Regional structures of export/import characterize the division of trade flows (in both directions) by places of destination (either a country or a region) or by origin and are classified by structures of export and import of a country, by structures of commodities exports and imports.

Regional structure of country's export refers to the division of national exports by countries and the regions of destination and demonstrates the regional specialization of country's exports.

Regional structure of country's import refers to the division of the volume of import by the countries of origin.

3.3 Foreign Trade Policy and Its Regulation

Foreign Trade policy is a collection of rules and regulations that pertain to foreign trade. Every nation has some form of trade policy in place, with public officials formulating the policy which they think would be most appropriate for their country. The purpose of foreign trade policy is to help a nation's international trade run more smoothly, by setting clear standards and goals which can be understood by potential trading partners. In many regions, groups of nations work together to create mutually beneficial trade policies.¹⁰

In general there are two forms of Foreign Trade Policy: Free Trade and Protectionism.

Free trade is an economic concept referring to the selling of products between countries without tariffs or other trade barriers. Free trade is the absence of artificial (government-imposed) barriers to trade among individuals and firms in different

¹⁰ Onkvisit, S., Shaw, J: International Marketing: Analysis and Strategy, 4th ed., Routledge, London, 2004.

nations. International trade is often constricted by different national taxes, other fees imposed on exported and imported goods, as well as non-tariff regulations on imported goods; theoretically, free trade is against all these restrictions. In reality, trade agreements that are labelled as "free trade" by their proponents may actually create their own barriers to a free market. Some critics of such trade agreements see them as protecting the interests of corporations.¹¹

Some multi-national entities, such as the European Union, have implemented free trade in some forms between their member nations (customs union). However, there is continuing debate whether free trade would help third world nations with different economic problems and whether free trade is good for the developed world.

The important arguments in favour of free trade are as follows:

1. Free trade leads to the most economic utilization of the productive resources of the world because under free trade each country will specialize in the production of those goods for which it is best suited and will import from other countries those goods which can be produced domestically only at a comparative disadvantage.

2. Under free trade, division of labour occurs on an international scale leading to greater specialisation, efficiency and economy in production.

3. As there will be an intense competition under free trade, the inefficient producers are compelled either to improve their efficiency or to quit.

4. Free trade helps to break domestic monopolies and free the consumers from exploitation.

5. Free trade benefits the consumers in different ways. It enables them to obtain goods from the cheapest source. Free trade also makes available large varieties of goods.

6. Further, under free trade there is not much scope for corruption which is rampant under protection.

On practice, free trade is realized through the frames of Economic Integration, which refers to trade unification between different states by the partial or full abolishing of customs tariffs on trade taking place within the borders of each state. Trade theorists

¹¹ Peloso J.: Free trade, Bronx, NY : H.W. Wilson, USA, 2005.

have identified five levels of economic cooperation. They are: free trade area, customs union, common market, economic and monetary union, and political union.¹⁰

In a free trade area, the countries involved eliminate duties among themselves, while maintaining separately their own tariffs against outsiders. Free trade areas include the NAFTA (North American Free Trade Agreement), the EFTA (European Free Trade Association), and the now defunct LAFTA (Latin-American Free Trade Association). The purpose of a free trade area is to facilitate trade among member nations. The problem with this kind of arrangement is the lack of coordination of tariffs against the nonmembers, enabling nonmembers to direct their exported products to enter the free trade area at the point of lowest external tariffs.

A customs union is an extension of the free trade area in the sense that member countries must also agree on a common schedule of identical tariff rates. In effect, the objective of the customs union is to harmonize trade regulations and to establish common barriers against outsiders.

A common market is a higher and more complex level of economic integration than either a free trade area or a customs union. In a common market, countries remove all customs and other restrictions on the movement of the factors of production (such as services, raw materials, labor, and capital) among the members of the common market. As a result, business laws and labor laws are standardized to ensure undistorted competition.

Economic and monetary union - is a type of trade bloc which is composed of a single market with a common currency. One of the examples is Economic and Monetary Union of the European Union. The European Commission's One Market, One Money report defines an economic union as a single market for goods, services, capital, and labor, complemented by common policies and coordination in several economic and structural areas.

A political union is the ultimate type of regional cooperation because it involves the integration of both economic and political policies.

Most countries have not pursued a policy of totally free trade. Their politicians know that trade involves costs as well as benefits. In this section, we will attempt to identify what these costs are, and whether they are genuine reasons for restricting trade.

Although countries may sometimes contemplate having completely free trade, they usually limit their trade. However, they certainly do not ban it altogether. The sorts of questions that governments pose are (a) should they have freer or more restricted trade and (b) in which sectors should restrictions be tightened or relaxed? Ideally, countries should weigh up the marginal benefits against the marginal costs of altering restrictions.

Protectionism is the government's use of embargoes, tariffs, quotas, and other restrictions to protect domestic producers from foreign competition.

The main objectives of imposing trade barriers are:

- To protect domestic industries from foreign competition;
- To direct the foreign trade in accordance with national priorities;
- To promote indigenous research and development;
- To conserve the foreign exchange resources of the country;
- To make the balance of payments position favourable;
- To curb conspicuous consumption;
- To mobilise revenue for the government;
- To discriminate against certain countries.

There are a number of arguments put forward in favour of protection. They can be divided into economic and non-economic arguments. The main arguments for protectionism are:

1. The infant industry argument. Some industries in a country may be in their infancy, but have a potential comparative advantage. This is particularly likely in developing countries. Such industries are still too small to have gained economies of scale; their workers are inexperienced; they lack back-up facilities, such as communications networks and specialist suppliers. They may have only limited access to finance for expansion. Without protection, these infant industries will not survive competition from abroad. Protection from foreign competition, however, will allow them to expand and become more efficient. Once they have achieved a comparative advantage, the protection can then be removed to enable them to compete internationally.¹³
2. To reduce reliance on goods with little dynamic potential. Many developing countries have traditionally exported primaries: foodstuffs and raw materials. The world demand

¹³ Sloman, J.: Economics, 6e., Pearson Education Limited, Harlow, 2006.

for these, however, is fairly income inelastic, and thus grows relatively slowly. In such cases, free trade is not an engine of growth. Instead, if it encourages countries' economies to become locked into a pattern of primary production, it may prevent them from expanding in sectors like manufacturing that have a higher income elasticity of demand.

3. To prevent 'dumping' and other unfair trade practices. A country may engage in dumping by subsidising its exports. Alternatively, firms may practice price discrimination by selling at a higher price in home markets and a lower price in foreign markets in order to increase their profits. Either way, prices may no longer reflect comparative costs. Thus, the world would benefit from tariffs being imposed to counteract such practices.

4. National security concerns: Any industry crucial to national security, such as producers of military hardware, should be protected. That way the nation will not have to depend on outside suppliers during political or military crises.

5. Diversification of the economy: If a country channels all its resources into a few industries, no matter how internationally competitive those industries are, it runs the risk of becoming too dependent on them. Keeping weaker industries competitive through protection may help in diversifying the nation's economy.

6. Cheap labor: Less developed countries have a natural cost advantage as labor costs in those economies are low. They can produce goods less expensively than developed economies and their goods are more competitive in international markets.

Protectionism is implemented through trade barriers. The National Trade Estimate Report on Foreign Trade Barriers (NTE), issued by the US Trade Representative, defines trade barriers as "government laws, regulations, policies, or practices that either protect domestic producers from foreign competition or artificially stimulate exports of particular domestic products."²⁵

The methods of protectionism are divided into tariff and non-tariff methods.

Tariff, derived from a French word meaning rate, price, or list of charges, is a customs duty or a tax on products that move across borders. Tariffs may be classified in several ways. The classification scheme used here is based on direction, purpose, length,

²⁵ Office of the United States Trade Representative: www.ustr.gov

rate, and distribution point. These classifications are not necessarily mutually exclusive. Tariffs are often imposed on the basis of the direction of product movement; that is, on imports or exports, with the latter being the less common one. When export tariffs are levied, they usually apply to an exporting country's scarce resources or raw materials (rather than finished manufactured products).¹⁰

How are tax rates applied? To understand the computation, three kinds of tax rates must be distinguished: specific, ad valorem, and combined.

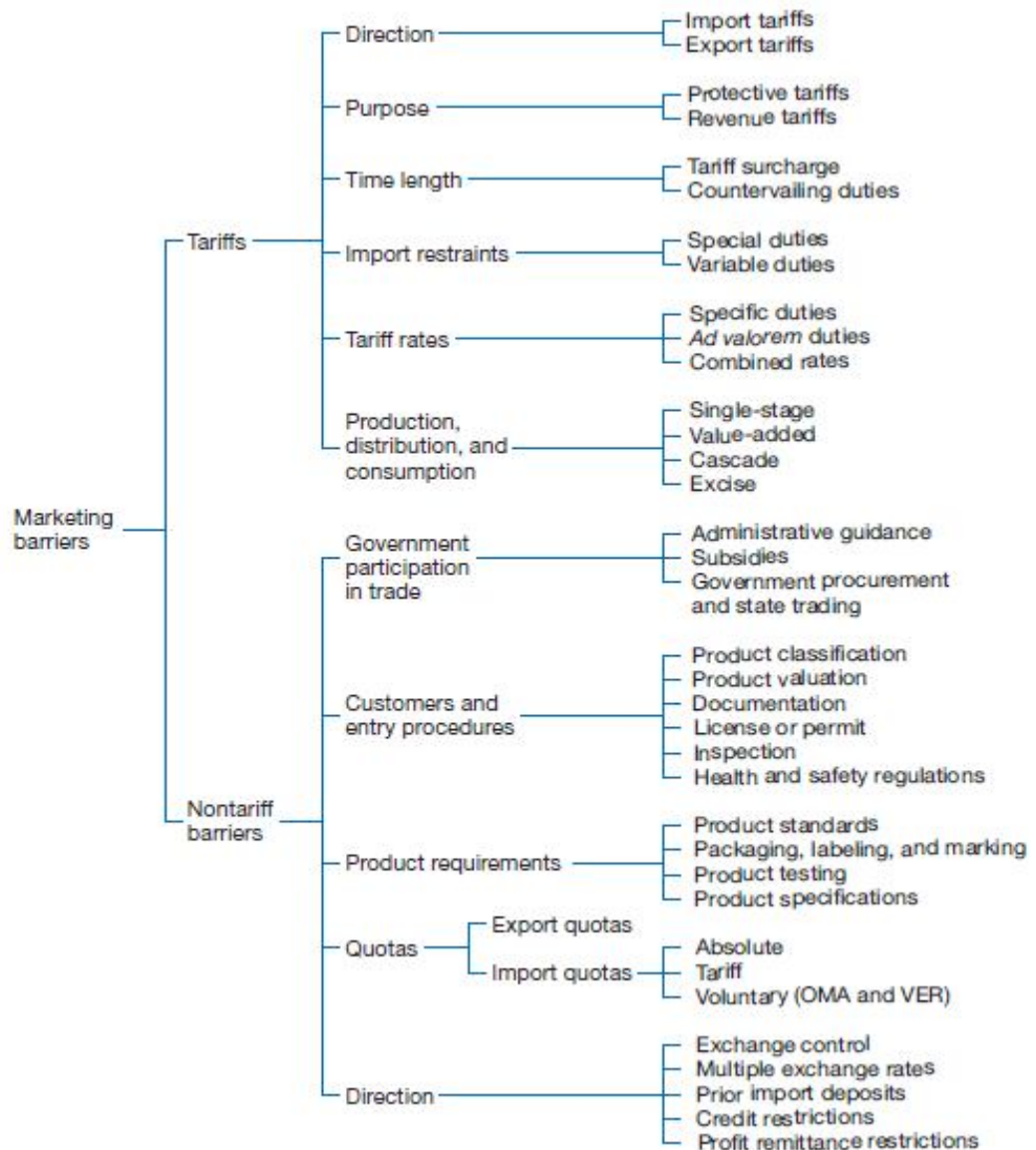


Figure 3.1: Classification of trade barriers

Source: Adapted from Sak Onkvisit and John J. Shaw, "Marketing Barriers in International Trade," *Business Horizons* 31 (May to June 1988): 64–72.

Specific duties are a fixed or specified amount of money per unit of weight, gauge, or other measure of quantity. Based on a standard physical unit of a product, they are specific rates of so many dollars or cents for a given unit of measure (e.g., 350 euros/ton on sugar imports into the EU). Product costs or prices are irrelevant in this case. Because the duties are constant for low- and high-priced products of the same kind, this method is discriminatory and effective for protection against cheap products due to their lower unit value; that is, there is a reverse relationship between product value and duty percentage. As product price goes up, a duty when expressed as a percentage of this price will fall. On the other hand, for a cheap product whose value is low, the duty percentage will rise accordingly.

