

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management



DIPLOMA THESIS

Foreign Trade of the Grain in Ukraine, Case Study of Export

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Declaration

I hereby declare that I have elaborated on my Diploma Thesis on „Foreign Trade of the Grain in Ukraine, Case Study of Export“ by myself and I have used only the sources listed in the bibliography.

Prague, the 10^h April 2009

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Foreign Trade of the Grain in Ukraine,
Case Study of Export

Zahraniční obchod s obilím na Ukrajině ,
případová studie exportu

Summary

This diploma thesis focuses on grain export in Ukraine. Traditionally, Ukraine is exporting two main crops - wheat and barley. Analysis of general foreign trade intensity shows that despite the instability of domestic agro-food markets, grain export grows in weights, and in absolute figures. The main factor which motivates Ukrainian grain export is the high export price.

Geographical reorientation of Ukrainian grain trade was mainly to the countries of Western Europe, Asia and North Africa. The main reasons for this lie in the peculiarities of transport and grain market's infrastructure, since these markets are more stable, effective and predictable for grain traders.

For years of the Ukrainian economy reformation there were significant changes in the regulation of grain export. All export duties on grain, most quotas and licenses, significant limitations in the framework of indicative prices and export compulsory registration were cancelled. But, substantial liberalization of policies on the agricultural products export did not create the conditions for stimulating exports.

Agricultural market in general and grain market in particular are still unorganized, unregulated and there are no effective marketing channels of sales, especially for households. The existing channels are monopolized by intermediaries.

Key words: Grain, export, trade, price, wheat, barley, quota, market, regulation, production.

Souhrn

Tato diplomová práce se zaměřuje na vývoz obilí z Ukrajiny. Ukrajina tradičně vyváží hlavně dva druhy obilí - pšenici a ječmen. Analýza zahraničního obchodu v podstatě ukazuje, že i přes nestabilitu domácích zemědělsko-potravinářských trhů, export obilí roste v absolutních hodnotách. Hlavním faktorem, který motivuje ukrajinský vývoz obilí, je vysoká vývozní cena.

Teritoriální reorientace ukrajinského obchodu s obilím bylo především do zemí západní Evropy, Asie a severní Afriky. Mezi hlavní důvody této reorientace je náročnost dopravy a infrastruktura trhu s obilím, nebo tyto trhy jsou stabilnější, efektivnější a předvídatelnější pro obchodníky s obilím.

Během období ukrajinské ekonomické reformace došlo k významným změnám v regulaci vývozu obilí. Všechny vývozní cla na obilí, většina kvót, licencí a významná omezení v rámci orientační ceny a povinné registrace exportu byly zrušeny. Však podstatnou liberalizací politiky vývozu zemědělských produktů nebyly vytvořeny podmínky pro podporu vývozu.

Zemědělský trh obecně a zejména trh obilí je stále neorganizovaný, neregulovaný a neexistují efektivní marketingové prodejní kanály, které by sloužily pro domácnosti. Stávající kanály jsou monopolizovány zprostředkovateli.

Clíčová slova: Obilí, vývoz, obchod, cena, pšenice, ječmen, kvóty, trh, regulace, produkce.

Table of Content

Introduction	4
Objectives and Methodology	6
Chapter 1. Literature Overview.....	8
1.1. Theoretical Foundations of Foreign Trade Policy Development and Implementation	8
1.2. Conceptual Framework of Trade Relations in Various Economic Systems.....	9
1.3. Strategic Directions of Foreign Trade Policy Development in Ukraine	16
Chapter 2. World and Ukrainian Grain Production	19
2.1. World Grain Production and Trade	19
2.2. Grain Production and Supply in Ukraine.....	26
2.3. Ukrainian Share in the World Grain Market	34
Chapter 3. Grain Export in Ukraine	39
3.1. Ukrainian Grain Export Analysis	39
3.2. Grain Market Conjuncture.....	54
Chapter 4. Grain Market Regulation in Ukraine	63
4.1. Regulatory Policy in the Ukrainian Grain Market	63
4.2 Licensing and Quota Allocation as Methods of Grain Export Regulation	65
4.3 Main Problems of Ukrainian Grain Market and Recommendations for it Resolving.....	70
Conclusion	77
Bibliography	80
List of Tables and Figures	85
Appendices	86

Introduction

The integration of Ukrainian agro food areas into the global agricultural system provides substantiation of scientific rationale, consistent and perspective in the broader context of trade policy that would take into account the strategic objectives, priorities and national interests. Since independence, Ukraine has moved towards its recognition as a full partner in world agricultural trade, especially in the world grain market, where it took a very active stance especially in recent years.

Globalization processes require further improvement of Ukrainian participation in the international trading system through membership in different trading organizations and accession to the European Union. Integration process is the way of realization Ukrainian economic interests, the possibility of foreign markets conquest by using its potential and competitive advantages of agricultural sector (fertile land, favourable temperate climate, good geographical position). The context of this process raises the question of further Ukrainian grain market development and its integration with the world market.

The modern world has confronted the problem of food security in terms of rapid globalization and integration. Solving this problem is also influenced by trade flows of agricultural production, including grain - strategically important food of the world's population. Ukraine will not remain aloof of these processes and in recent years, actively interacting with the world grain market, was able to declare itself as a country that has all the prerequisites to take a leading position in the world export of grain. Production of grain in Ukraine is defined as a most important branch of the agroindustrial complex, which has export orientation based on internal capabilities and world market conditions.

Ukrainian economy in general as well as its agricultural sector today, obviously, requires investments, effective technologies, and therefore - the expansion of agricultural exports, including traditional Ukrainian grain products trade. In this case the role of export orientation of agricultural country significantly increases, the need to export-oriented development of Ukrainian grain-food complex is emphasized, which in turn is connected with a quality upgrade of economic ties with the countries in post-Soviet space, as well as with far abroad countries.

The experience of many countries shows that development of foreign economic relations, openness of agricultural economy combined with weighted and balanced trade policies allow to provide a high rate of agricultural

production, increase its export potential in world markets. With this in mind, it is especially important to consider the foreign experience of export policy formation for Ukraine, which has a significant legacy of agricultural output that under the conditions of their effective use will exceed the internal needs of the country in food and agricultural raw materials. However, a thorough scientific analysis of the domestic grain market dynamics (production, supply and demand, changes in grain stocks, export and import products) is an important prerequisite for a successful and realistic evaluation of the prospects, and opportunities of the state to sell grain for optimum, rationally move their resources, efficiently increase production in the agricultural sector.

Lots of scientists of CIS and non-CIS states made important scientific contribution to the study of general and special problems of agricultural trade and export activities. Grain export issues are deeply investigated by the following Ukrainian scientist: S. Kvasha, P. Sabluk, O. Luka, O. Oliynyk and others. Diverse problems of development of trade policy in terms of grain world market globalizing are studied in their works.

But until now a significant factor that hinders the effective development of Ukrainian grain production complex, is still insufficient scientific substantiation of a stable grain market organization and the effectiveness of export policy issues. Economic intent of grain crops trade and export policy formation come to the forefront and requires special investigations of this direction.

The data sources are annual reports of the State Statistics Committee of Ukraine, analytical materials of the Ministry of agricultural policy, the Ministry of Economy of Ukraine, the Ukrainian Grain Association, as well as reports, reviews, returns of Ukrainian and other countries government departments. The information base of the research are the laws of Ukraine, regulatory legal acts, monographs, collections of scientific papers and program documents of state bodies of Ukraine.

The practical importance of the research results is in scientific rationale of theoretical and methodological foundations of the state trade policy in the agrarian sector, the development of directions for export activity improvement in the grain market, taking into account the prospects of deepening integration into the global market.

Objectives and Methodology

The general aim of this diploma thesis is to explore theoretical and practical aspect of the effective export policy formation in the Ukrainian grain sector.

Achieving the thesis target involves solving of the following tasks:

- explore current state of the world grain market;
- analyse the main trends of Ukrainian grain production development;
- define the stages of Ukraine's accession to the world grain market;
- analyse grain export and internal market conjuncture in Ukraine;
- justify the inability to use such non-market export regulators as quotas and licences;
- define recommendations of the grain market state regulation;

The object of the research is the process of foreign economic activity in the grain market, namely, export.

The subject of the research is theoretical, methodological and practical aspects of export in the Ukrainian grain market.

The main hypothesis of the diploma is: "Market transformations in Ukraine, dynamic integration processes, liberalization of foreign trade and the weakening of the state role as the main player on the grain market led to worsening of economic conditions for agricultural producers".

The thesis methodological and theoretical basis is the fundamental provisions of trade theory, classical and modern researches of domestic and foreign scientists on agricultural trade and export policy formation.

The research methodological basis is logics dialectical method of learning the phenomena and processes in the modern world and national economies. The research is based on the use of system analysis, macro-and microeconomic analysis, induction and deduction methods.

The dynamics of country grain balance is determined and the economic fundamentals of the Ukrainian and world grain market functioning is researched with the help of expert analysis, analysis of sources and theoretical generalizations of clarified notions, grain market and export policy.

The study was conducted using scientific methods of research - empirical, such as observation, description, and theoretical, such as analysis, synthesis, abstraction, generalization, explanation, organization, classification. During the research there were used methods of complex and system analysis of approaches to the regulation of the agricultural sector, particularly grain industry; statistical analysis; methods of horizontal and vertical analysis – to

determine trends of foreign economic activity in the grain market; graphic method – when presenting statistical material, calculated data of the research; expert method – in the research of the existing flow of grain export.

The method of comparison and systematic approach made it possible to develop reasoned proposals for the Ukrainian export policy formation in the world grain market. The method of comparative analysis was used when studying the system of foreign economic activity regulation in Ukraine. SWOT analysis was used to conduct a general examination of Ukrainian grain export situation.

Chapter 1. Literature Overview

1.1. Theoretical Foundations of Foreign Trade Policy Development and Implementation

A characteristic feature of the modern stage of world economical ties development is deepening of interdependence of various national economies and increasing of their participation in the modern international division of labour. Dominant of the world countries economic development has become a market economic system, which demonstrated its effectiveness, the ability to stimulate economic growth, provide incentives to work, to mobilize and rationally use the material, natural, financial and other resources.