Ad valorem duties are duties “according to value.” They are stated as a fixed percentage of the invoice value and applied at a percentage to the dutiable value of the imported goods. This is the opposite of specific duties since the percentage is fixed but the total duty is not. Based on this method, there is a direct relationship between the total duties collected and the prices of products; that is, the absolute amount of total duties collected will increase or decrease with the prices of imported products. The strength of this method is that it provides continuous and relative protection against all price levels of a particular product. Such protection becomes even more crucial when inflation increases prices of imports. If specific duties were used, their effects lessen with time because inflation reduces the proportionate effect. Another advantage is that ad valorem duties provide an easy comparison of rates across countries and across products.¹⁰

Combined rates (or compound duty) are a combination of the specific and ad valorem duties on a single product. They are duties based on both the specific rate and the ad valorem rate that are applied to an imported product. For example, the tariff may be 10 cents per pound plus 5 percent ad valorem. Under this system, both rates are used together, though in some countries only the rate producing more revenue may apply. One important fact is that the average tariff rates affect the poor the most. After all, working-class consumers spend a large share of their income on the necessities of daily life, and many such necessities are imported. Affluent consumers, in comparison, are

not bothered as much by tariffs because these necessities represent only a fraction of what they earn.

Tariffs, though generally undesirable, are at least straightforward and obvious. Nontariff barriers, in comparison, are more elusive or nontransparent. Tariffs have declined in importance, reaching the lowest level ever of about 4 percent on average after fifty years and eight global rounds of trade negotiation.

There are several hundred types of nontariff barriers. According to the US Trade Representative, countries use a variety of barriers that include nonscientific sanitary standards, customs procedures, and government monopolies. Japan's telecommunications, agriculture, and pharmaceuticals sectors have "structural rigidity, excessive regulation, and market access barriers." China, on the other hand, has import standards and sanitary requirements that act as import barriers. China must act to improve the protection of intellectual property rights.

Nontariff barriers may be grouped into five major categories. Each category contains a number of different nontariff barriers.

1. Government participation in trade. The degree of government involvement in trade varies from passive to active. The types of participation include administrative guidance, state trading, and subsidies.

State trading is the ultimate in government participation, because the government itself is now the customer or buyer who determines what, when, where, how, and how much to buy. In this practice, the state engages in commercial operations, either directly or indirectly, through the agencies under its control. Such business activities are either in place of or in addition to private firms.

According to GATT, subsidy is a "financial contribution provided directly or indirectly by a government and which confers a benefit."¹⁸ Subsidies may take many forms – including cash, interest rate, value added tax, corporate income tax, sales tax, freight, insurance, and infrastructure. Subsidized loans for priority sectors, preferential rediscount rates, and budgetary subsidies are among the various subsidy policies of several Asian countries.

¹⁸ General Agreement of Tariff and Trade: www.gatt.org

2. Customs and entry procedures. Customs and entry procedures may be employed as nontariff barriers. These restrictions involve classification, valuation, documentation, license, inspection, and health and safety regulations.

Classification. How a product is classified can be arbitrary and inconsistent and is often based on a customs officer's judgment, at least at the time of entry. Product classification is important because the way in which a product is classified determines its duty status. A company can sometimes take action to affect the classification of its product.

Valuation. Regardless of how products are classified, each product must still be valued. The value affects the amount of tariffs levied. A customs appraiser is the one who determines the value. The process can be highly subjective, and the valuation of a product may be interpreted in different ways, depending on what value is used (e.g., foreign, export, import, or manufacturing costs) and how this value is constructed. In Japan, a commodity tax is applied to the FOB factory price of Japanese cars. Yet American cars are valued on the CIF basis, adding \$1000 more to the final retail price of these cars.

Documentation. Documentation can present another problem at entry because many documents and forms are often necessary, and the documents required can be complicated. Japan held up Givenchy's import application because the company left out an apostrophe for its I'Interdit perfume. Without proper documentation, goods may not be cleared through customs. At the very least, such complicated and lengthy documents serve to slow down product clearance. France, requiring customs documentation to be in French, even held up trucks from other European countries for hours while looking for products' non-French instruction manuals which were banned.

Inspection. Inspection is an integral part of product clearance. Goods must be examined to determine quality and quantity. This step is closely related to other customs and entry procedures. First, inspection classifies and values products for tariff purposes. Second, inspection reveals whether imported items are consistent with those specified in the accompanying documents and whether such items require any licenses. Third, inspection determines whether products meet health and safety regulations in order to

make certain that food products are fit for human consumption or that the products can be operated safely. Fourth, inspection prevents the importation of prohibited articles.

Health and safety regulations. Many products are subject to health and safety regulations, which are necessary to protect the public health and environment. Health and safety regulations are not restricted to agricultural products. The regulations also apply to TV receivers, microwave ovens, X-ray devices, cosmetics, chemical substances, and clothing.

3.Quotas. Quotas are a quantity control on imported goods. Generally, they are specific provisions limiting the amount of foreign products imported in order to protect local firms and to conserve foreign currency. Quotas may be used for export control as well. An export quota is sometimes required by national planning to preserve scarce resources. From a policy standpoint, a quota is not as desirable as a tariff since a quota generates no revenues for a country. There are three kinds of quotas: absolute, tariff, and voluntary.¹⁰

An absolute quota is the most restrictive of all. It limits in absolute terms the amount imported during a quota period. Once filled, further entries are prohibited. Some quotas are global, but others are allocated to specific foreign countries. Japan imposes strict quotas on oranges and beef. To appease the EU, it has lifted quotas on skimmed milk powder and tobacco for Europe. The most extreme of the absolute quota is an embargo, or a zero quota, as shown in the case of the US trade embargoes against Libya and North Korea.

A tariff quota permits the entry of a limited quantity of the quota product at a reduced rate of duty. Quantities in excess of the quota may be imported but are subject to a higher duty rate. Through the use of tariff quotas, a combination of tariffs and quotas is applied with the primary purpose of importing what is needed and discouraging excessive quantities through higher tariffs. When the USA increased tariffs on imported motorcycles in order to protect the US motorcycle industry, it exempted from this tax the first 6000 big motorcycles from Japan and the first 4000–5000 units from Europe.

¹⁰ Onkvisit, S., Shaw, J. International Marketing: Analysis and Strategy, 4th ed., Routledge, London, 2004.

A voluntary quota differs from the other two kinds of quota, which are unilaterally imposed. A voluntary quota is a formal agreement between nations, or between a nation and an industry. This agreement usually specifies the limit of supply by product, country, and volume. Two kinds of voluntary quota can be legally distinguished: VER (voluntary export restraint) and OMA (orderly marketing agreement). While the importing country does not restrict the quantity imported by some regulation or statute, the exporting country agrees to limit the volume being exported to some agreed upon-level. Whereas an OMA involves negotiation between two governments to specify export management rules, the monitoring of trade volumes, and consultation rights, a VER is a direct agreement between an importing nation's government and a foreign exporting industry (i.e., a quota with industry participation). Both enable the importing country to circumvent the GATT's rules (Article XIX) that require the country to reciprocate for the quota received and to impose that market safeguard on a most-favored-nation basis. Since this is a gray area, the OMA and VER may be applied in a discriminatory manner to a certain country. In the case of a VER involving private industries, a public disclosure is not necessary.¹⁰

4. Product requirements. For goods to enter a country, product requirements set by that country must be met. Requirements may apply to product standards and product specifications as well as to packaging, labeling, and marking.

Each country determines its own product standards to protect the health and safety of its consumers. Such standards may also be erected as barriers to prevent or slow down importation of foreign goods. Because of US grade, size, quality, and maturity requirements, many Mexican agricultural commodities are barred from entering the USA. Japanese product standards are even more complex, and they are based on physical characteristics rather than product performance. Such standards make it necessary to repeat the product approval process when a slight product modification occurs (such as color), even though the performance of the product in question remains the same. Furthermore, these standards are frequently changed in Japan in order to exclude imports. Packaging, labeling, and marking are considered together because they are closely interrelated. Many products must be packaged in a certain way for safety and other reasons.

4. THE ANALYSIS OF FOREIGN TRADE OF UKRAINE IN GRAIN

4.1 Grain Exports of Ukraine: the Analysis of Volumes and Structure

At the present time, the agrarian sector is one of the most important and socially significant components of the economy of Ukraine. Nearly 16% of the Gross Domestic Product of the country is formed in the sector. Particularly, the grain segment of Ukraine is the strategic segment of economy of the government, which determines the supply volumes and cost of the main varieties of food products for the population, especially grain by-products and cattle-breeding products, forms the currency inputs of the government at the expense of export trading. The grain industry is the base and the source for constant development of the most agricultural industries and the base of agrarian sector exports.

During the recent seasons, Ukraine has been the part of the group of five biggest grain exporters, and supplies over 20 million tones of grains on foreign markets. Wheat (50% of the general export volumes), barley (30%), maize (20%) formed the base of the export volumes from Ukraine. At the same time, Ukraine is the leader of barley selling, and takes the fourth place in the sphere of maize sale on the market.

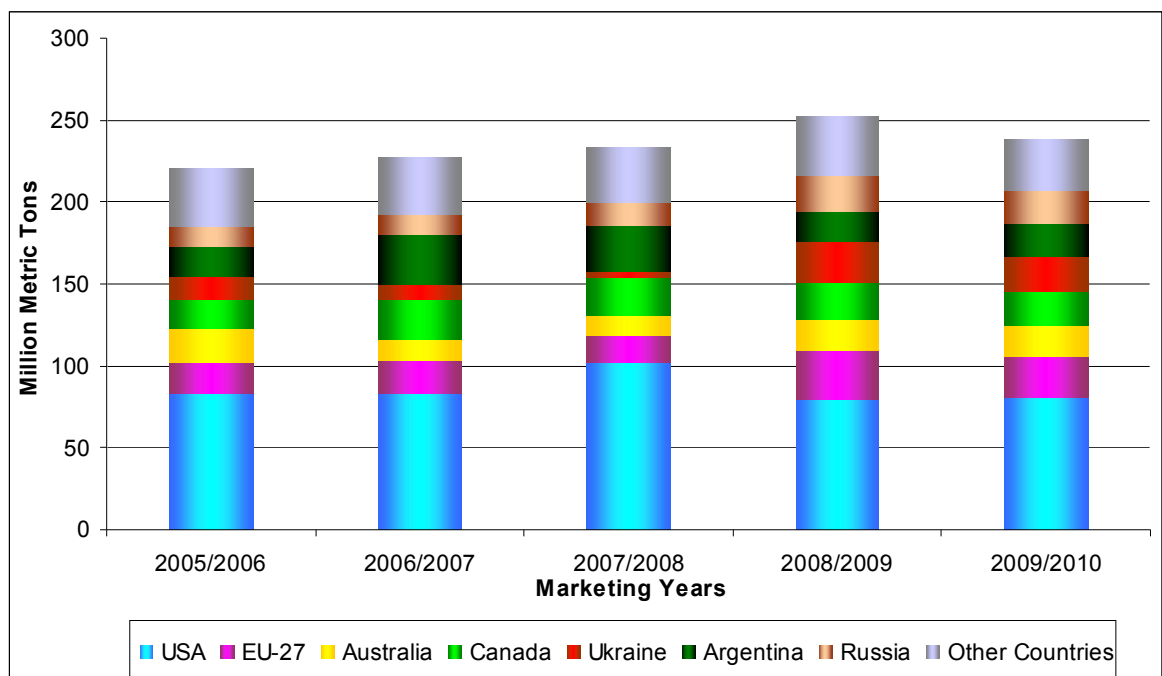


Figure 4.1: The Position of Ukraine on the World Grain Market

Source: FAS USDA – Own Calculations

Let's focus on the detailed analysis of the Ukrainian grain exports.

2008/2009 marketing year resulted in both a record grain harvest and exports. Let's highlight the main factors which influenced the situation on the grain market in the season 2008/2009. They are as follows:

1. A record grain harvest in Ukraine and significant price decrease on grain.
2. The increase of the world grain production and, consequently, high competitiveness of the world grain market players.
3. Low quality of the Ukrainian grain.
4. High competitiveness of Russia (high grain harvest and low grain prices).
5. National currency devaluation.
6. High export demand (as a result of the grain price correlation in Ukraine and in the world).
7. 30-percent-rise in demand on forage grain
8. Extension of the geographical composition of the Black Sea Region grain (as a result of the decrease in freight costs).¹⁶

The 2008/2009 marketing year brought about good preconditions for successful development of the grain market of Ukraine and at the same time for high grain exports. This can be traced from the table which reflects the balance of grains in Ukraine. But there is a negative tendency of the Stocks to Demand ratio decrease, which might cause some difficulties for grain exports in the next marketing year.

The decrease in total grain supply in 2009/2010 marketing year also influenced export potential and as a result the total exports of grains made up approximately 21 million tones (whereas grain exports in 2008/2009 marketing year made up 25 million tones).

In spite of the record harvest and exports in 2008/2009 marketing year, the participants of the Ukrainian grain market underwent some troubles related to low governmental support, insufficient financing, lack of infrastructure and some other problems. The season 2008/2009 has also shown that even if the level of exports is very high it is necessary to follow the main strategic goals which are targeted at producing and exporting high quality and competitive grain, which would be beneficial for

¹⁶ Based on the Data of the Analytical Agency "APK-Inform"

farmers, consumers and exporters. All this can be accomplished with the help of the support of the government that would lobby the interests of Ukraine on foreign markets.

Table 4.1

The Balance of Demand and Supply of Ukrainian Grain, million tones, million hectares

| | 2006/2007 | 2007/2008 | 2008/2009 | 2009/2010 |
|---------------------------|-------------|-------------|-------------|--------------|
| Initial stocks | 4.8 | 3.6 | 3.6 | 3.9 |
| Cultivated area | 14.5 | 15.1 | 15.5 | 15.4 |
| Harvested acreage | 14.2 | 13.4 | 14.8 | 14.6 |
| Crop Yield, tones/hectare | 2.41 | 2.18 | 3.57 | 3.15 |
| Bulk yield | 34.3 | 29.3 | 53.81 | 45.99 |
| Imports | 0.1 | 0.14 | 0.09 | 0.1 |
| Total Supply | 39.2 | 33.0 | 57.5 | 49.99 |
| Consumption: | 25.8 | 25.2 | 27.6 | 26.1 |
| - Food | 5.7 | 6.1 | 6.3 | 5.8 |
| - Forage | 14.7 | 14.1 | 14.8 | 14.8 |
| - Seeds | 2.6 | 2.6 | 2.9 | 2.5 |
| Others | 2.7 | 2.4 | 3.6 | 3.0 |
| Exports | 9.8 | 4.2 | 25 | 20.7 |
| Total Demand | 35.6 | 29.4 | 53.6 | 46.8 |
| Ending Stocks | 3.6 | 3.6 | 3.9 | 3.19 |
| Stocks to Demand ratio | 10% | 12% | 7% | 7% |

Source: Analytical Agency APK Inform – Own Calculations

Despite the decrease of grain exports from 25 million tones (in 2008/2009 marketing year) to nearly 21 million tones (in 2009/2010 marketing year) Ukraine managed not to lose its position on the world grain market.

Having looked through the next figure we can see the volatile, but positive trend of the grain export rise starting from 2005/2006 marketing year. The volumes of exports from 2005/2006 to 2007/2008 marketing years are significantly lower than those

which are in 2008/2009 and 2009/2010 marketing years. This can be explained by numerous facts. First of all Ukraine imposed export restrictions (quotas and licensing) on grains (corn, barley and wheat), which prevented Ukraine from increasing its export potential. Secondly, bad weather conditions brought about low harvest and as a result, the level of exports in 2007/2008 marketing year slumped.

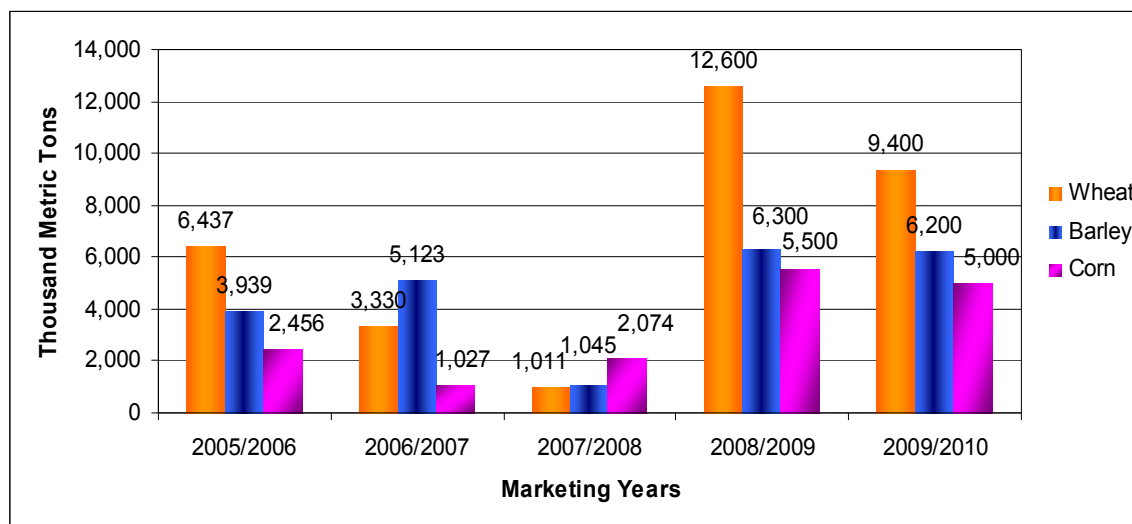


Figure 4.2: The Dynamics of Grain Exports from Ukraine, 2005-2010.

Source: State Statistics Committee of Ukraine – Own Calculations

While exports restraints and other export disturbing factors were eliminated there was another issue related to low quality of Ukrainian grain. This had been a constant problem for a long time and such exporters as Russia and Kazakhstan used this “stumbling block” of Ukraine in their favour and at the same time became dangerous competitors in grain exports. It is necessary to point out that because of financial troubles the agricultural producers had to spend less on agricultural technologies, which, as a result, made a negative effect on the quality and the quantity of the harvested grain.

Thus, Ukraine got 49 percent of food grain whereas Russia and Kazakhstan got 70 and 90 percent accordingly.¹⁶ The issue of grain quality is equally related to both food and forage grain. The season of 2008/2009 with the record export shipments was not best. In the previous years, many importers refused to buy Ukrainian forage grain mainly because of low quality of grain. But in 2008/2009 absence of other suppliers

¹⁶ Based on the Data of the Analytical Agency “APK-Inform”

(except Ukraine) and competitive prices from the Ukrainian side had importers buy Ukrainian grain. Besides quality, there was another factor of competitiveness that influenced Ukrainian grain exports in 2009/2010 marketing year. The point is that the Russian government established the Joined Grain Company which became the only one state trader and lobbied the interests of the Russian grain traders on foreign markets. Therefore, in 2009/2010 marketing year Ukraine faced fierce competition from Russia and Kazakhstan.

Now let's pay attention to the specific features of exports of the most traded grains. They are wheat, corn and barley.

The main features of the 2009/2010 marketing year were the rise in world grain production, consumption and grain stocks increase. According to the estimations of FAS USDA in 2010 the world carryover stocks of wheat made up 189 million tones, which demonstrated an increase of 16 percent compared with the stocks in 2009(the stocks made up 165 million tones) and an increase of 56 percent compared with the stocks in 2008(the stocks made up 121 million tones).¹⁷

Table 4.2

World Balance of Demand and Supply of Wheat, million tones

| | 2007/2008 | 2008/2009 | 2009/2010 |
|---------------------|-----------|-----------|-----------|
| Initial Stocks | 128 | 121 | 165 |
| Production | 611 | 683 | 672 |
| - Including Ukraine | 13.9 | 25.9 | 20.7 |
| Imports | 113 | 136 | 121 |
| Total supply | 852 | 940 | 958 |
| Consumption | 613 | 633 | 644 |
| Exports | 118 | 142 | 125 |
| - Including Ukraine | 0.9 | 12.7 | 9.4 |
| Total Demand | 731 | 776 | 769 |
| Ending Stocks | 121 | 165 | 189 |

Source: FAS USDA, Analytical Agency "APK Inform" – Own Calculations

According to the estimated data of FAS USDA, the world wheat total supply and consumption also increased in 18 million tones and in 11 million tones respectively. World wheat production made up 672 million tones, which was higher than in previous

¹⁷ Foreign Agricultural Service - www.fas.usda.gov

years regardless the record season of 2008/2009. World wheat consumption rose to 644 million tones.

When analyzing wheat exports of Ukraine, it is necessary to highlight some specific features that are proper for Ukraine. The 2009/2010 marketing year was characterized by massive imports of Ukrainian wheat at the beginning of the season as it was in two previous marketing years. For the whole marketing year Ukraine exported approximately 9.4 million tones of grain, which was in 3.2 million tones less than in 2008/2009 marketing year.²²

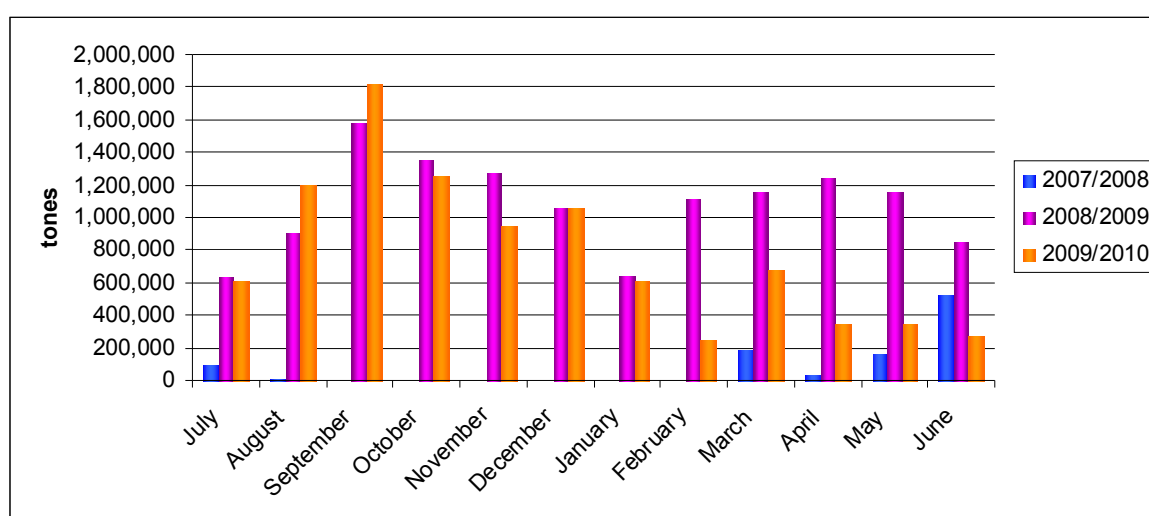


Figure. 4.3: Ukrainian Wheat Exports, 2007-2010

Source: Analytical Agency APK Inform – Own Calculations

Since the wheat prices were very low at the beginning of the season, such large Asian partners as South Korea, The Philippines, and Bangladesh hastened to sign the foreign trade contracts on buying Ukrainian wheat. For the whole marketing year the South Korean importers bought 1.8 million tones of forage wheat from Ukraine. The prices, at which the contracts were signed, varied from \$167-209 per tone (CIF). Consequently, a large part of the import demand had been satisfied by March 2010. The tendency of signing contracts in the first part of the marketing year has lasted for the last three marketing years.

²² The State Statistics Committee of Ukraine

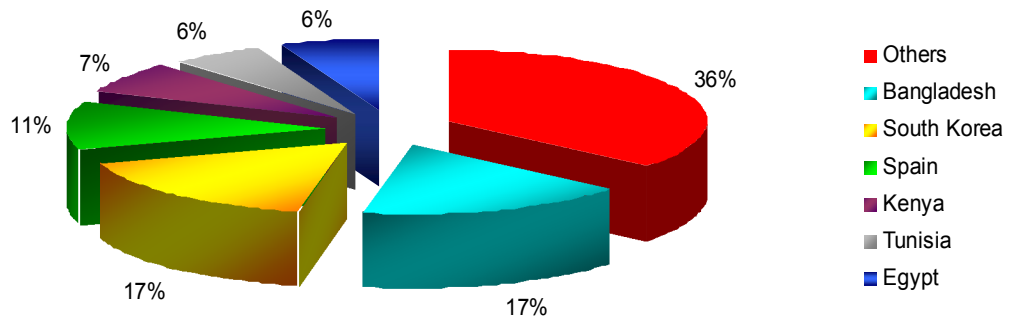


Figure 4.4: Exports of Ukrainian Wheat by Regions, 2009/2010 marketing year

Source: Analytical Agency APK Inform

Thus, in the second part of the 2009/2010 marketing year the volume of the Ukrainian wheat shipments towards the Asian destination decreased significantly. The situation was also complicated by competition with other grain suppliers like Brazil. It supplied more than 900 thousand tones of forage wheat on the Eastern Asia markets.

But the Eastern Asia Direction is not the only one geographical region where Ukrainian wheat is exported. A few other regions are of high importance for the Ukrainian grain traders.

These regions are Northern Africa and the Middle East. It is worth pointing out that in the 2009/2010 marketing year Ukraine lost its opportunities to come back to the Egyptian market. After the requirements to the quality of the Ukrainian grain had been strengthened, the state sector of Egypt ultimately refused to import Ukrainian grain. Consequently, the interest of the Egyptian private companies to Ukrainian grain was completely lost. Consequently, they switched to other exporters of grain (Russia, Kazakhstan and others). The situation in the other Northern African countries (Tunisia, Algeria, Morocco, and Libya) was inconsistent. Regardless a high grain yield and a fall in total import demand on grain, such countries as Tunisia and Algeria imported even more wheat than in the season 2008/2009. It is explained by the fact that the decrease in grain demand mainly caused an import reduction of durum wheat.

The other large importers of Ukrainian wheat are the countries of the Middle East. They are Syria, Israel, and Jordan. In the 2009/2010 marketing year, the grain traders of these countries imported 600 thousand of Ukrainian wheat. Syria is another large importer of Ukrainian wheat. It imports 300-500 thousand tones of wheat from Ukraine annually. In 2009/2010 marketing year Syria imported 1.5 million tones of wheat, which allowed Ukrainian exporters to keep a high level of shipments into this country.¹⁶

It is worth saying that Ukraine has managed to find new importers for the last three marketing years. Therefore, the geographical destination of Ukrainian wheat exports is expanding very fast. In the last three marketing years, Ukraine has started to export to the countries of the Equatorial Africa (Kenya, Ethiopia, and Eritrea). That Ukraine is searching for some other target markets of Ukrainian grain is explained by high competition with different exporters like the EU, Russia, and Kazakhstan.