Ukraine's transition to market economy offers great opportunities for integrated development, participation in international division of labour and world economical processes. In this regard, the problems of formation and establishment of foreign economic relations, organization and management of foreign economic activity, development and implementation of effective foreign policy assume particular relevance. (Saiko, 1998)

In domestic and foreign scientific researches, which analyze the basic laws of foreign economic activity of Ukraine in terms of transition economy, foreign trade policy is seen mainly through the strategy of systemic changes. However, the optimization problem of external economic relations, structure and tools of modern foreign policy, the mechanism of its development and implementation, the level of protectionism and liberalism in foreign economic activity, the role of regional factors in improving the competitive advantages of Ukraine on the world market, the introduction of effective models of foreign economic policy require more detailed analysis. (Kalinchyk and others, 2006)

Many works of both Ukrainian and foreign scientists-economists are devoted to theoretical problems of foreign policy and its impact on the integration of the countries with economies in transition. The researches of D. Ricardo, P. Samuelson, A. Smith, B. E. Heksher and others should be noted among them.

In the works of these scientists the theoretical foundations of foreign policy and determination of its economic impact are laid, trade policies peculiarities in various stages of development of world trade are analyzed. The theme of this research has led some interest to scientific researchers of such scientists as R. Abramov, P. Admiral, M. Dabrowski, P. Cook, E. Limer, P.

Marer and others, in which features of the post-socialist countries integration in the world economy are generalized, the problem of transition from administrative-command to a market economic system and the role of external economic factors in transformation of countries economy is defined.

Many economists' scientific works are devoted to integration of Ukraine in the modern world economy, the adaptation of national production to the requirements of current level of international division of labour, as well as the development and implementation problems of Ukraine's foreign economic strategy.

In these works the problem of improving external economic integration mechanism in modern world economical relations is researched, real and potential opportunities of trade and economic cooperation between Ukraine and world countries, general problems of development and foreign trade policy implementation are analyzed.

V. Boiko, P. Sabluk, O. Oliynyk, V. Saiko and others devoted their researches to the problems of science and practice of formation and development of grain production. Some questions concerning the development of foreign economic activity in grain market, export and import of grain production economy, were reflected in the scientific works of A. Vlasov, V. Gubenko, S. Kvasha, V. Klochan, E. Milovanov, A. Fesyna.

In their works diverse problems of development of trade policy in a globalizing world market for grain are thoroughly studied.

1.2. Conceptual Framework of Trade Relations in Various Economic Systems

The current stage of world economy development is characterized by deepening of world economical ties, based on the principles of mutually beneficial economic cooperation, mutually coordinated economic interests. In these circumstances, the tendency of close convergence of national households that belong to different economic systems, in order to enhance linkages and integration of coordinated domestic and foreign economic policy, is observed.

The developments of modern forms of international economic relations, the diversification of foreign trade relations in the international labour division determine the increase of the state regulatory role in this important sphere of economy. (Berezin, 2002)

The mechanism of introducing foreign policy in modern economic literature is viewed as the relationship of two elements: national and international. The national component is defined as a focused impact of state on foreign trade activities. The nature and direction of the impact is caused by many factors, in particular the level of development and extent of national economic complex, the degree of its integration into the world economy. The international component of this mechanism is a system of coherent effects of two or more states in foreign trade activity or its separate spheres (foreign trade, export and import of capital, international migration of labour, etc.). The leading role in foreign policy takes a national component. It emerges primarily from the role of government in regulating the economy. In addition, the national level is an original moment in the formation of an international mechanism subsystem, regulating trade ties. (Saiko, 2005)

In terms of scientific and technical revolution the economic development of any country increasingly depends on its participation in the international division of labour. Obvious example is the processes that occur in Europe, where industrialized countries deliberately go to erasing of economic and often political boundaries, create managerial superstructures, which main task becomes, particularly creating an enabling environment to achieve freedom of movement of goods, capital technologies, services, labour, etc. to the alignment of economic development of individual countries on the basis of specialization and scientific and technical cooperation. (Babich and Poberegna, 2000)

The process of internationalization of the economy and the expansion of international relations on the one hand, is reflected in increasing of their scale, on the other - leads to the emergence of traditional and completely new forms of external economic relations.

However, realization of the benefits of international division of labour is still done mainly through the channels of foreign trade, which, in turn, is inextricably linked to other forms of foreign economic activities, such as cooperation and specialization of production, creation of joint ventures of various kinds and forms, scientific and technical cooperation, economic and technical assistance, etc. (Harichok and Kurinets, 2001)

International division of labour is fulfilled by using foreign economic relations in order to save social work in the production and exchange the results between different countries. Economic trade exchange includes the fact that participation in the international exchange of goods is expedient for the country only if it spends on the production of export goods less public work than it has to spent on the production of goods, imported on funds, received from exports. (Zubets, 2006)

In different periods of its development countries carried out foreign trade policy that best met the specific political and economic situation that existed in this country.

Generalization of theoretical achievements, which became the basis of international trade at various stages of international economic relations, allow to highlight the main stages of the evolution of views on foreign trade policy: the classical description conceptions of international trade (up to the XIX century, inclusive); regulatory theory of foreign policy (three-quarters of XX century); modern concepts of a systematic approach to international business management (end of XX century). (Fesyha, 2001)

Practical experience, common sense, strong traditions and trade orders - all these caused a small volume of international trade in the first stage and the formation of scientific approaches that were descriptive in nature.

A distinctive feature of the second phase is growth of state intervention in international business transactions. Significantly the two world wars and split of the world into two opposing socio-economic systems affected this process. Naturally, each of them resorted to the use of the state as an important tool for their interests in international business. International business has become the object of careful planning. To ensure the success of these operations, both systems create different state and international institutions (the Council for Mutual Economic Assistance, the European Union and others). In this case scientific views that demonstrate the feasibility of state regulation of foreign economic sphere and define the main directions of this regulation are formed.

The peculiarity of the third, modern stage of development of foreign trade policy is elimination of the socio-political confrontation of the two systems in the field of international business. Some Western companies are actively conducting business operations in post-socialist countries, and Ukraine in particular. On the other hand, many Ukrainian enterprises are active in foreign markets. It is the corporate management of international companies has become a decisive factor in international business development and expansion of external economic relations of the countries. Management aspect is obvious in the modern theory of foreign trade relations.

Inasmuch as the base of the economy of feudal society was merchant capital, for which money was synonymous of wealth, there was formulated relevant policy, known as mercantile system. Its supporters came out of the fact that state wealth, which they identified with money capital, depends on the possible accumulation of money (gold and silver). Therefore, they believed, foreign trade should be focused on the accumulation of precious metals

through a policy of restricting imports and expanding exports through state intervention and control of foreign trade. (Ohinskyy, 1999)

The primary means of restricting access of foreign goods in the domestic market were duties. At the same time products could be imported in the colony only from mother country. Towards supplies from other countries there were built restrictive and often simply prohibitive barriers.

With the development of productive forces and the transition to manufacture, and later to capitalist methods of production, policy of mercantile system gradually transformed into a policy of protectionism, which meant the defence of the national economy through duties, quantitative restrictions on imports and sometimes exports.

With the development of capitalist production the policy of protectionism entered into more conflict with the interests of capitalist manufacturer, who pushed for expansion and capture of new markets. This problem appeared particularly acute after post-industrial revolution in England. The application of first cars led to a reduction in costs and increase of production. However, to advance the dramatic increase in cheaper products there were created protectionism obstacles that in practice led to the division of world trade into sectors which united metropolis and associated with them colonial countries.

These objective needs of capitalist production led to a new concept, so-called theory of free trade of English political economy classics A. Smith and D. Ricardo. The main idea of the doctrine was that the greatest benefits are received by the countries that actively participate in international division of labour based on production costs benefits or, for their terminology, work (absolute - by A. Smith, comparative - by D. Ricardo). Further the views of Smith and D. Ricardo were developed by Swedish scientists Heksher and Ohlin, who formed so-called theory of factors of production, as well as a number of other scientists - supporters of neo-liberal school. (Pokropyvnyy, 2000)

The essence of the views of "free trade" supporters is directly contrary to the views of mercantilists and the protectionism representatives, therefore representatives of the liberal direction recommended maximum limit of state intervention in the economy, foreign trade, etc. It is allowed only in exceptional cases, in order to ensure security and strengthen the capabilities of the country, or to neutralize the state support of export. (Fesyina, 2001)

In foreign trade practices both directions of foreign policy – protectionism and free trade – are widely used. In the "pure form" they are almost never used. A position of state in either policy depends on social and economic development, its place and role in the international division of labour. Protectionism policy was in those periods when domestic economy of the

country or its individual field were not very competitive on the world market, and therefore required state aid, which made the protection of weak fields, using a defined set of trade and political means. And vice versa, when the economy of one country stole a march in its development compared with other states, its representatives made the request to remove obstacles to the movement of goods, first of all duties and quotas, which were performed under the banner of free trade. (Pokropyvnyy, 2000)

Until recently the focus of foreign economic policy of most countries was protectionism, but creation of large monopolistic organizations (corporations, trusts, etc.) led to significant changes in the policy of protectionism, the new lines of so-called ultra protectionism appeared. If protectionism usually has been aimed at protection from foreign competition of the weakest, non-competitive sectors of the economy, the monopolistic ultra protectionism started to protect the most advanced, powerful, and the most monopolized sectors. The aim of such policy was to provide protected economic sectors with the opportunity, due to a high price, to get on a domestic market a monopoly high profit, and using low prices, to fight to drive competitors on the world market. Such policy was called offensive or aggressive ultra protectionism.

In foreign economic activities interests of various monopolies, financial, commercial, professional and other groups are intertwined. Therefore, modern international economic activity - is a complicated system, which is shaped under the influence of processes that reverberate on the system of international economic relations. First it concerns the scientific-technical revolution, which dramatically increased the interdependence of individual farms. Objective requirements of economy internationalization, consequently, had integration processes that now take place in the modern global economy and significantly affect the formation of foreign policy. In any country, as a result of the integration groups' activity, there is a single regulatory system for foreign economic relations, which was called a collective protectionism. More or less full liberalization of bilateral trade (free trade), while a single coherent protectionist policy towards countries that do not participate in these economic associations, is typical for it. The most characteristic example is the EU (European Community, Common Market). (Sabluk, Kaliyev and others, 2008)

In forming of foreign policy, except the state, monopolistic groups and created by them various associations, unions, committees, etc are actively involved. In most countries there are significant associations of capital: the national association of manufacturers, industry associations, Chambers of Commerce and other organizations that influence the formation of foreign trade policy. Taking into consideration the contradictions, existing between different

groups of entrepreneurs, specific policy regulating foreign trade turnover is like a resultant of different trends. Both compromises between the interests of separate national capital, which express the desire to provide effective protection from foreign competition, and the objective needs of international communication in terms of increasing degree of internationalization of production and capital, are also reflected in it.