The supply of Ukrainian wheat into the European Union market is done according to previously imposed quotas into Ukrainian wheat. That is why wheat shipments to the EU are not very large.

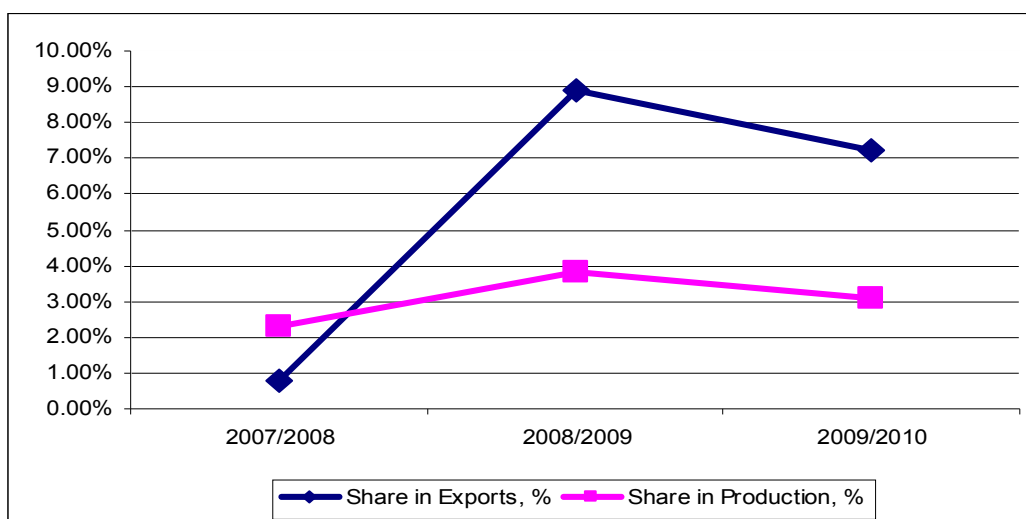


Figure 4.5: The Position of Ukraine on the World Wheat Market

Source: FAS USDA – Own Calculations

Regarding the fact that the EU market was being saturated by forage grain and regarding the fact that the intervention purchases of grains on internal market were

renewed, Ukraine completely lost its chances to increase the volume of grain exports in 2009/2010 marketing year. For example, Spain, which took the leading position in importing Ukrainian wheat from 2005/2006 to 2008/2009 marketing years, reduced its wheat imports significantly. Whereas Italy, which accounted for 3 percent of the total Ukrainian grain exports in the previous three seasons, disappeared from the list of the importers of Ukrainian grain.

Summarizing the main points of wheat exports for three seasons (from 2007/2008 to 2009/2010 marketing years), it is necessary to highlight a significant increase in exports of Ukrainian wheat to the countries of Asia, whereas the wheat exports to the North African countries decreased.

As for 2009/2010 marketing year, the second part of this season was not characterized by high volumes of export as it was in its first part.

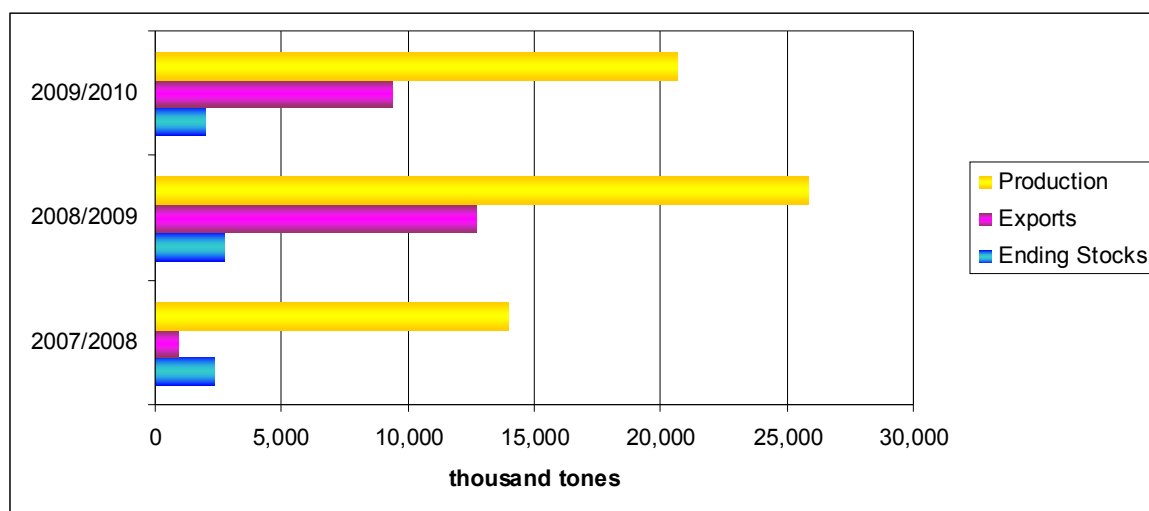


Figure 4.6: The Balance of Wheat of Ukraine

Source: Analytical Agency APK Inform

However, even though the exports of Ukrainian wheat reached the point of 9 million tonnes, this caused some troubles with the balance of demand and supply for wheat. Now that the actual level of wheat harvest, and hence, the total supply of wheat slumped in 2009, the wheat exports of more than 9 million tonnes were quite high. Consequently, in 2010 the ending stocks of wheat made up 1.9 million tonnes, whereas in 2009 the ending stocks of wheat made up 2.7 million tonnes.

The next point of the analysis is linked with exports of corn. First, let us see how the world situation on the corn market influenced exports of corn from Ukraine. The world production of corn in 2009/2010 did not exceed the level of production in 2008/2009 marketing year and made up 799 million tones.¹⁷ Regardless negative weather conditions during harvesting, the corn yield in the USA made up the record 334 million tones, which was in 27 million tones more that in the previous season.

The harvested acreage of corn in the USA was also extended. Large rains in Argentina promoted expanding the sowing area of corn, whereas a number of farmers in Brazil switched to soybean growing.

According to FAS USDA world corn consumption was up in 5 percent and made up 814 million tones, which was in 38 million tones higher than in 2008/2009 marketing year. World ending stocks of corn made up 131 million tones in 2009/2010 marketing year.

The volume of corn trade made up 84 million tones in 2009/2010 marketing year.

Table 4.3

World Balance of Demand and Supply of Corn, million tones

| | 2007/2008 | 2008/2009 | 2009/2010 |
|---------------------|-----------|-----------|-----------|
| Initial Stocks | 109 | 130 | 146 |
| Production | 792 | 792 | 799 |
| - Including Ukraine | 7.4 | 10.8 | 10.4 |
| Imports | 99 | 80 | 84 |
| Total supply | 1,000 | 1,002 | 1,029 |
| Consumption | 771 | 776 | 814 |
| Exports | 99 | 80 | 84 |
| - Including Ukraine | 2,1 | 5,5 | 5 |
| Total Demand | 870 | 856 | 898 |
| Ending Stocks | 130 | 146 | 131 |

Source: FAS USDA, Analytical Agency “APK Inform” – Own Calculations

This season was also characterized by high increase in corn demand from the countries of Latin America. There were also some changes in the EU. The surplus in forage grain supply resulted in the reduction of corn imports to 2.5 million tones. In 2008/2009 marketing year the volume of corn imports was 3.5 million tones. Therefore, this decreased the chances of Ukraine to export to the EU in 2009/2010 marketing year.

As a result, Ukrainian traders exported only 500 thousand tones to the EU in 2009/2010 marketing year.¹⁶

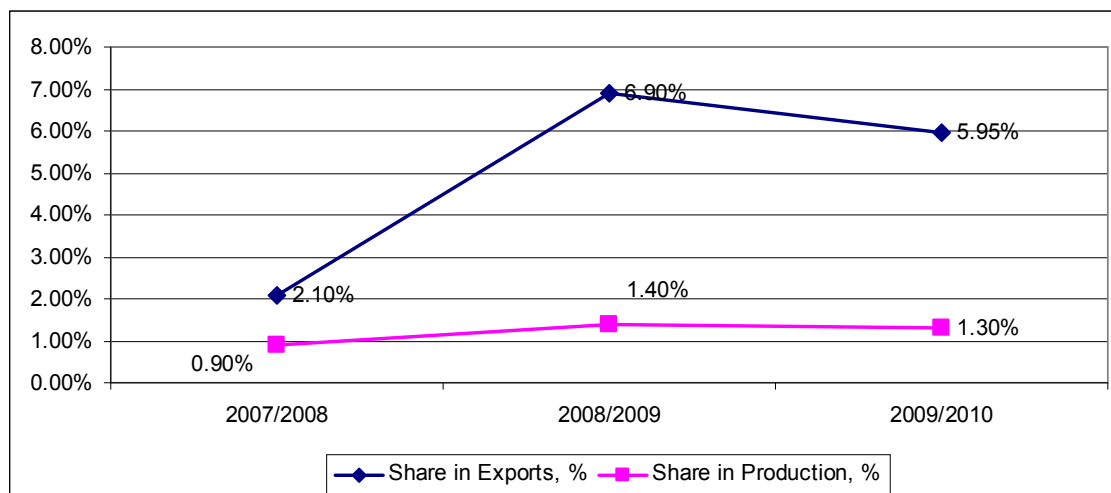


Figure 4.7: The Position of Ukraine on the World Market of Corn

Source: FAS USDA – Own Calculations

Concerning exports, we should mention the following: the USA exported 49 million tones of corn, Argentina and Ukraine exported 9.5 and 5 million tones respectively.

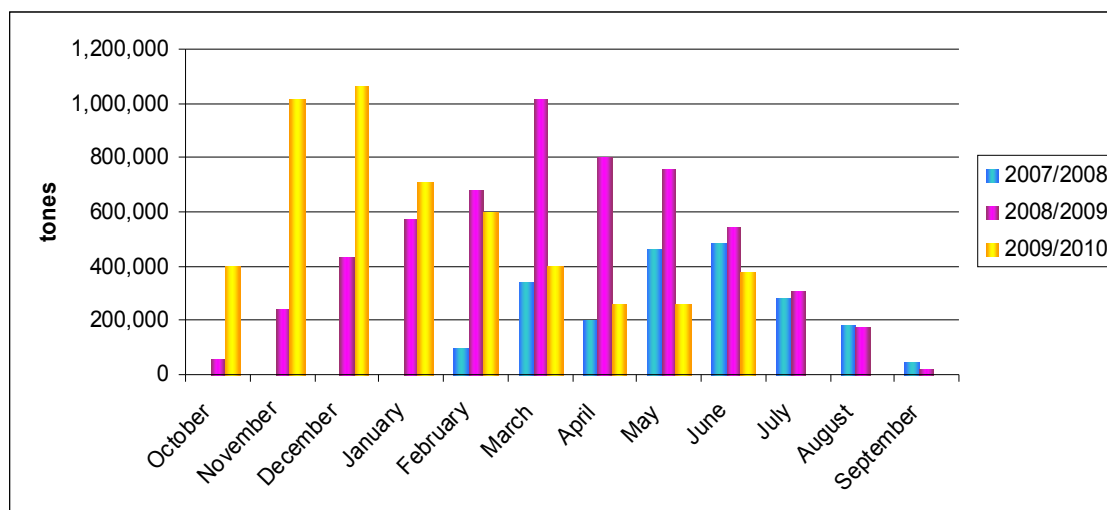


Figure 4.8: Ukrainian Corn Exports, 2007-2010

Source: Analytical Agency APK Inform – Own Calculations

¹⁶ Based on the Data of the Analytical Agency “APK-Inform”

Ukrainian corn, like Ukrainian wheat, showed the record volume of exports in 2009/2010 marketing year. Even though the volume of corn exports is a little bit lower than in 2008/2009 marketing year, we can state that it is more that in was in the previous seasons and, hence, Ukraine managed to keep quite a good position on the world corn market.

Being based on the conjuncture of the world market, it is possible to define the main importers of Ukrainian corn in 2009/2010. As in the previous years, the main importers of Ukrainian corn were the countries of the Middle East, including Syria, Egypt, Israel, and others. Moreover, at the same time Turkey, a large exporter of corn, got a corn yield in the amount of 150 thousand tones, which eliminated the fears of Ukraine about the competition of Turkey in the Middle East. Such countries of Northern Africa as Algeria, Morocco and Libya decreased corn imports in 2009/2010 marketing year, which brought down the shipments of Ukrainian grain.

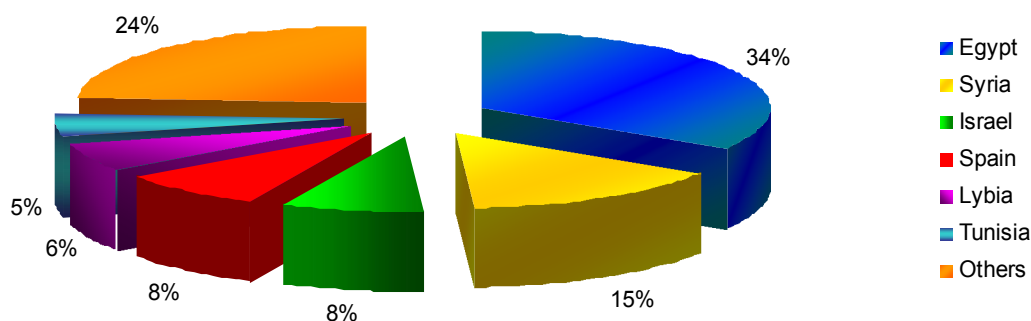


Figure 4.9: Exports of Ukrainian Corn by Regions, 2009/2010 marketing year

Source: Analytical Agency APK Inform

Another point is that total corn imports of the EU decreased in 1 million tones and made up 2.5 million tones compared with 3.5 million tones in 2008/209 marketing year. That is why Ukraine did not have any chances to raise its exports to the EU.