In industrialized countries and new industrial ones effective foreign economic strategy has become a basis of non-crisis economic development, high economic growth and formation of new system of multilateral regulation and management of foreign economic relations.

Since the second half of XX century, when international exchange obtains the features of "explosive nature", world trade starts to grow rapidly. In the period of 1950-1994 the volume of world trade was 14 times increased. According to Western experts Haberler G. and Johnson H., the period between 1950 and 1970 years can be characterized as a "golden century" in the development of international trade. This was the exact time when annual growth of world export reached 7 per cent. However, already in the 70 years it has fallen, and decreased even more in 80's years. Late 80's world's export showed a marked revival (up to 8.5% growth in 1988). After obvious downturn in the early 90's, it again demonstrates stable high growth in the mid 90's. (Boiko, 2006)

An important direction of development of foreign policy modern concepts is the concept of export opportunities. It is based on the use of surplus capacity. Often companies have production facilities, which are not in adequate domestic demand in current or long periods. These can be explored reserves of natural resources, or specific facilities for the production of certain products that are difficult to switch to production of other goods, which possibly have appropriate domestic demand. In this case it is noticeable that the desire of small countries to trade is much wider and of larger scale than the one of the large countries. One reason is that the technology of production may allow the company profitable production only when there is a large-scale production, in volume more than is needed, for meeting demand in the country.

Theorists-economists pay attention to the concept of reducing of production costs. Researches have shown that companies can reduce their costs by 20-30% when doubling production. This phenomenon is known as "economy of scale", and is described by the experience curve. Thus, at 20% level of production costs reduction and initial costs of \$100 per unit, the cost of second unit will be \$80, third - \$64 and so on. Reduction may be connected with several factors: a reduction of regular charges by producing more

products; increase of efficiency due to experience acquired in large-scale production; bulk purchases of materials and their transportation in large batches. Therefore it is obvious that a market leader can receive benefits to their competitors in respect of production costs reduction. (Oliylyk, 2005)

The concept of improving profitability is also noteworthy. Producers may, in certain circumstances, sell the same products with higher profits abroad than at home. This may be connected with the difference of foreign competition on domestic market, because the product is on another stage of life cycle there. Thus, the stage of maturity within the country may lead to lower domestic prices, while the phase of growth abroad may negate the relevance of prices reduction. Increasing of profitability may also occur due to the difference between state actions within the country and abroad that affect the profitability (e.g. differences in taxation of income or price regulation).

Risk spread has become the basis of the following concept of foreign policy. Finding sales outside the market of only one country, the manufacturer is able to minimize fluctuations in demand, because the countries business cycles are in different phases, and the same products are at different stages of life cycle. Another factor of risk spread by means of exports is that the manufacturer is able to attract more customers by reducing his vulnerability while losing one or more clients.

The basis of modern theory of foreign trade policy may become the concept of import possibilities. The impetus to participate in trade may come from either an exporter or an importer. In any case, there should be both a seller and a buyer. The impetus from the importer is that the company is looking for cheaper and high quality raw and other materials, components or finished products to use on their industrial enterprises. Or it could actively seek for new products developed abroad in order to supplement the existing product groups. This will allow the company to offer more products for sale, and the importer – to use the excess capacity of its commercial and distribution network. (Andriychuk, 2002)

If international supply of raw materials and components reduce production costs or improve quality of finished products, a purchasing company has greater resistance against competition from imported finished products or can compete more effectively in export markets itself.

The importer, as well as exporter, is able to distribute its operating risks. By expanding the range of suppliers, the company will be less dependent on the dictates or a fate of a single supplier.

In a complex of commercial and political methods there is a trend towards expansion of state regulation of foreign trade by means of affecting the

functioning of the domestic economy in recent years. Local economic and administrative instruments are used more extensively to regulate the import and export of labour and capital, and thus complement the traditional methods of border control. (Sabluk, 2007)

The first steps towards reform of foreign economic relations started in the Ukrainian Socialist Republic in 1986; they were formally aimed at restoring a broken chain: producer - the world market - producer. However, the Decree of The Cabinet of Ministers of Ukraine "On measures to improve foreign economic relations" from August 19, 1986 reaffirmed the state monopoly in the regulation of foreign economic relations. The state in this case was the issuance of permits to conduct foreign economic activity of the Ministry of Foreign Economic Relations. Only in April 1991 with the adoption of the Law "On foreign economic activity" there were allowed all forms of foreign economic activities for all entities in Ukraine, which actually meant the beginning of market transformation and liberalization of foreign economic policy.

Sooner or later all States are caught in a dilemma of choosing the national foreign trade policy - free trade or protectionism. Today the two interconnected areas, as well as a few centuries ago, define the current mechanism of foreign economic policy.

1.3. Strategic Directions of Foreign Trade Policy Development in Ukraine

The state of Ukraine's foreign trade is predetermined by the influence of a complex of economic, political, social, technological, structural, environmental and other factors. They differ in nature, origin, time, objective or subjective nature of occurrence, the duration of action and are negotiated by dependence on cyclical economic development, branch specificity and classification features.

Economic success of any world country is based on foreign trade. No country was able to create a healthy economy by isolation from the global economic system yet. International trade has a lot of advantages that foster economic growth. The country can specialize in several areas of the economy with trade, because they can import products they do not produce themselves. Moreover, trade promotes new ideas and technologies. When there is a significant invention in a country, international trade relations blast it all over the world. (Boiko, 2007)

The share of export in the total GNP in the countries is represented in the table.

Table 1.1. The share of export in the total GDP.

Country	Export, mln. USD	GDP (purchasing power parity), mln. USD	Population, millions	Export/GDP ratio	Export per capita, USD
Germany	1530000	2863000	82.370	0.53	18574.82
China	1465000	7800000	1330.045	0.19	1101.47
United States	1377000	14580000	303.825	0.09	4532.22
Japan	776800	4487000	127.288	0.17	6102.68
France	629700	2097000	64.058	0.30	9830.19
Italy	566100	1801000	58.145	0.31	9735.95
Netherlands	537500	687500	16.645	0.78	32291.37
Russia	476000	2225000	140.702	0.21	3383.03
United Kingdom	468700	2279000	60.944	0.21	7690.68
Canada	461800	1336000	33.213	0.35	13904.32
52. Ukraine	67002	359900	45.994	0.18	1410.83

Source: USDA, the World bank. Own computation.

Ukraine entered into the world economy as an exporter of raw materials. The main problems associated with the formation of export-oriented structure of the economy, are primarily in identifying priority areas or types of production, in which it is necessary to develop export orientation, as well as with the help of which mechanisms this development is provided. Certainly, the scientific basis for this should be a comprehensive development of the export potential of Ukraine. It should be focused on increasing exports of processing, and mainly science industries, expansion of various services for foreign consumers. (Sabluk and Boiko, 1996)

Rates of growth of world trade and a large share of revenue from exports in the GDP of Ukraine (as well as in many developed countries) allow to talk about foreign trade in general and exports, particularly as one of the main factors that affects economic growth and level of economic development.

Considering the existing competitive advantages, one of the areas of export potential of Ukraine should be the development of agriculture by using modern technologies of products storage, packaging, transportation and sales.

International agricultural trade relations in the economy of Ukraine become increasingly significant. International agricultural trade relations is a set

of specific trade relations between national economies of individual countries, relevant entities of foreign economic activity on the terms of purchase and sale of the agricultural sector products. The functioning of these relationships affects the formation of expenses mechanism at various levels of agrarian sector and, consequently, pricing.

In the short term, the possibility and expediency of the return of Ukraine to the world leaders, exporting grain and agricultural products, is considered. In this connection it is necessary first of all to provide a further increase in volume of grain crops, which fully covers the needs of the country in food and eliminates its import supply. In agriculture at first instance attention should be drawn to the preservation and processing of the grown crops, reducing of the production costs. Primary objectives of improving grain products competitiveness becomes creating of industry for gathering, processing and preservation of products, improvement of its quality and appearance.

It is necessary to note that when deciding on the prospects of foreign economic activity the use of foreign technologies in conjunction with domestic or separately should not be excluded. This approach will facilitate the development of new domestic technologies, as well as upgrading the current production.

Export orientation of grain production and liberalization of foreign economic relations require the definition of existing and potential competitive advantages of Ukrainian grain producers, as well as factors that form them, and the mechanism of realization of these benefits. Moreover, this issue should be considered in two areas: firstly, from the comparative advantage based on factors of production, and secondly, from the acquired competitive advantages, i.e. those created by society.

Chapter 2. World and Ukrainian Grain Production

2.1. World Grain Production and Trade

All the time mankind works to ensure their growing needs and, above all in food and feed grain, increasing amounts of arable land in its production. This trend continued until the mid 80's, after which the area under grain crops started to decrease. Developed countries played a major role in this process. In "North America" region the area under grain declined in 2007 compared to 1965 by almost 24.8 million hectares, or 23.4%. In the EU region, sown areas started to decline after 1965, which resulted in reducing the area under grain by 8.1 million hectares, or 18.7% in 2007.

Eastern Europe and the former USSR also faced reducing in the sown area. The cultivation area in EU members since 1975 decreased by 180000 hectares, in the CIS countries - by 45.1 million hectares, or 36.9%.

Only Middle East has increased its sown areas - almost by 2.1 million hectare (1965-2007 years), or by 31.4% and North Africa – by 10 million hectares (1965-2007 years), or by 80.4%.

All this led to reduction in areas under grain worldwide during 1965-2007 by 47.2 million hectares, or 6.5%. (Sabluk, Kaliyev and others, 2008)

Changing in the grain areas around the world during 1965 - 2007 is shown in Figure 2.1.

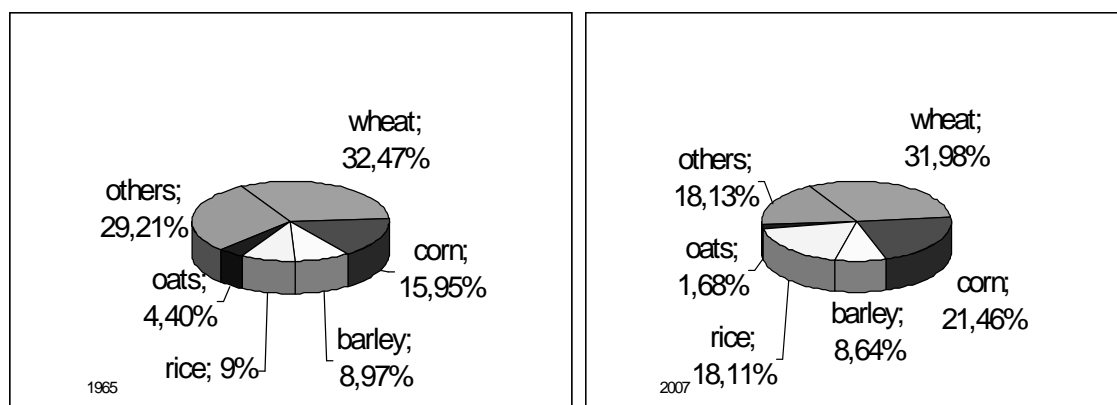


Figure 2.1. World grain structure in 1965 and 2007.

Source: Sabluk, Kaliyev and others, 2008, USDA, FAPRI, Eurostat, Own computations.

As we can see, the share of corn increased from 15.95% to 21.46%, the area under rice increased from 9% to 18% and the area under oats, decreased from 4.4% to 1.68%.

Comparing to the area, there is a clear growth in the average yield. Eastern countries raised the average yield from 19.19 centners per hectare in 1965 to 53.10 centners per hectare in 2007, or by 33.91 centners per hectare. The second place is occupied by EU countries, which increased a yield by 30.45 centners per hectare. The third place belongs to North American region which increased average yield by 27.13 centners per hectare.

The lowest average yield in 2007 was marked in the Middle East – 15.22 centners per hectare (it was the lowest among all regions throughout the analyzed period), and the highest - in the EU region – 56.07 centners per hectare.

In general, the world average grain yield increased from 14.95 centners per hectare in 1965 to 32.95 centners per hectare in 2007, or by 2.2 times. Changes in the crop yields in the world are shown in Figure 2.2.

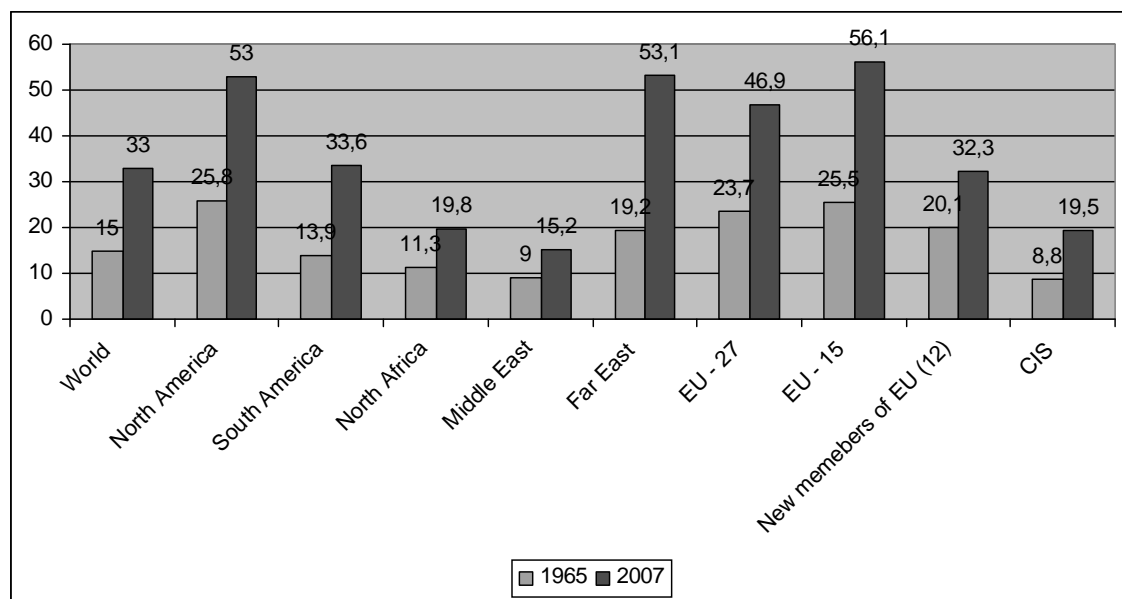


Figure 2.2. Changes in the grain yield during 1965-2007.

Source: Sabluk, Kaliyev and others, 2008, USDA, FAPRI, Eurostat, State Statistics Committee of Ukraine. Own computations.

Rising of the yield in the whole world led to a general increase in cereal production in each country. Comparing the relative rates, the first place belongs to the North African region which increased gross yields by 216.1%, or a

growth rate of almost 5.2% per year, then in absolute value - the Far East region - by 276.7 million tonnes, or 6,6 million tonnes on average per year

Second place is occupied by North American region, where gross grain yields increased from 228.3 to 429.4 million tonnes, or by 201.1 million tonnes. what create average annual growth rate of 4.8 million tonnes. The third place has been taken by EU region – 86.7 million tonnes, or an average year growth of 2.1 million tonnes. World gross grain yield increased from 999.5 to 2220.6 million tonnes, or the average annual growth was 29.1 million tonnes.

The different growth rates of gross grain production in certain world regions caused quite a significant redistribution of their specific weight in the world (Figure 2.3).

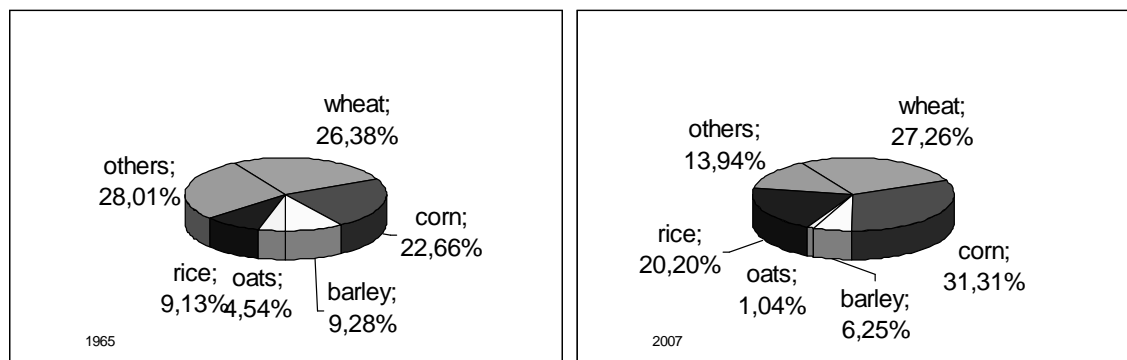


Figure 2.3. Structure of world grain production.

Source: Sabluk, Kaliyev and others, 2008, USDA, FAPRI, Eurostat, State Statistics Committee of Ukraine. Own computations.

Apparently, the share of wheat production increased from 26.38 to 27.26% and the share of corn - from 22.66 to 31.31%, the share of rice – from 9.13 to 20.2% The share of other cultures decreased almost equally - by 3-3.5%.

The main producers of wheat are: EU produced approximately 120 million tonnes in 2007; China – 109 million tonnes, India – 76, Russia - 50, Pakistan – 23 million tonnes (Figure 2.4.).

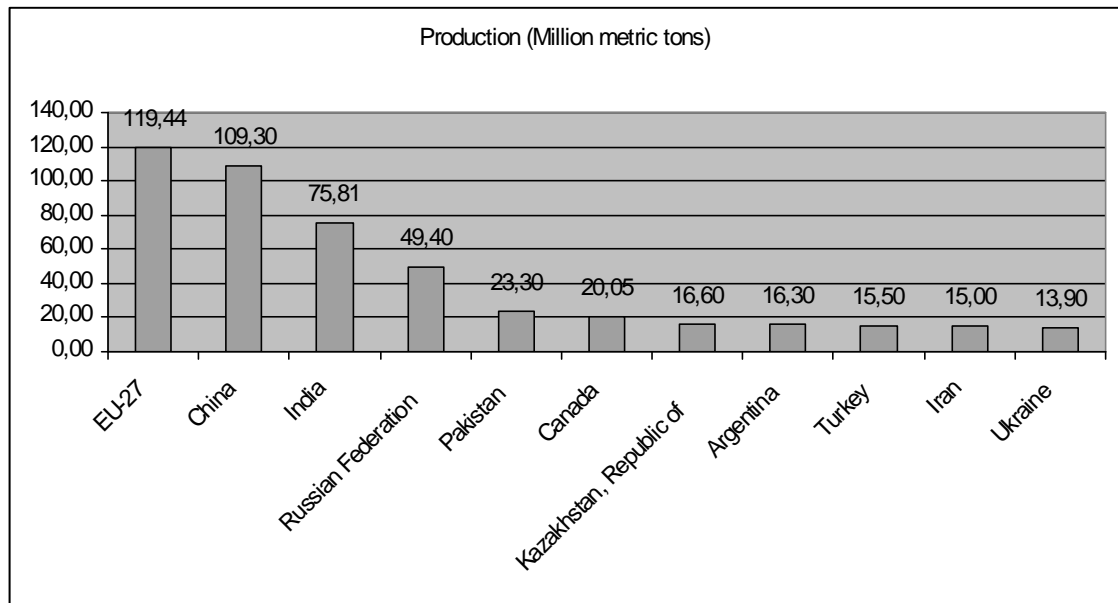


Figure 2.4. Main wheat producers in the world in 2007, million tonnes.

Source: USDA, FAPRI, Eurostat, State Statistics Committee of Ukraine. Own computations.

In figure 2.5. we can see that the grain gross output for the last three years decreased from 625.7 million tonnes in 2004/05 M.Y. till 610.99 million tonnes in 2007/08 M.Y., grain stocks decreased by 20.7% or from 150.9 million tonnes to 119.6 million tonnes during the same period.

Decrease was implacable and steady during the whole research period and according to forecast will continue for a score of reasons. One of the main reasons is an overall decline of grain production in major world producers. (Boiko, 2006)

Another, not less important reason of the world grain production decrease is global warming. According to the research of the scientists of the International Rice Research Institute increase in the average temperature during the cultivation season to 1 ° more than an optimal range due to global warming reduces grain crops yield to ten percent. Since 1970 the average annual temperature increased by 0.6 ° (IRRI).