During 2007/2008 and 2008/2009 marketing years Ukraine found new target markets for its corn. Sine the US corn yield was down to the record low level for the last

decade, Ukraine “grasped” the chance to export corn even to Japan, South Korea and the Philippines. Thus, the target market of Ukrainian corn was altered from the EU and the Commonwealth of Independent Countries (Byelorussia, Russia, Moldova, and others) to Eastern Asia. However, in 2009/2010 marketing year the USA got a high corn yield. That is why the shipments of Ukrainian corn to new markets were a little bit problematic.

According to the balance of demand and supply of Ukrainian corn, in 2009/2010 marketing year the corn yield differed slightly compared to 2008/2009 marketing year and made up 10.5 million tones. Therefore, Ukraine exported 5 million tones of corn.

With regard to the exported volume of corn and positive foreign demand on corn, we can conclude that the export “maximum” was provided. Consequently, Ukraine kept quite a suitable position on the world market of corn. But as in the case of wheat export, the ending stocks of corn were also very small and made up 800 thousand tones.

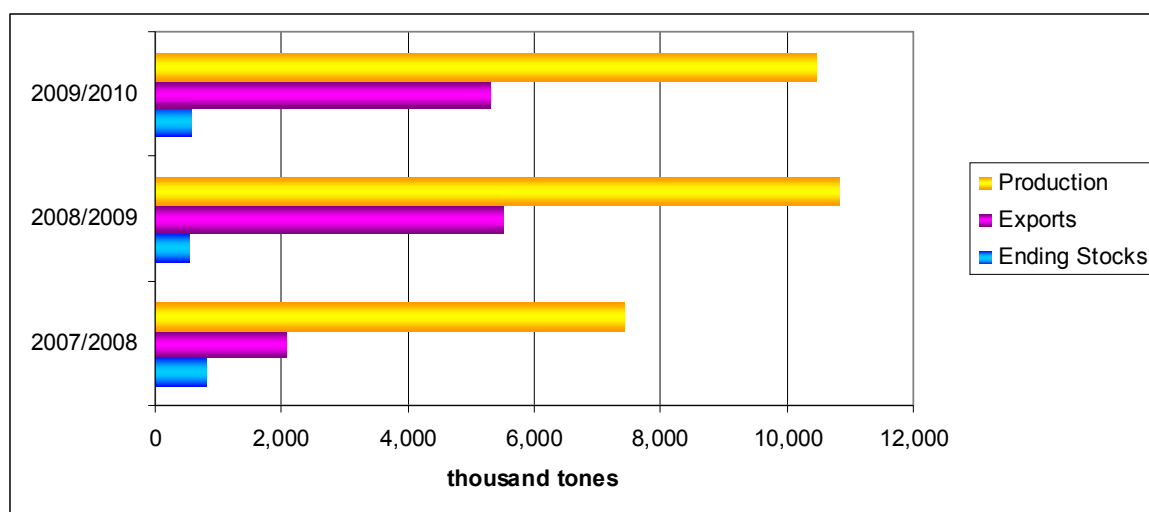


Figure 4.10: The Balance of Corn of Ukraine

Source: Analytical Agency APK Inform

It is also necessary to stress the importance to exports of Ukrainian barley. In 2009/2010 marketing year the world trade in barley made up 17 million tones (in that forage barley trade made up 13.6 million tones), which was in 13 percent lower than in

2008/2009 marketing year. The main reason for that was a large barley harvest in the main barley importing countries. These are the countries of Southeastern Asia and Northern Africa. For example, the countries of Northern Africa harvested more than 6 million tones of barley in 2009/2010 marketing year, whereas in 2008/2009 marketing year the barley harvest made up only 2.2 million tones.¹⁶

Table 4.4

World Balance of Demand and Supply of Barley, million tones

| | 2007/2008 | 2008/2009 | 2009/2010 |
|---------------------|-----------|-----------|-----------|
| Initial Stocks | 22 | 20 | 30 |
| Production | 133 | 153 | 148 |
| - Including Ukraine | 6.0 | 12.3 | 11.8 |
| Imports | 15 | 20 | 17 |
| Total supply | 170 | 193 | 195 |
| Consumption | 135 | 143 | 146 |
| Exports | 15 | 20 | 17 |
| - Including Ukraine | 1 | 6.4 | 6.2 |
| Total Demand | 150 | 163 | 163 |
| Ending Stocks | 20 | 30 | 32 |

Source: FAS USDA, Analytical Agency “APK Inform” – Own Calculations

This brought about increase in competition between the main exporters of barley: the EU and Ukraine. However, in this case Ukraine got an advantage over the EU in barley export. The competitiveness of the EU barley lowered compared to the Ukrainian one, which increased the chance of Ukraine to export its grain in larger volumes.

As in the previous years, the main importers of Ukrainian barley were the Middle East countries and the Northern Africa countries. For example, Jordan, a large Middle East importer of barley, bought 300 thousand of barley in 2009/2010 marketing year, in that 85 percent of grain was imported from Ukraine. This is explained by the price decrease on Ukrainian barley. Moreover, Israel, which imports 400 thousand tones of barley annually, was oriented exclusively into Ukrainian barley.

¹⁶ Based on the Data of the Analytical Agency “APK-Inform”

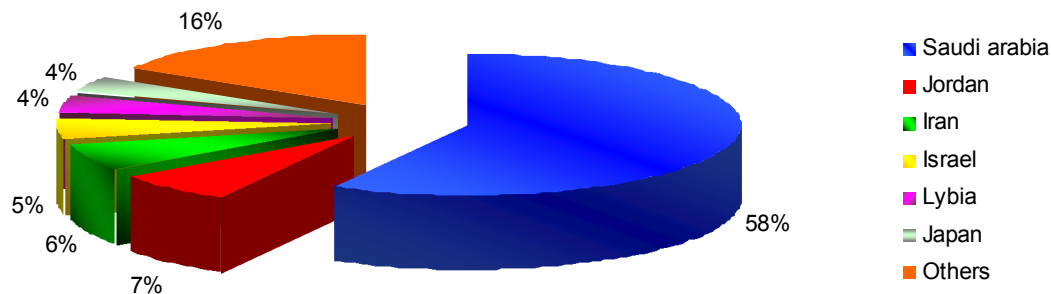


Figure 4.11: Exports of Ukrainian Barley by Regions, 2009/2010 marketing year

Source: Analytical Agency APK Inform

A number of the largest Middle East importers such as Iran, Syria, and some countries of Northern Africa decreased their barley imports from Ukraine due to high yield of the crop. In 2009/2010 marketing year The Middle East countries imported 11.2 million tones of barley (in 2008/2009 marketing year imports made up 12.8 million tones) and Northern Africa countries 0.8 (1.4 million tones in 2008/2009 marketing year) respectively. The decrease of barley imports by Syria was also caused by imposing of barley and corn import duties, which was done with the aim of the support of the local operators on the grain market of Syria. At the first time the grain import tariff was at the level of \$ 77 per tone, but later the corn import tariff made up \$ 22 per tone and the barley import tariff made \$44 per tone.¹⁶ The tariffs were lowered because of the pressure of the local operators of the Syrian grain market. Nevertheless, despite large protests and pressure of the local operators to abolish import duties, the government continued conducting its import tariff policy.

In recent years the corn and barley production in Syria hasn't been in bulk because of increasing the volume of grain imports. At the same time, the quality of Syrian grain was very poor (because of lack of and grain elevators). Most of the analysts are sure that the new governmental policy of Syria in relation to imports will influence

the formation of the price conjuncture on the grain market and will enable to extend the access of Ukrainian grain to the given market.

It is important to state that Ukraine also faced a fierce competition from Turkey that had a high barley yield in 2009/2010 marketing year. It managed to export 350 thousand tones.

Traditionally, the largest importer of Ukrainian barley is Saudi Arabia. It usually imports from 2 to 3.5 million tones of Ukrainian barley. Saudi Arabia imported 3.4 million tones of Ukrainian barley in 2009/2010 marketing year.¹⁶

The perspectives of the development of the forage barley market in Australia were on a low level in 2009/2010 marketing year. This was explained by large grain stocks in both the EU and Ukraine, which made the pressure on the barley prices. Consequently, trade in Australian barley was very low on the grain market of Saudi Arabia in 2009/2010 marketing year.

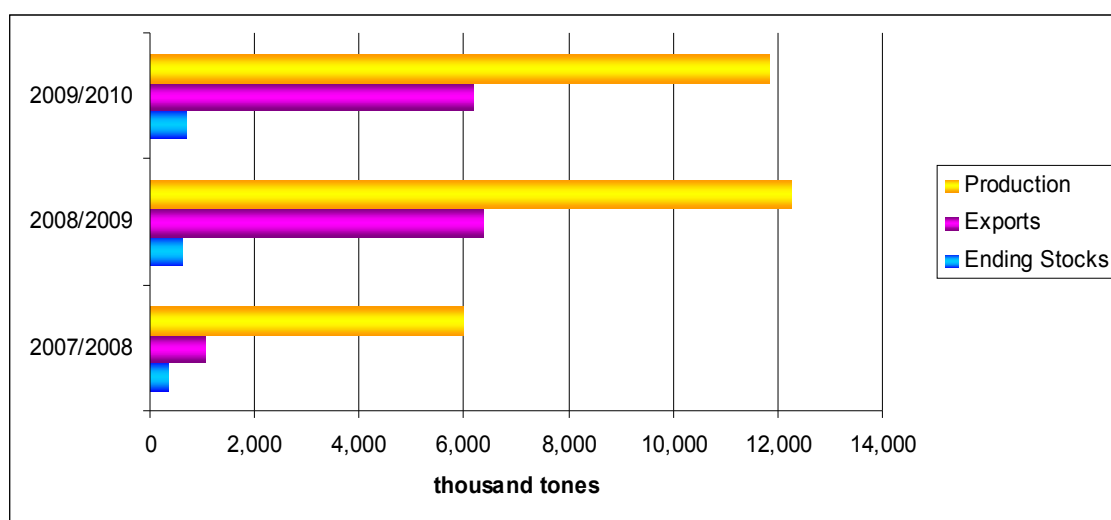


Figure 4.12: The Balance of Barley of Ukraine

Source: Analytical Agency APK Inform – Own Calculations

It is necessary to state that a high barley yield in 2009, which made up 11.8 million tones, allowed Ukraine to satisfy all domestic needs and to keep a high volume of exports. Consequently, Ukrainian traders exported 6.2 million tones of barley in

¹⁶ Based on the Data of the Analytical Agency “APK-Inform”

2009/2010 marketing year. This means that Ukraine kept the leading position among the main exporters of barley in the world.

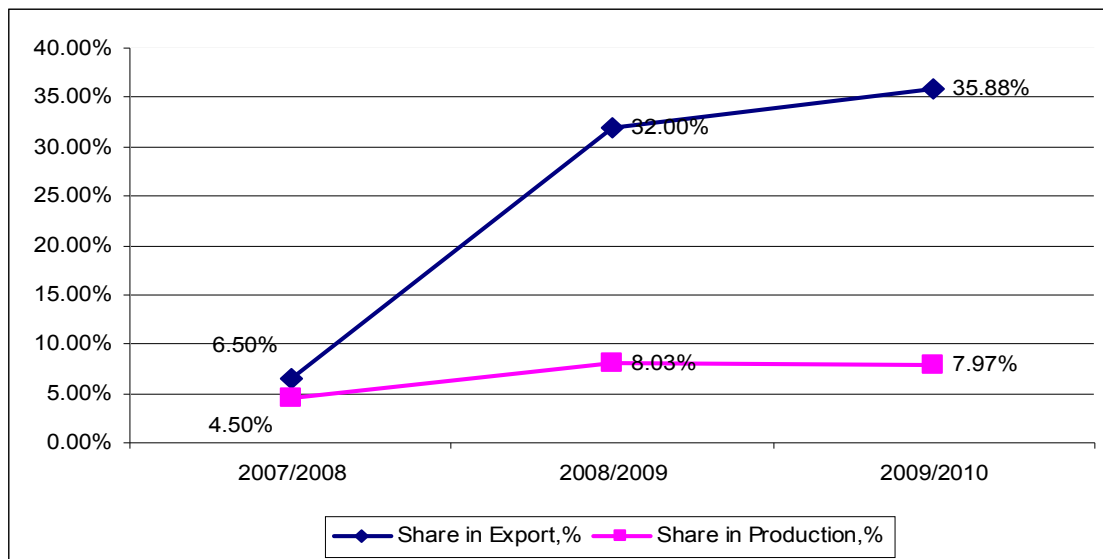


Figure 4.13: The Position of Ukraine on the World Market of Barley

Source: FAS USDA – APK Inform – Own Calculations

Analyzing the next graph, it is possible to conclude that barley exports had positive trends in 2008/2009 and 2009/2010 marketing years. Hence, Ukrainian grain traders exported 6.4 and 6.1 million tones of barley respectively.