The third reason of the world production decrease is known in economics as "The Japan Syndrome" researched by Lester R. Brown. (Brown, 2005)

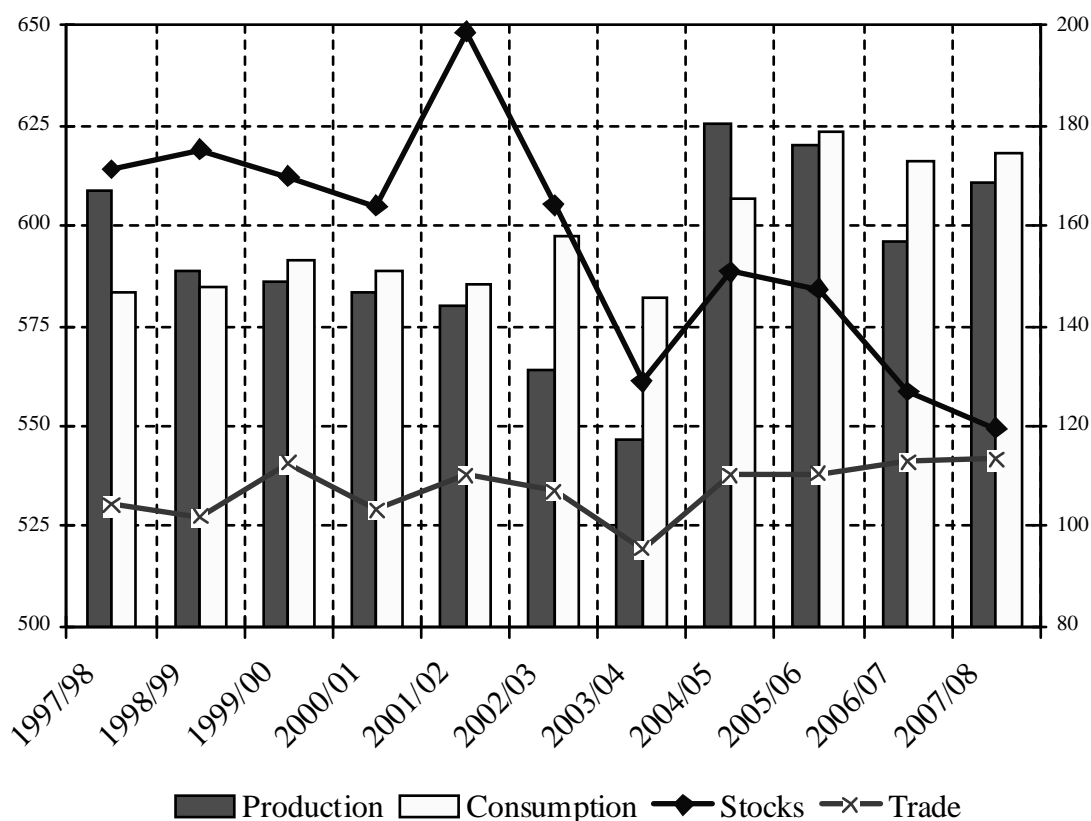


Figure 2.5. World wheat balance, million tonnes.
 Source: USDA, FAPRI, Eurostat. Own computations.

The scientist noticed that the urbanization of heavily populated countries leads to three things: grain consumption increasing, incomes rise, and grain production falls. That happens because biggest part of the cropland area is used for industrialization, and work force migrates from the countryside to cities. Rapidly rising incomes generate demand for more fruits and vegetables; this in turn leads to increasing of perennial plants lands at the expense of arable lands.

Economic development of countries, especially China and India will lead to population rising incomes. This will let people get higher nutrient status by increasing pork, poultry meat, eggs, milk and other live-stock production usage. Thus, the usage of feed grain will also grow.

In a long term period world supply fall and world demand increase should result rise of world grain prices.

Among the most important feed crops are corn, barley and oats. Volume of feed crops production experienced minor changes from 860 to 889 million tonnes during 1997/98 – 2003/04 M.Y. and increased to 1078.78 million tonnes

in 2007/08 M.Y. Volumes of its consumption gradually grew from 881.2 in 2000/01 M.Y. to 1059,84 million tonnes in 2007/08 M.Y., and started to outrun the production growth rates during 2005-2007 M.Y. Growing negative difference between the volumes of production and volumes of consumption during this period was balanced by the world stock reduction. Their amount shrank from 178.6 to 138.6 million tonnes during 2004-2007 M.Y. (Figure 2.6.)

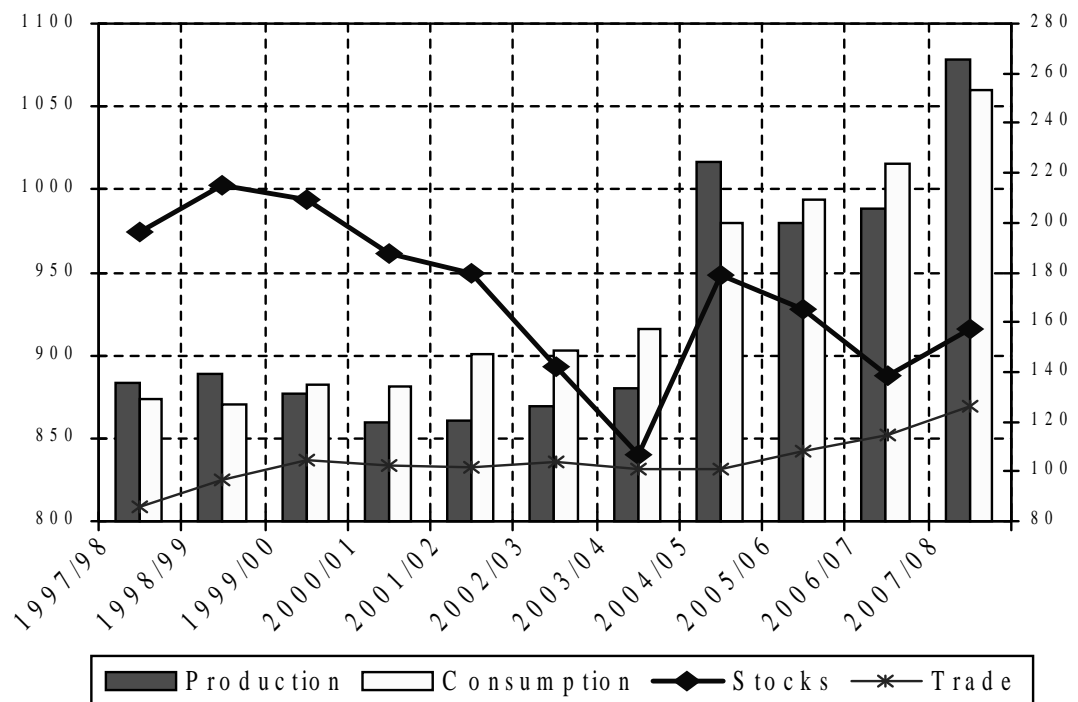


Figure 2.6. World feed grain balance, million tonnes.
Source: USDA, FAPRI, Eurostat. Own computations.

Currently, the world grain market is under control of the following major exporters: the U.S., Canada, Australia, Argentina and the EU. Their total export supply exceeds by 84% the total volume of trade. U.S. has a leading position in the grain market; their share is 28% of the total volume of trade. Then following are: Canada - 17%, Australia and the EU – 15% each and Argentina - 11%.

The negative feature of the grain market is a trend of global stocks declining. This declining is caused by increasing world consumption and decreasing production. The world stock were 598.5 million tonnes in 2000-2001, and only 112.3 million tonnes in 2006-2007. International Grains Council (IGC) predicts a further reduction in reserves to 109 million tonnes. It will be the lowest rate in the last 20 years, which will narrow the opportunity to maintain significant and unexpected fluctuations in yields in the major grain

producers. Reducing the world grain stock, is connected with developing countries, especially the economies of China and India, with characterized by high population growth rates and, consequently, increasing effective demand.

As a result, consumption of grain decreasing in some sectors, mostly of forage, but industrial use continues to grow due to expansion of biofuel industry. World grain trade is growing slowly, mostly due to large purchases of wheat by India and Brazil.

Since the mid 90's price level for grain raised to the highest rate, reflecting resources supply tensions due to declining in yields. The high price level will lead to a significant expansion of cultivated areas in the next seasons and to replenish stocks of grain. This, however, will not be enough to restore the required level of grain stock and prices would be still high. (IGC)

World trade in food and feed grain exceeds 220 million tones during the recent years. It is the most demanded and liquid product in the food market. Major grain-exporting countries make the offer of two or three grain types. In general, the "club" of leading exporters is made by not more than 20-25 states that play a significant role in the world market of food and feed grain.

Wheat has the leading position in the international grain trade. Trade in corn, barley and sorghum accounts the biggest part of feed grain trade with a part of 60%, 18% and 10% respectively. The export of rice accounts only 6% in total grain trade. Thailand and USA are the main suppliers of this valuable culture. The market is monopolized by small group of countries - exporters who support their companies through appropriate policies and protectionism. (USDA, FAPRI)

Grain is a good which is sold in exchange. The biggest grain exchanges are in Chicago, Kansas City, Minneapolis. They determine world prices and reflect not only the ratio of supply and demand for certain types of grain in the U.S., but their ratio in the international market, the prospects for harvest in the world, trade and political relations of the largest countries, exporters and importers of grain.

Referring to the report of FAO expert, one can say that Saudi Arabia refused to produce grain: a lot of drinking water consumed in its production, which leads to rapid reduction of underground drinking water. That is why Saudi Arabia will import about 5million tonnes of grain every year. The population of India and China keep on growing: every year the populations of these countries grow approximately by 30 million people, which lead to demand for grain. Despite the steady spread of AIDS in Africa, its population is not decreasing, but increasing. These trends let us predict further growth of

demand for grain, which will allow Ukraine to augment its production and export power. (Osipenko, 2008).

2.2. Grain Production and Supply in Ukraine

At the beginning of 90 years, Ukraine has begun the transition from command-administrative to market forms of economic management, which is accompanied by a protracted economic crisis. During 1990-1999 Ukraine's GDP fell by 59.1% and production of agricultural products by 53.3%. Having reached its maximum low-level agricultural production began to rise in 2000 so that in 2002 it reached 57% of 1989 level. Nevertheless the role of agricultural sector in Ukrainian economics is much more important than in the most of postindustrial countries of the world. Its share in gross additional value was 25.4% in 1990, 14.6% in 1995, - 13.5% in 1998. In 2003 agricultural economic output made 64.5 billion UAH, and in January – October of 2004 exceeded 66.8 billion UAH. The percentage of national products on the food market is 94%, which is twice as large as several years ago. The index of population employment in agriculture is also very high – 20%. (State Statistics Committee of Ukraine).

At the same time Ukraine is far from exhausting its economical potential of agricultural development. Firstly, there are huge resources of land, useful for agriculture. The area of agricultural lands in Ukraine is 41.9 million hectares, including 33.3 million hectares of arable lands. That is even more than the arable land area of the two largest West-European countries – France and Germany taken together. The arable land area index makes 0.66 hectares per person. (State Statistics Committee of Ukraine, USDA)

Secondly, Ukrainian farm units do not fully use biological potential of growing grain crops. For example, it is possible to achieve the winter wheat yield of 100-110 centners per hectare, while during 90's actual yield fluctuated within the 19-35 centners per hectare. (State Statistics Committee of Ukraine).

Thirdly, Ukraine has incredibly favourable natural and climatic conditions for agriculture development. Most part of soil – 23.7 million hectares, is chernozem, chernozem-like meadow and meadow-chernozemic soil, the major part of which is situated in Steppe and Forest Steppe area. (Saiko, 2002)

Agricultural industry is divided into two sub-industries: livestock and crop production, whose share in total production volume of agricultural products in 2003 was 42% and 58% accordingly. As far back as 1990 the part of crop

production made 50.1%, but during the last 15 years it gradually and steadily grows, especially due to the decline of livestock. (Andriychuk, 2002)

The basis of crop production is grain farming. Its share in total agricultural product for the period 1990-2008 fluctuated within 13.4-20.2% and made 15-16% on the average. (State Statistics Committee of Ukraine)

Among the crops that are growing in Ukraine, grain production occupies the biggest part of a sown area – around 14-15 million hectares, of which about 3-3.5 million hectares (since 2004) are concentrated in households. The significant part of grain is produced by households what creates a problem of its accounting (Ministry of Agrarian Policy of Ukraine).

The main crops are wheat, rye, barley, oats, millet, rice, corn, leguminous plants, and buckwheat. But the main according to sown areas and the gross production are wheat, barley and corn. Producers have focused on the most efficient and export oriented crops.

Structure and changes in the size of sown area under grain varies mainly due to two different producers, which are now agricultural enterprises and households.

Assessing the structure of sown areas under crops for the period 1990-2009 (Table 2.1., Figure 2.7.), we should note the area has increased by 9.4% in 2009 compare to the level in 1990. Thus, the share of agricultural enterprises according to the sown area under grain decreased in 2007 by 16.7% compare to the level of 1990. In 2008 it has slightly increased and was 85.5% of 1990's level (-12.5%). While households increased their sown areas under grain during the last 18 years by almost 9 times (2007 - by 8.7 times, 2008 - by 8.9 times) compare 1990 and their size reached 3413.5 thousand hectares in 2007, and 3516 thousand hectares in 2008. The main reason for such rapid growth was the increase in land area used by households. The dynamic of sown area changes is presented in the table and the figure below.

Research shows that wheat has always occupied the biggest share of arable land as a major food and feed culture. During the study period in all agricultural enterprises the total area under wheat ranged from 5.5 to 7.5 million hectares: in 2007 it decreased by 2340.9 thousand hectares compare to the level of 1990, or by 31.1%, in 2009 it decreased by 1953.8 thousand hectares compare to the level of 1990 or by 25.99%. Households have increased the area under wheat during the same period: in 2007 – by 1058.8 thousand hectares or more than 19 times, in 2008 - by 1223.8 thousand hectares or almost by 22 times, in 2009 – by 1199.3 thousand hectares.

Table 2.1. Dynamics of the sown area under major grain crops, thousand hectares.

Indicator	1990	2005	2006	2007	2008	2009	2009 in comp. to 1990, %
Grain crops - Total	14583.4	15004.8	14515.2	15233.9	15650.5	15953.4	109.4
Agricultural enterprises	14190.7	11507.6	11164.1	11820.4	12134.5	12465.8	87.8
Households	392.7	3497.2	3351.1	3413.5	3516.0	3487.6	888.1
Wheat	7576.2	6664.6	5582.8	6294.2	7119.9	6821.7	90.0
Agricultural enterprises	7517.6	5430.7	4547.6	5176.7	5838.5	5563.8	74.0
Households	58.6	1233.9	1035.2	1117.4	1281.4	1257.9	2146.6
Rye	519.1	623.5	373.6	350.9	466.9	487	93.8
Agricultural enterprises	499.6	514.7	274.4	258.2	374.4	392.0	78.5
Households	19.5	108.8	99.2	92.6	92.5	95.0	487.2
Barley	2729.0	4499.9	5305.5	4996.2	4217.1	4756.0	174.3
Agricultural enterprises	2666.5	3270.4	3918.7	3567.7	2908.8	3459.6	129.7
Households	62.5	1229.5	1386.8	1428.5	1308.3	1296.4	2074.2
Corn	1233.5	1710.9	1776.9	2202.3	2539.3	2515.4	203.9
Agricultural enterprises	1013.9	1046.5	1148.1	1621.4	1911.2	1915.9	189.0
Households	219.6	664.4	628.8	580.9	628.1	599.5	273.0

The complete table is presented in appendix table 1.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

The second main culture is barley. Sawn areas of barley depend on climatic conditions and fluctuate since 2000 from 3.9 to 5.3 million hectares (in 1990 the sown area 2.7 million hectares). The planted area increased in 2007 to 4996.2 thousand hectares, and slightly decreased in 2008 and 2009 compare to 2007 by 779.1 and 240.2 thousand hectares respectively. Big farms are the main producers of barley as well. The sown area under this culture was 2666.5 thousand hectares in 1990 (or 97.7% of sowing area under barley in Ukraine), in 2007 - 2908.8 thousand hectares (69.0%) or 109.1 % compare to the level of 1990 (increased by 901.2 thousand hectares), in 2009 – 3459.6 thousand hectares (72.7%) or 174.3% comparing with level of 1990.

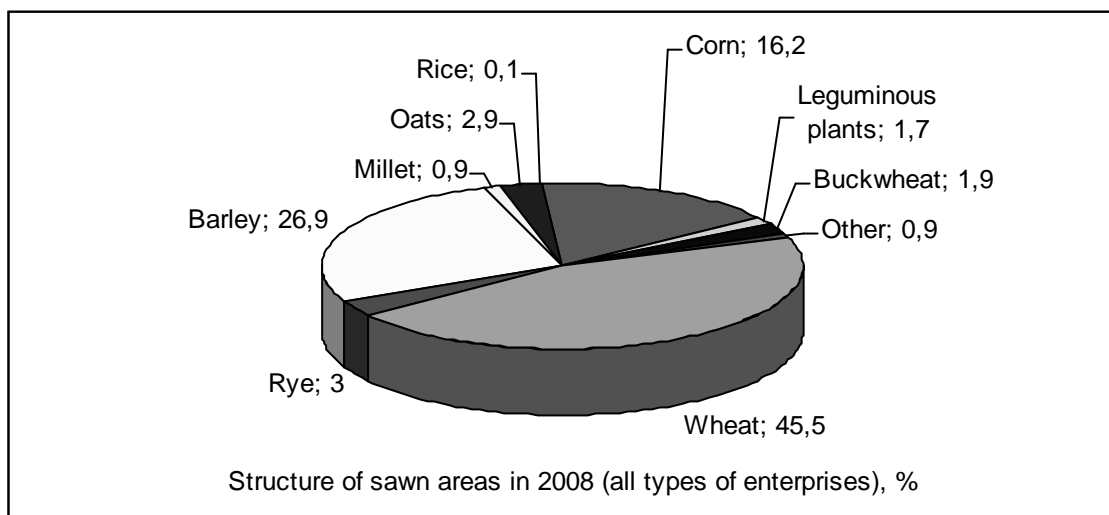
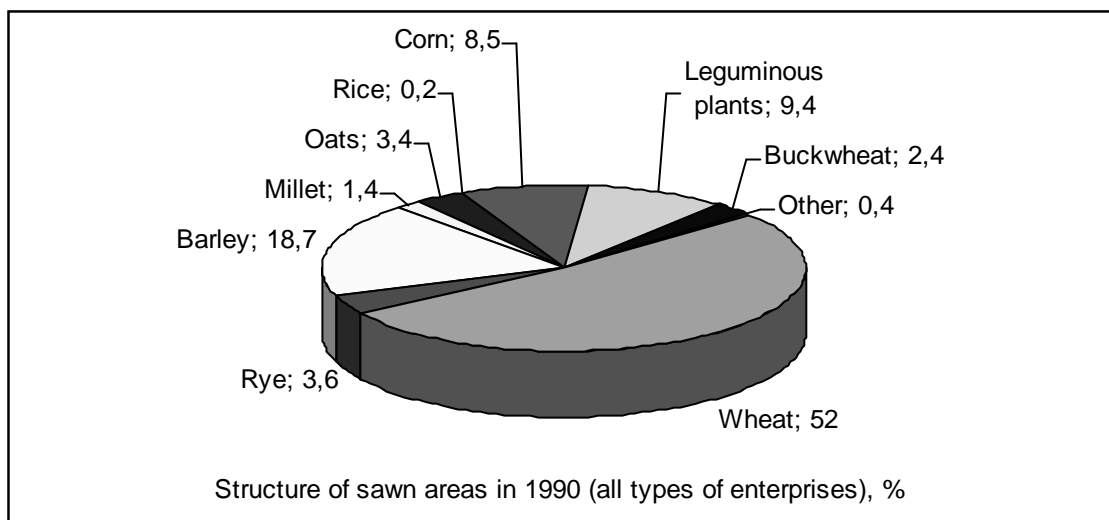


Figure 2.7. Structure of the sown area under major grain crops in 1990 and 2008, thousand hectares.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Households occupy a significant part in sown areas of barley. The planted area increased from 62.5 thousand hectares in 1990 (3.3% of total sown area of barley) to 1428.5 thousand hectares in 2007 (28.6% of total sown area of barley). The area under barley in 2009 was 1296.4 thousand hectares (27.3% of total sown area of barley). This tendency to change in the share of economic entities in the sown area of barley is caused by its relative unpretentious in growing conditions.