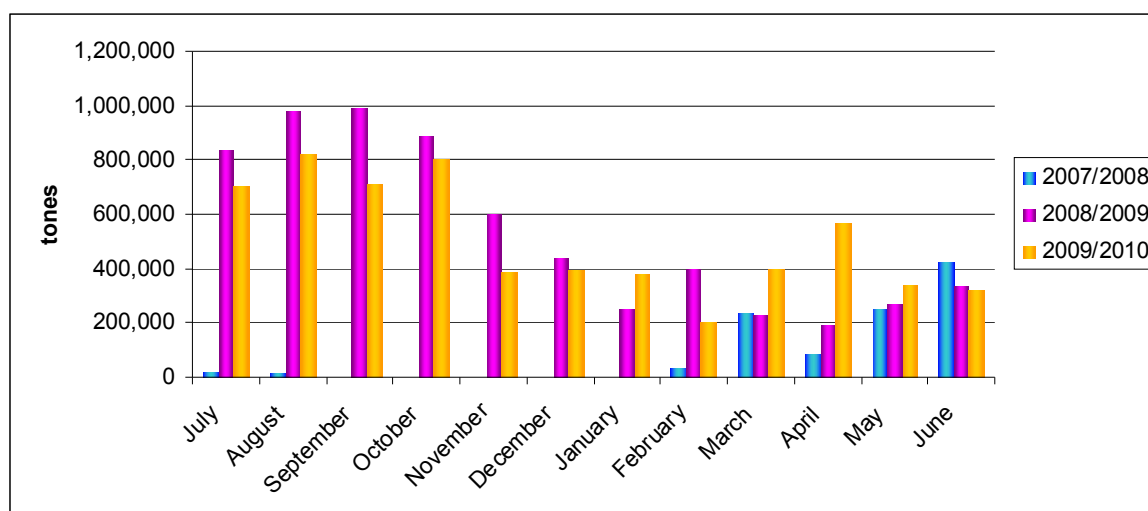


Figure 4.14: Exports of Barley from Ukraine, 2007-2010

Source: Analytical Agency APK Inform – Own Calculations

Summarizing all the above analysis, it is worth indicating the main repercussions that have been gotten for the last marketing years. Firstly, it is necessary to highlight a significant rise in the volume of grain exports. But this was rather quantitative change than qualitative. The problem of quality is still being ranked on the first place in the agenda of Ukrainian farmers and grain traders. Secondly, there have also been large changes in the target market of Ukrainian grain. Let us see the main outcomes of the situation.

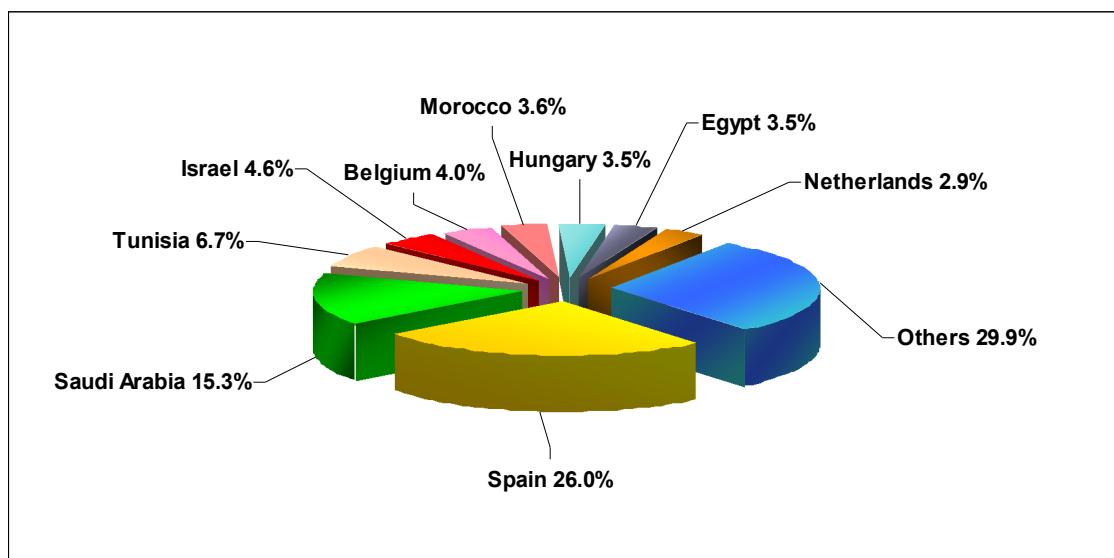


Figure 4.15: Exports of Ukrainian Grains by Regions, 2002/2003 Marketing Year

Source: State Statistics Committee of Ukraine – Own Calculations

As we can see from the figure, Ukrainian grains took a large share on the European market. The largest imported of Ukrainian grain was Spain. Spain imported 26 percent of Ukrainian grain. However, the situation has been altered a lot. The share of the Ukrainian exports to the EU has fallen substantially.

There are several reasons for that. The first reason is low quality of Ukrainian grain, which brought about the decrease of the EU imports of Ukrainian grain. Consequently, the EU imposed import duties and quotas on Ukrainian grain in 2008. They were as follows: import duties for wheat made up 95 Euros per tone, for barley – 93 Euros per tone, for rye and sorghum 24.16 Euros per tone and for corn 8.68 Euros per tone. Although the duties are not as strict as they used to be, still Ukraine is having

troubles operating on the EU grain market. Therefore, Ukraine had to switch to new markets. That is why the target market of Ukrainian grain has been expanded.

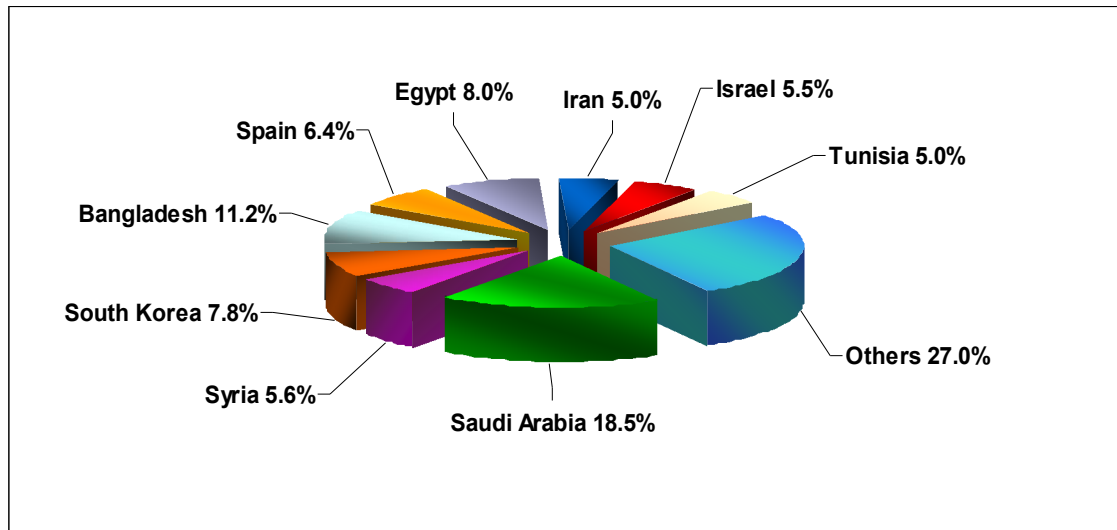


Figure 4.16: Exports of Ukrainian Grains by Regions, 2009/2010 marketing year

Source: State Statistics Committee of Ukraine – Own Calculations

In conclusion, it is necessary to point out that despite high grain exports rate in 2008/2009 and 2009/2010 marketing years, the selling prices did not exceed much the level of cost of production. Still, the grain sales revenue is a large support to farmers and to agrarian enterprises that have to work in tough economic conditions. It is not a secret that Ukrainian farmers had to sow grains at their own costs. Now that the banking system of agricultural financing offers high interest rates ranging from 30-35 percent and in some cases 50 percent, it is becoming difficult to get a loan for an average farmer or an agricultural enterprise. Another point is that the governmental expenditures with regard to agriculture support have been cut significantly. For example, the governmental expenditures towards agriculture made up only 3.3 billion UAH (300 million Euros) in 2010, whereas in 2009 agricultural expenditures were in 3 times larger than in 2010. Thus, this has made a negative impact on the whole branch.¹⁶

However, together with that, agriculture is the only one branch which has been showing economic growth and has improved the real GDP of the country. That is why

¹⁶ Based on the Data of the Analytical Agency “APK-Inform”

the government must pay much attention to agriculture and grain exports and consider it as one of the main strategic branches of the country's economy.

4.2 Grain Export Competitiveness of Ukraine: the Evaluation of its Key Factors

In the previous subchapter we made the grain exports analysis. An emphasis was also done on the failures on Ukrainian grain traders to enter one or another market. The reasons for these failures are directly related to the problems of grain quality, which pushes the competitiveness of Ukrainian grain down. That is why it is important that the key grain export competitiveness factors be evaluated. So, first of all it is necessary to define "competitiveness" itself.

Competitiveness can be determined as an ability of a given product or (aggregated at a specified level) the production of an industry to be in greater demand in foreign markets and at the same time retain a high proportion of external demand in its general output, subject to the best meeting of domestic demand.²⁰

Grain, as a product, is related to the group of industrial goods and is considered as part of raw materials that are necessary for the production of goods of prime necessity. A specific character of grain production is defined by inconsistency of the period of production and the working period. Therefore, it is characterized by seasonality. The processes of grain production themselves are related to the main means of production in agriculture –land and quality and intensity of its usage.

Consequently, positioning of grain has its specific features when compared to both nonindustrial goods and to such industrial goods as wood, oil, coal and etc. Positioning of grain also differs from the positioning of other agricultural goods.

Since grain is a specific product it is influenced by a number of specific factors that are appropriate only to grain. In order to improve export competitiveness of such product as grain it is vital that the export competitiveness factors be split into separate categories that will account for different export competitiveness components.

²⁰ Evaluation of product competitiveness in the context of modern trade - www.springerlink.com/content/p7646501670123p3/

Export competitiveness of grain can be characterized by the following groups of parameters: economic, consumer, regulatory, environmental and marketing. They are also divided into more narrow categories.

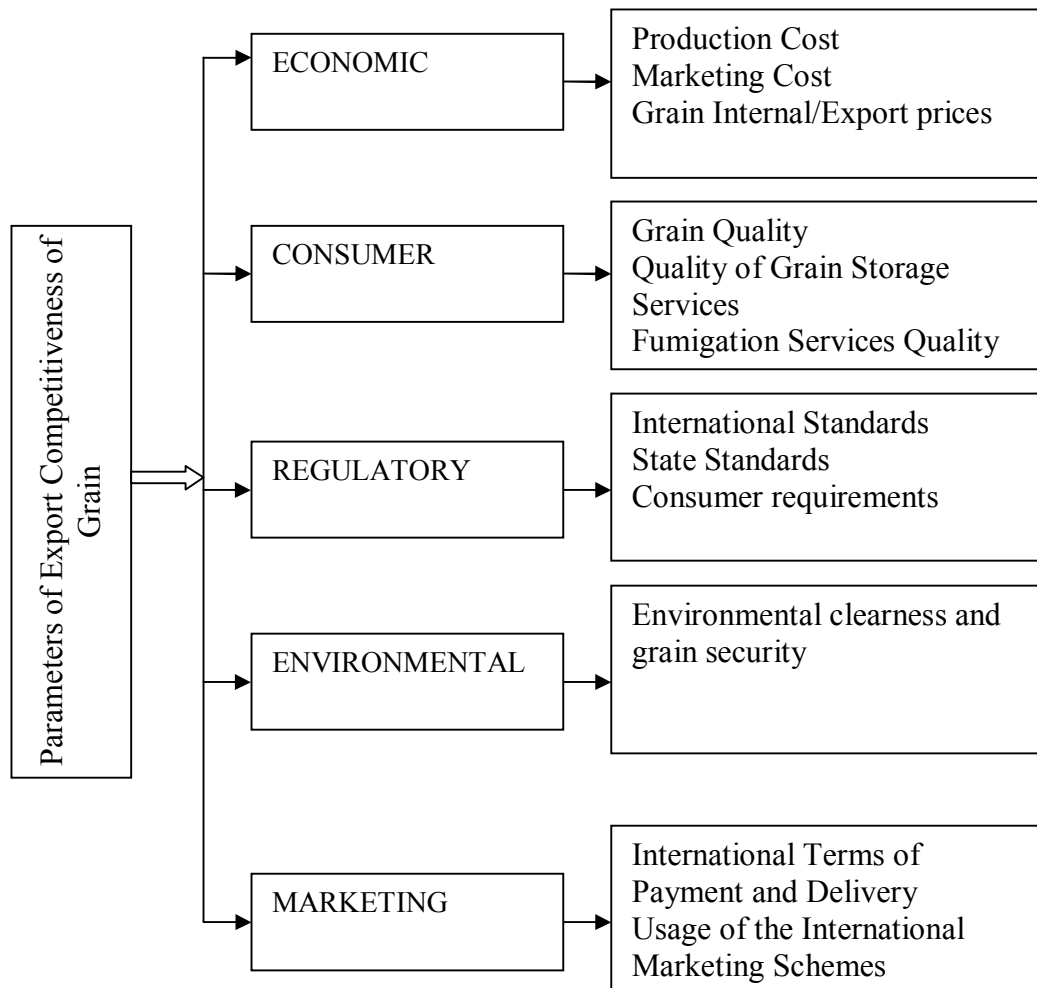


Figure 4.17: The Main Parameters of Grain Export Competitiveness

Source: Nikyshina, O. The Problems of implementation of competitive advantages of Ukrainian grain on the World Grain Market.