Total area of cereal crops depend on the domestic economic situation and the global market. The increase in sown areas is common for barely and corn, which are in great demand abroad. In general the sown structure of grain

should be determined by market, but such factors as low requirements for production technology, technological backwardness of producers and lack of financial resources are very powerful in Ukraine. Thus, Ukraine produces mostly feed grain, although the world market requires now high-quality food wheat.

Grain production depends on such factors as planting area and yield. Therefore, the second factor which could increase grain supply in the market is a crop yield. This factor determines the output and potential capacity of land.

Ukraine has enormous potential for increasing grain production, because the grain yield level of 35 centners per hectare which was reached in 1990 is not the highest result. By the way, such level of grain yield was reached in 2008 (Table 2.2., Table 2.3. and Figure 2.8.).

Table 2.2. Grain yield in Ukraine, centners per hectare.

Year	Grain crops - Total	Wheat	Rye	Barley	Corn
Agricultural enterprises					
1990	35.1	40.2	24.3	33.9	37.9
2004	28	31.8	21.9	24.2	37.6
2005	25.9	28.7	16.5	20.4	45.9
2006	23.7	25.2	14.9	21.4	38.1
2007	22.3	23.6	15.6	14.8	41.9
2008	35.5	37.4	23.2	30.5	49.9
2008 in comp. to 1990, %	101.1	93.0	95.5	90.0	131.7
Households					
1990	35.8	33.3	24.9	30.3	42.6
2004	29.4	31.1	23.9	25.4	40.6
2005	26.4	27.5	20.8	21.1	39.2
2006	25.6	25.8	19.8	22.4	36
2007	20.2	22.7	19.6	14.2	31.6
2008	31.9	33.5	22.2	29.8	39.3
2008 in comp. to 1990, %	89.1	100.6	89.2	98.3	92.3

The complete table is presented in appendix table 2.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine.
Own computations

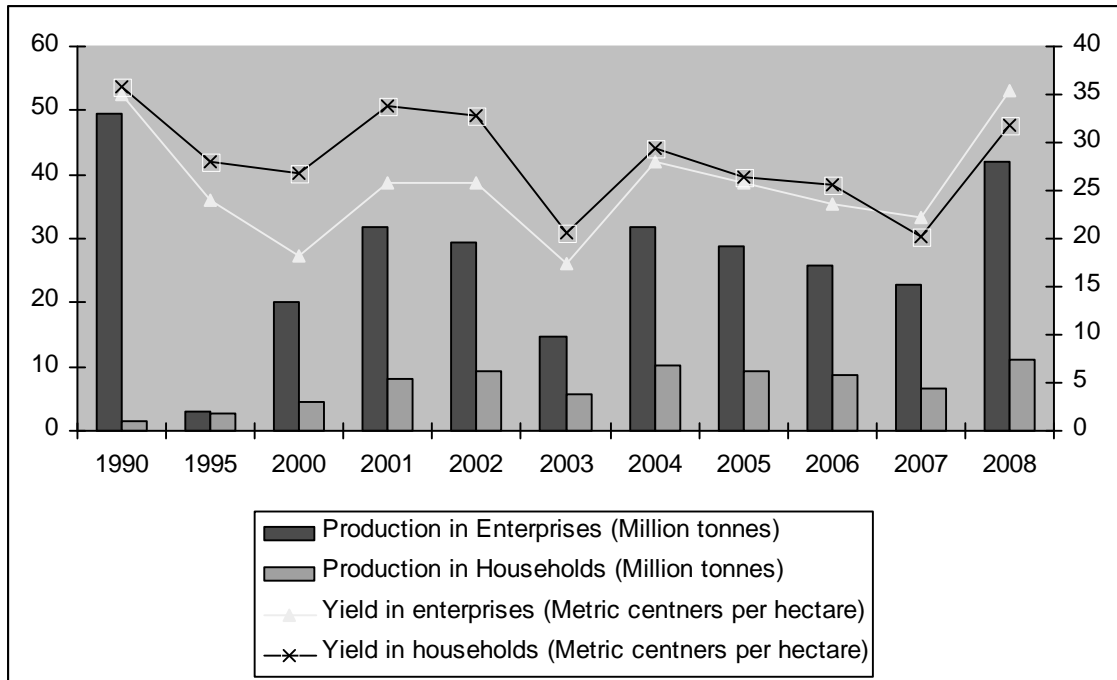


Figure 2.8. Grain yield and production in Ukraine.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

For a long time Ukrainian producers has small gross yields due to low grain yield (Table 2.2.). 2003 was a critical year for the industry, at that time grain production reduced to 20.2 million tonnes as the cropland area was just 12.5 million ha, and yield because of unfavourable weather conditions was 19 centners per hectare. Only 2.8 million hectares were under winter wheat, 13.2% of which died. The cropland area was 2.5 million hectares, though in previous years this index reached 6.8 million hectares. Because of this winter wheat yield was 3.7 million tonnes while the average yield was 14.1 centners per hectare. Evidently, if the crop area in 2003 remained on the level of the previous years, even with such low yield, food grain import could be eluded (State Statistics Committee of Ukraine).

Table 2.3. Grain production by categories of farms, thousand tonnes.

Year	Grain crops - Total	Wheat	Rye	Barley	Corn
All categories of enterprises					
1990	51009.0	30373.7	1259.5	9168.9	4736.8
2004	41808.8	17520.2	1592.5	11084.4	8866.8
2005	38015.5	18699.2	1054.2	8975.1	7166.6
2006	34258.3	13947.3	583.6	11341.2	6425.6
2007	29294.9	13937.8	562.5	5980.8	7421.1
2008	53264.3	25882.6	1050.6	12611.2	11422.3
2008 in comp. to 1990, %	104.4	85.2	83.4	137.5	241.1
Agricultural enterprises					
1990	49563.8	30178.6	1211.4	8979.3	3790.4
2004	31708.6	14582.1	1328.7	7674.1	5899.1
2005	28790.4	15307.3	827.5	6382.2	4563.3
2006	25698.6	11281.5	387.7	8236.0	4163.5
2007	22848.1	11505.6	381.9	4117.4	5730.6
2008	42067.5	21594.1	859.4	8812.1	8958.7
2008 in comp. to 1990, %	84.9	71.6	70.9	98.1	236.4
Households					
1990	1445.2	195.1	48.1	189.6	946.4
2004	10100.2	2938.1	263.8	3410.3	2967.7
2005	9225.1	3391.9	226.7	2592.9	2603.3
2006	8559.7	2665.8	195.9	3105.2	2262.1
2007	6446.8	2432.1	180.6	1863.5	1690.6
2008	11196.8	4288.5	191.2	3799.1	2463.6
2008 in comp. to 1990, %	774.8	2198.1	397.5	2003.7	260.3

The complete table is presented in appendix table 3.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Yield reduction is an entirely logical consequence as it is in direct proportion to production cost per crop area unit, and the level of the last is always falling. On the first hand, in the circumstances of floating funds deficiencies agricultural enterprises could not purchase material and technical means of production, which price grew with every coming year. On the second hand, reducing of material expenses for cropland area index was economically

profitable, as in such a manner they tried to maximize returns. During the period of 1990, 2000-2007, sales were also unstable (Figure 2.9.).

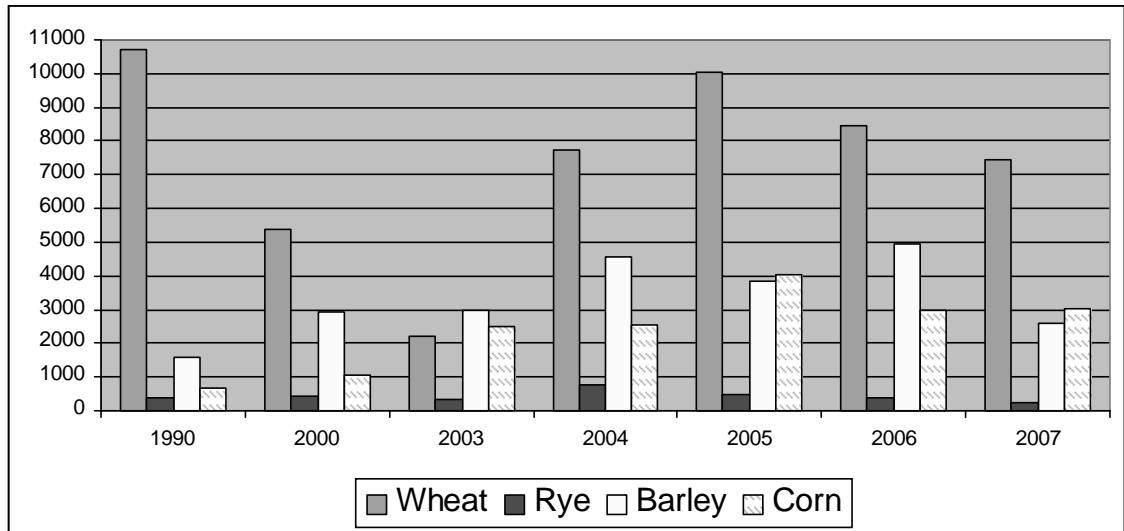


Figure 2.9. Amount of grain sold by agricultural enterprises, thousand tonnes.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations using the data in appendix table 4.

These indicators of forming grain market supply prove that Ukraine is able to significantly increase grain production and above all by increasing crop yield. The incentives for this process lie in the area of pricing mainly in relations between costs and efficiency of production and price conditions in the market.

The previous year was very successful for Ukrainian grain producers and the gross production of more than 53 million tonnes was enough to fully satisfy domestic demand and generate significant export potential. Thus, grain production increased by 82% compare to the 2007 level. The increase in grain production is due to the growth in crop yield by 1.6 times in comparison with the 2007 and sown areas - by 14.4%. Ukraine harvested 27.5 million tonnes of food grains, representing 52% of the total harvest and 25.8 million tonnes of forage (48%). Wheat production has doubled in 2008 - to 25.9 million tonnes, production of barley increased by 2.1 times to 12.6 million tonnes, corn - by 1.5 times to 11.4 million tonnes, rye - almost twice to 1.1 million tonnes and oats - by 1.7 times to 0.9 million tonnes. Domestic grain consumption in Ukraine, according to estimates, is about 26 million tonnes per year. (State Statistics Committee of Ukraine)

2.3. Ukrainian Share in the World Grain Market

Globalization processes require a faster Ukraine's entry into the international trading system through membership in different trading organizations and accession to the European Union. Integration process is the way of realization Ukrainian economic interests, the possibility of foreign markets conquest by using its potential and competitive advantages of agricultural sector (fertile land, good geographical position). The context of this process raises the question of further Ukrainian grain market development and its integration with the world market.