The main parameters of grain export competitiveness on the world market are economic criteria (low exporting prices). However, there are a number of difficulties applying consumer and regulatory criteria, whereas environmental and marketing criteria are not being implemented by grain traders at all. Consequently, this decreases grain competitiveness on the world grain market, lowering and worsening grain traders' export efficiency and flexibility in the future.

So, at the beginning it is important to start with the main factor of grain export competitiveness – export prices and how they influence the situation.

For the period from 1999/00 to 2007/08 marketing years the export price of one tone of Ukrainian grain exceeded the domestic grain price in average in 23.4 %; at the same time the largest price gaps were shown in 1999/00, 2002/03 and 2005/06 marketing years(110.4, 40.9 and 33.9 percent respectively).⁹ The main reason for a large gap between domestic and grain export prices are high infrastructure expenditures of Ukrainian exporters and the overstated sum of their margin. Another point that in such important industry as grain industry the Government of the country practically does not do any measures against the price volatility in the country. Consequently, this disturbs and complicates grain export activities.

On the other hand, the export prices of Ukrainian grains are, on average, in 10-30 percent lower that the world ones.

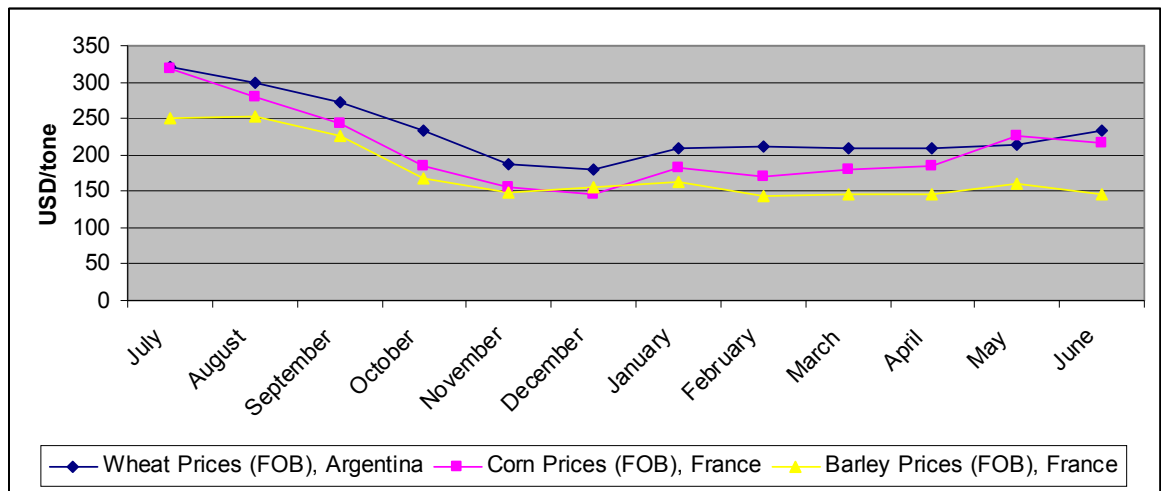


Figure 5.18: World Exporting Prices of Grain, 2008/2009 marketing year

Source: APK Inform – Own Calculations

In deed, in 2008/2009 marketing year the exporting prices of wheat in Ukraine made up \$170-180 per tone whereas the average world exporting price of wheat made up \$205-220 per tone. Thus, in spite of natural advantages of grain growing in Ukraine, the imperfection of the price mechanism leads to double loss of Ukrainian farmers and

⁹ Nikyshina, O. The Problems of implementation of competitive advantages of Ukrainian grain on the World Grain Market. Economic Innovation, 2007.

grain traders. These losses arise from exporting at lower prices than the world ones. Another point is that these losses are also caused by exporting at the prices that do not correspond to the efficient parameters of the resource potential recovery of the grain industry.

On the one hand, low prices of domestic grain are also considered as a competitive advantage on the world grain market, on the other hand, they destroy the financial basis of the agricultural sector development on the domestic market, decreasing the competitiveness of the ultimate producers and, consequently, the production and export potentials of the grain industry of Ukraine.

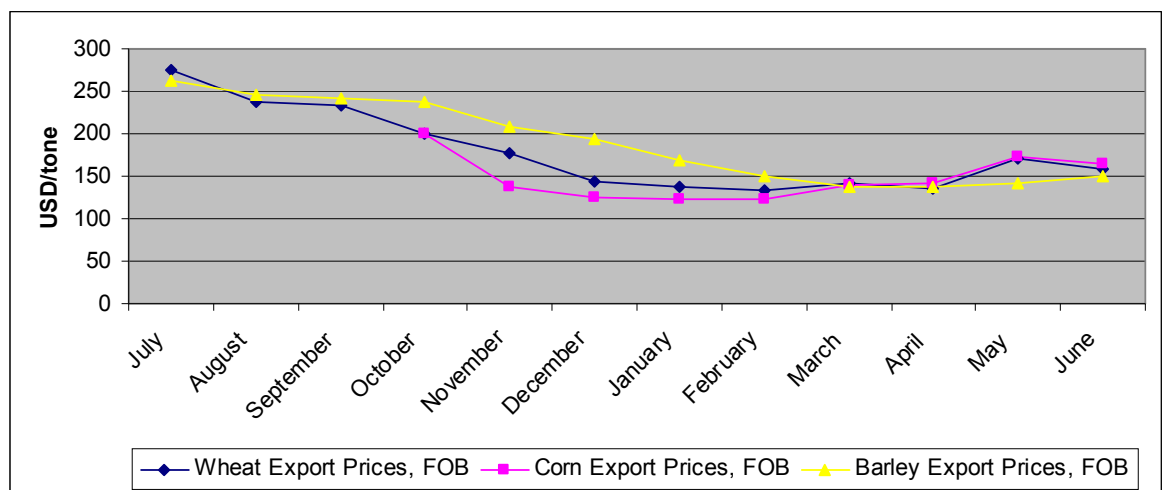


Figure 5.19: Ukrainian Exporting Prices of Grain, 2008/2009 marketing year

Source: APK Inform – Own Calculations

There are a number of factors that influence the export prices and at the same time improve export competitiveness of the grain. They include price and marketing costs. These components are of great importance when export competitiveness is considered. These parameters directly influence the export price formation are also included to the price. Let us point out that the “Marketing Chain” in the grain industry means all ways channels through which grain is supplied and delivered from “the field” to the “port”. This includes a set of transportation expenditures, infrastructure and storage expenditures. There are a lot of examples of the facts that the cost of the marketing chain (per tonne) increased in 210 UAH (20 Euros) from October, 2007 till July, 2009. If talking in general, grain traders spent nearly 5 billion UAH (500 million

Euros). That is why this has caused some troubles with exporting prices. It is worth pointing out that this is the governmental responsibility to provide different marketing chain services to grain traders and farmers. For Ukraine, it is vital that the government positively influence and solve these problems by specific measures from its side.

As for production costs of grain there, another factor than influences grain export competitiveness, are also some problems. Production costs of wheat and barley have also increased in the current season despite higher yields. Higher costs were caused by rising input costs (25-35%), higher oil prices as well as by a 35-40% increase in labour costs.⁹ Growing costs of financing as well as an increase in lease rates have also added to this.

Another group of parameters that is used for improvement of export competitiveness of grain is the consumer group of parameters. These factors, which define grain characteristics and the quality of fumigation and grain storage services, are on the half way of application.

Thereafter, the unused potential of these parameters includes the directions of the grain competitiveness increase for grain producers in the short run. Unfortunately, the implementation of the consumer parameters of export competitiveness of grain is an extremely complicated task.⁹ This is explained by the vital need to balance the multifactor economic interests of market players in the process of grain quality formation at the all levels of technological chain: field – elevator – port – consumer.

Unfortunately, Ukrainian farmers and agricultural enterprises are facing the problem of the decrease of food grain share in the total grain yield. This is explained by both insufficient motivation of farmers to raise high quality grains and by absence of an efficient mechanism that would balance the interests of producers, farmers, elevator holders, and exporters. This insufficient motivation is caused by a low profit margin and a low profitability rate. The latter results in the failure to use proper agricultural technologies, the failures to keep appropriate crop rotation and in the failure to use high quality seeds etc.

⁹ Nikyshina, O. The Problems of implementation of competitive advantages of Ukrainian grain on the World Grain Market. Economic Innovation, 2007.

Therefore, the existing unequal economic relationships between the players of agricultural, processing, and infrastructural sectors of the domestic grain market are reflected in high tariffs on grain elevator services, biased grain quality measurements, lower grain purchasing prices. All these factors motivate and persuade farmers and agricultural enterprises to keep their harvested grains in their own warehouses, which, often leads to the losses of the consumer properties of grain, and consequently, to lower prices.

The task of grain quality upgrading stipulates the necessity to improve the grain storage and fumigation services that also influence the “grade” of grains, improvement of the system of standardization and certification on grains with regard to the international norms and standards. Nowadays the normative and regulatory parameter of grain export competitiveness of Ukrainian grain is being in the process implementation. The improvement of the existing standards of grain quality and its harmonization with international standards are of high importance for both producers and exporters. On the one hand, the usage of the precise methods of grain quality parameters at grain elevators will promote solving the problems with biased determination of grain grade, and, accordingly, establishment of equal economic relationships between the players of agricultural, processing, and infrastructural sectors of the domestic grain market. [9] On the other hand, the existence of harmonized standards will result in diminishing of additional expenditures on duplication of grain certification in exporting and importing countries.

It is worth reminding that Ukraine has already made several steps towards the improvement of grain quality. However, these actions are considered as ambiguous ones. A new state standard 3768: 2009 “Wheat. Technical Specifications” has been issued since July 1, 2009. It replaced the old one called “Technical Specification of wheat 3768:2004”. A new standard has put forward higher requirements to the quality of grain on such parameters as the content of protein and gluten. According to this standard, grain is divided into two groups and six grades.

Group A - I, II and III grain grades (the content of protein is no less than 11 %, the content of gluten must exceed 18 %);

Group B - IV and V grain grades (the content of protein is no less than 11 %, the content of gluten is less than 18 %);

Grain of the Group B is also considered as food grain. Now grain only grain of the VI grain is considered as forage grain, because the content of protein makes up 11% and the content of gluten is less than 18 %. In the previous years food grain had to include more than 20 % of gluten and the content of protein had to make up more than 14 percent. According to the estimations of producers and farmers, the implementation of new standards will not stop grain traders from underpaying farmers and agricultural enterprises.

The scheme of doing that has been used for many times. Grain traders pay farmers and agricultural enterprises for grain as if it is forage, arguing that grain has got insufficient content of gluten. After that, this grain is exported as food grain because the main parameter that is taken into account abroad is the content of protein, but not gluten. Even if infrastructure costs are included in the price of wheat export, net profit of grain trade companies makes up 100 percent.

One of the most important factors that is not applied to Ukrainian grain is environmental clearness and security of grain. Because of the economic and financial crisis, especially deficit of current assets of grain producers, the usage of mineral fertilizers has fallen dramatically for the last three years. Thus, the losses of natural soil fertility have been stopped. Nowadays the country has vast areas of environmentally clean black soils that can be used for organic farming, regarding the fact that there are all conditions for that.

Organic farming is widely spread in the world. Large areas of land are used under organic farming. For example, in the Europe the area of land under organic farming makes up 5.1 million hectares, in North America – 1.5, Latin America 4.7 and Australia – 10.6 million hectares.⁹ The world market of organic production was evaluated in \$23-25 billion in 2006. The situation on the world markets of food is now showing a growing interest of consumers in healthy and nutritious products, which will ultimately protect the environment. There are a lot of countries, including the USA and

⁹ Nikyshina, O. The Problems of implementation of competitive advantages of Ukrainian grain on the World Grain Market. Economic Innovation, 2007.

Europe, where the markets of organic agricultural products and food have been established. Together with that, these markets are supported by appropriate infrastructure, certification and marketing and other necessary elements.

The marketing parameters of export competitiveness of grain are not developed to the needed extent. When exporting Ukrainian grain at dumping prices, grain traders get the opportunities to sell grain on external markets without any additional affords and investments in the development of their own distribution and marketing channels. The absence of the long term marketing strategies of Ukrainian exporters brings about limitations in the relation to efficient promotion and selling of grain on foreign markets, conducting an efficient pricing strategies and formation of the concept of the international product.

After all the important parameters and factors have been analyzed, it is necessary to show and estimate the level of export competitiveness of grain. This will enable us to find out how grain export potential was revealed.

In order to evaluate export competitiveness of grain in dynamics it is necessary to calculate the indexes of export competitiveness for particular grain (wheat, corn and barley) and a general index of grain export competitiveness. Then it will be possible to evaluate export possibilities and potential of grain.

$$CEC_i = \frac{SWE_i}{SWP_i},^6$$

CEC_i - Competitiveness Export Coefficient of Particular Grain;

SWE - Share of a country in World Export of particular grain

SWP Share of a country in World Production of particular grain.

Now that,

$$SWE = \frac{E_i^c}{E_i^w},$$

⁶ Komarova I. The evaluation of the budget support of Ukrainian agriculture, World of Finance, September, 2008.

$$SWP = \frac{P_i^c}{P_i^w},$$

E_i^c - Export of particular grain by a country;

E_i^w - World volume of Export of particular grain;

P_i^c - Production of particular grain by a country;

P_i^w - World Volume of Production of particular grain;

Consequently, we shall get the following:

$$CEC_i = \frac{\frac{E_i^c}{E_i^w}}{\frac{P_i^c}{P_i^w}} = \frac{E_i^c P_i^w}{E_i^w P_i^c}$$

Let us find out the outcomes of grain export competitiveness and show them in a table.

If the calculated indexes are higher than 1, this means that the domestic needs in grain allows the country to export grain. Having analyzed the obtained data, it is necessary to state that the situation with grain export competitiveness was volatile.

Table 4.5

Export Competitiveness of Ukrainian Grain

| Type of Grain | Competitiveness Export Coefficient | | | | |
|------------------|------------------------------------|-----------|-----------|-----------|-----------|
| | 2005/2006 | 2006/2007 | 2007/2008 | 2008/2009 | 2009/2010 |
| Wheat | 1.87 | 1.22 | 0.38 | 2.32 | 2.41 |
| Corn | 2.9 | 1.25 | 2.26 | 4.45 | 4.35 |
| Barley | 3.39 | 4.08 | 1.24 | 4.26 | 4.35 |
| Grain in General | 2.49 | 1.73 | 0.99 | 3.32 | 3.34 |

Source: Own Calculations (on the basis of FAS USDA Data)

In 2007/2008, Ukraine was not able to embody its export potential for grain, and particularly for wheat. One of the reasons for that was the imposition of export quotas by the government. For corn, wheat and grains in general the index of export

competitiveness was fluctuating and was not stable. In 2009/2009 and 2009/2010 marketing years Ukraine showed its stable export competitiveness.

Even if the volume of exports was lower in 2009/2010 than in 2008/2010, the index of export competitiveness was higher. This can be explained by some positive measures taken by the state (a new state standard for wheat quality). That Ukraine did not embody its export potential in 2007/2008 marketing year must be taken into account by the government so that it could implement all measures in order to guarantee the stable position in the world grain market.

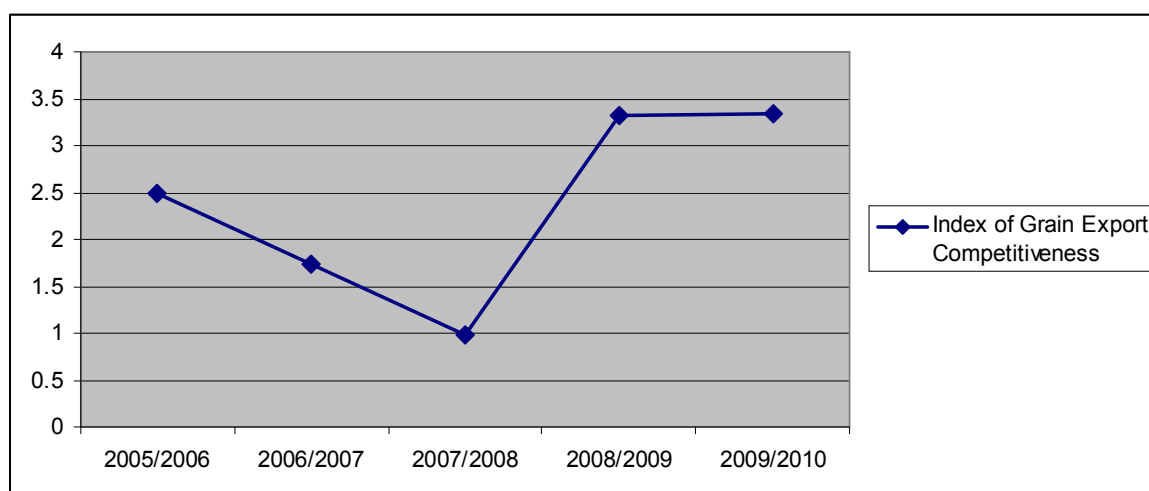


Figure 4.20: Index of Grain Export Competitiveness

Source: Own Calculations

It is necessary to highlight that in May 2008 the government of Ukraine abolished all the export restrictions on grain: quotas and export licensing were cancelled. This was related to the entrance of Ukraine into the World Trade Organization. This is seen as a positive development for the Ukrainian grain industry, as it somewhat limits government's interference into the grain market and helps Ukraine feel safer on many markets globally. It is also seen positive for producers, as it makes the import of new equipment and other elements of production technologies much easier and cheaper. It would also stimulate investments into all segments of the grain business.

However, at the beginning 2010/2011 marketing year the situation became worse than it was in the previous two marketing years. The government had imposed export quotas again regardless quite a good grain yield of 40 million tones. This will cause serious troubles for both grain export competitiveness and Ukrainian image as the member of the World Trade Organization.

4.3 Proposals and Recommendations

As we have already seen foreign trade of Ukraine in grain is of really high importance for the whole country. However, there are still a lot of unsolved tasks for grain export competitiveness and at the same time grain export potential. But there are a lot of measures that can be taken by the government. Unfortunately, they are not being implemented intensively. But farmers, agricultural enterprises and some grain exporters can't do all the things by themselves. They do not have enough funds and financial power in order to resist against global financial crises and disruptions and against some external situations that are influenced by the world situation on the grain market. So, first of all, the government must be interested in the development of export potential of the country, because it has a strategic importance, creates 4 percent of GDP and creates comparative advantage. Consequently, there should be some crucial steps than can be applied to the grain industry and, particularly to export potential and competitiveness.

One of the recommended steps is related to the establishment of the State Representative Council for Grain Exports. This is a state organization that would represent the whole state in the world grain trade. Some of the countries have already set up such organizations. They are France, the USA, the Russian Federation Australia and others. These organizations are in charge of supporting exports through finding the ways of its expanding. As usual, these state organizations try to make new export agreements between different countries as far as grain export shipments are concerned. Unfortunately, there is no such and organization in Ukraine. Consequently, grain export potential of the whole country "is stuck" in the middle.

Another point is that agricultural enterprises and farmers do not wish to raise high quality grain, thus willing to grow low quality grain. Thus, this affects export

competitiveness of grain. The reason for that is lack of finance, technology basis and infrastructure for raising high quality crops. The government itself does not support farmers and agricultural enterprises much. That is why small and medium-sized farmers quit the grain industry and switch to some more profitable branches of agriculture. Therefore, it would be very sound if there were the State Support Fund for Farmers and Agrarians. This would enable to decrease costs of production (because now the agrarians use old technology and techniques for grain rising) and thus, improve profitability and grain quality.

Another negative fact that should be changed is the legislation basis of the grain industry and agricultural sector in general. This does not stimulate foreign companies to invest into Ukrainian agriculture and the grain industry. It concerns especially Ukrainian grain infrastructure, the logistic system and some other strategic points that are important for grain exports. That is why the change of the legislation basis should be taken into account.

In order to facilitate the adaptation mechanism of improvement of grain competitiveness of Ukraine on both domestic and foreign markets it is necessary to follow the implementation of unused competitive advantages of domestic grain products with the help of the following principles and recommendations:

- A system development of all parameters of grain export competitiveness, not just stressing importance of economic constituents (especially economic parameters);
- Equilibration of multifunctional economic interests of producers, farmers, exporters and the government in the process of application and usage of export competitiveness of the Ukrainian Grain Market;
- The implementation of competitive advantages of Ukrainian grain on the World Market should not decrease the competitiveness of domestic grain producers and their production on the internal market.

Having taken into account the given recommendations and principles, it is possible to propose the following mechanism of grain competitiveness improvement on both internal and external markets via special principles:

- Stimulation and promotion of national production of high quality mill grain. The stimulation instruments can include both new stimulation and subsidies system (for

example, high subsidies for “high grade” grain) and existing subsidies system; at the same time it is important to provide accessibility, clarity and fairness of subsidies allocation among producers and farmers;

- Price support of grain producers through the increase of effectiveness of the existing mechanism of the state price regulation. If state purchases are based not on the price ceiling but on market prices, then this will promote increasing of profitability of grain rising and investments into qualitative innovational development;

- The change of grain flows from “obscure” distribution channels to highly organized distribution chains, called wholesale markets of agricultural products;

- Reinforcement of the state control over the process of grain grade definition on grain elevators through creation of regional laboratories of grain quality.

- Improvement of quality of grain storage and fumigation services, their certification with accordance to the requirements of international standards, optimization of the tariff policy;

- Strengthening of the state control over export and import operations on the grain market of Ukraine; stimulation of Ukrainian grain exporters that provide export competitiveness of grain by means of its high quality, environmental clearness and security, by means of the systems of strategic marketing and logistics, but not through dumping prices;

- Improvement of the existing national standards of grain quality on the basis of experience of the countries which are good in grain standardization;

- Stimulation and implementation of environmentally friendly technologies in the grain industry.

It is important that all these recommendations be taken into account. Only if the government starts implementing the main principles of grain export competitiveness will Ukraine be able to realize its export potential and to show high export competitiveness.

5. CONCLUSIONS

Having done the analysis of the issues presented in the diploma thesis it is necessary to conclude and summarize the following points:

1. International and foreign trade is very important for the national economy of every country in the world. Today, on a global average, nearly 15 per cent of the national product ends up in foreign markets and an almost equivalent percentage of the domestic consumption is met by goods imported. There are several reasons why countries trade with each others. First, countries trade because they are different from each other. Nations, like individuals, can benefit from their differences by reaching an arrangement in which each does the things it does relatively well. Second, countries trade to achieve economies of scale in production.

2. Foreign Trade is conducted and regulated through the foreign trade policy which is defined as a collection of rules and regulations that pertain to foreign trade. It is divided into free trade policy and protectionism. There are also some methods of foreign trade regulation that are divided into tariff and non-tariff methods. They are used for both protection of national economy and for its support. Nowadays, some of the methods are prohibited by the World Trade Organization.

3. Having revised and analyzed the main tendencies of the development of Ukrainian exports of grain, it is necessary to conclude that the volume of grain exports was fluctuating significantly during the period of 2005/2006 to 2009/2010. In 2007/2008 the volume of grain exports was the lowest for the whole period of Ukrainian independence. This was explained by large export quotas that were imposed by the government. But in spite of volatility, Ukraine was able to become one of the largest grain exporters in the world in 2008/2009 and 2009/2010. Having harvested a large yield, which made up 46 million tones in 2009, Ukraine was able to export more than 20 million tones of grain.

4. Having investigated the regional structure of grain exports of Ukraine, it is important to notice that Ukraine managed to find new target markets for grain from 2002/2003 to 2009/2010. But Ukrainian grain traders had to leave the old market, which is considered as a negative point for grain exports. For the last two seasons the main importers of Ukrainian grain have been the countries of North Africa (Egypt, Algeria,

Libya, Morocco and others), the Middle East (Syria, Israel, Saudi Arabia, Iran and others), the Far East (South Korea and Bangladesh) and only few countries of the EU (Spain and Italy). Whereas in 2002/2003 the main importers of Ukrainian grain were the countries of the EU, the Commonwealth of Independent Countries and a few countries of the Middle East. There are some reasons for that. The first one is related to low quality of Ukrainian grain, the second one – tariffs and quotas imposed by the EU.

5. There are five main groups of parameters of grain export competitiveness. They comprise the following groups: Economic, Consumer, Regulatory, Environmental and Marketing groups. All of them are equally important for realization of export potential of grain. Unfortunately, the first two groups of factors are being implemented to some extent. The rest of parameters are not applied at all. Economic group includes one of the main factors of export competitiveness – export prices. But still, it is quality that is the most important parameter and is taken into account by importers.

6. Having analyzed the export competitiveness indexes of Ukrainian grain, it is worth noticing that it was not stable for the whole investigated period. In 2007/2008 Ukraine even did not realize its grain export competitiveness, and thus export potential, which was a rare case for the whole history of Ukrainian grain exports.

7. In order to solve the issues in the area of grain export potential and competitiveness, it is important to do some steps by both the government and grain traders. These steps are as follows:

- The establishment of the State Representative Council for Grain Exports. This is a state organization that would represent the whole state in the world grain trade. Some of the countries have already set up such organizations;

- The Creation of the State Support Fund for Farmers and Agrarians. This would enable to decrease costs of production (because now the agrarians use old technology and techniques for grain rising) and thus, improve profitability and grain quality;

- Stimulation and promotion of national production of high quality mill grain. Stimulation instruments can include both new stimulation and subsidies system (for example, high subsidies for “high grade” grain) and existing subsidies system; at the same time it is important to provide accessibility, clarity and fairness of subsidies allocation among producers and farmers.

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