Ukraine has a great potential for conversion the grain production into highly efficient and export oriented sector of national economy. There are two major prerequisites to increase grain production in Ukraine: fertile black soils and favourable temperate climate. Particularly, a third of world's black soil is disposed in Ukraine. Ukraine has the highest rate of per capita arable land in Europe, (0.66 hectares in Ukraine compare with appr. 0.25 hectares in Europe), and almost one third of Europe's arable land is covered by Ukrainian territory (Pokropyvnyy, 2000).

After the collapse of Soviet Union Ukrainian grain production had a tendency to decrease. It has been stabilized in nowadays which proves the Ukrainian position between the leaders of world grain productions.

The strong Ukrainian grain export market is still not formed. There is a lack of reliable, relatively permanent partners. Clear trade distribution channels are not defined. Since the second half of 90's because of lack of experience in promoting their products in new market conditions producers had to seek the services of intermediaries.

Traditionally, Ukraine is exporting two main crops - wheat and barley. The main trading partners are Europe (Spain, Italy, Portugal, the Benelux countries) and North Africa (Algeria, Morocco). The reason of such relations is geographical intimacy and knowledge of trade terms with these countries. Nowadays, Ukraine is developing new markets of Middle East, South Korea, Brazil, Peru and Japan. (State Statistics Committee of Ukraine)

The high yield in 2008 with favourable business climate on the world market gave Ukrainian traders a possibility to substantively increase grain export. The structure of grain sale is shown in Figure 2.10.

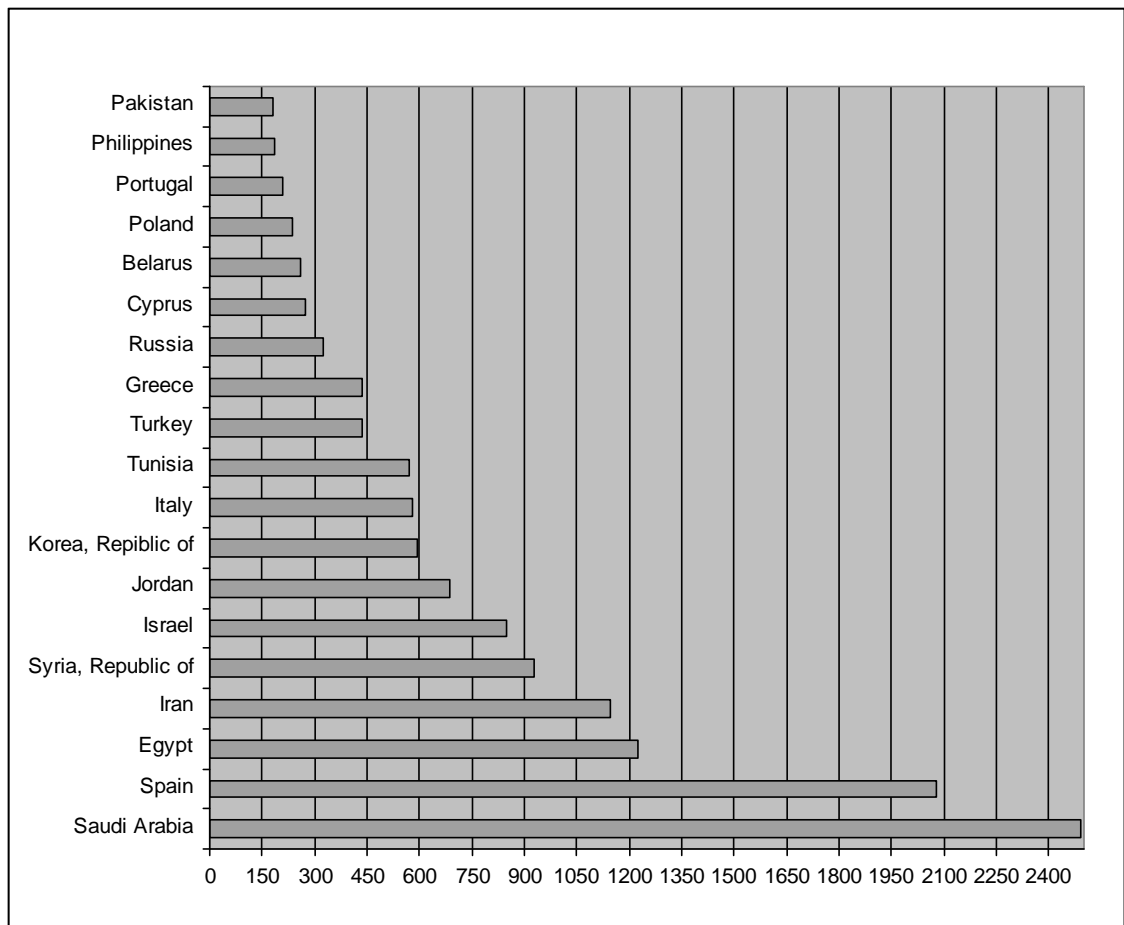


Figure 2.10. Grain export to the main trading partners in January-December 2008, thousand tonnes (total grain export was 16136.37 thousand tonnes).

Source: State Statistics Committee of Ukraine. Own computations.

President of Ukrainian Academy of Agrarian Sciences in his interview for Ukrainian media declared, that "With significant natural, human, scientific and technical resources, according to research of Ukrainian Academy of Agrarian Sciences, Ukraine is able to reach gross grain production of 80 million tonnes in 2015. This will allow to ensure the domestic food security and increase to nearly 45-50 million tonnes of grain." (Svoyachenko, 2008)

Is Ukraine able to significantly increase grain production? According to State Statistical Committee grain production in 2008 was 53.26 million tonnes. In 7 years grain production should rise by more than 26 million tonnes, or by 3.34 million tonnes annually. The current situation is presented above.

According to experts, for an effective grain production a minimal profitability of grain production should be 20%, and rational (in Ukraine) is at least 40% (Hoychuk, 2004).

Only such profitability creates necessary terms for renewal of basic funds and usage of grain production technologies, which allow not reducing, but increasing of yield. And what do we have today?

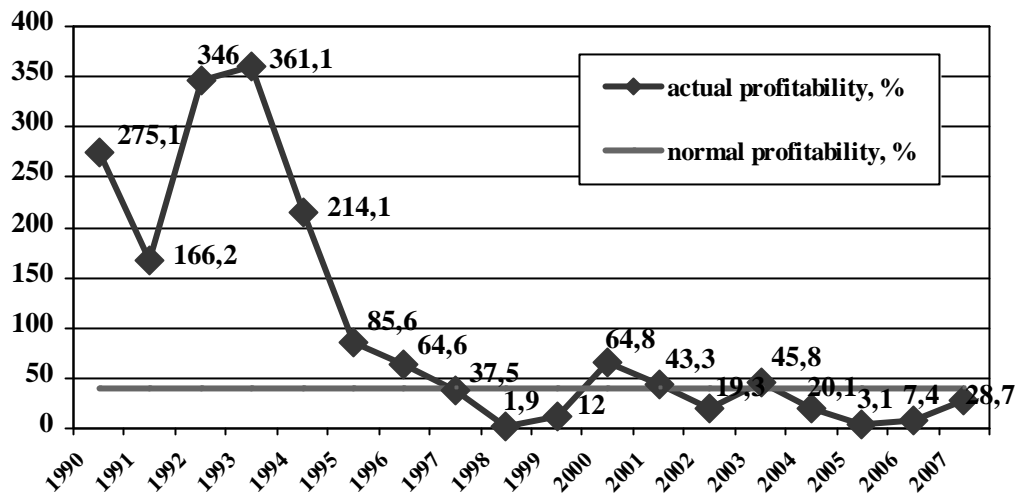


Figure 2.11. Grain production profitability in Ukraine, %.
Source: State Statistics Committee of Ukraine. Own computations.

A barrier to increase grain production is the lack of economic incentives. Profitability of grain crops production is low. The reason is absence of stable sale market, unstable and not predictable agricultural policy, artificial restraint of prices for grain in terms of higher prices for fertilizer, fuel, pesticides, etc. Despite the growth in incomes, the issue of growing grain price stays politically loaded, that prevents its objective consideration. That forces agrarians to reorient production to more profitable crops, oilplants in particular. Farmers lose their financial capacity to use modern efficient farming technology and expand production capacity.

So, will such grain market trends change if state politics regarding grain industry is not to be changed? Probably not. In order to change these trends, it is necessary to change political situation first.

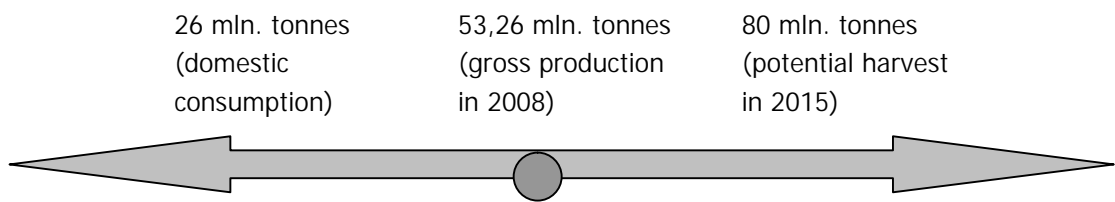


Figure 2.12. Where should move Ukrainian grain industry?

Source: State Statistics Committee of Ukraine, Svoyachenko, 2008. Own computations.

<p>Production reduction:</p> <ul style="list-style-type: none"> Reduction of Ukrainian population; Low spending capacity; Restrictive measures on trade; Infrastructure underdevelopment; Unpredictability of agricultural policy. 	<p>Production increase:</p> <ul style="list-style-type: none"> Export growing; Production development of biological fuel; Lack of trade and price interventions; Market infrastructure development; Transparent and predictable State policy.
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Figure 2.13. Factors, which determine the vector motion.

Source: Own conception based on research.

If system-based and purposeful work on grain production development will allow increasing grain production in Ukraine during the nearest 7 years up to 80 million tonnes, Ukraine will supply all its internal needs (taking into account population's growth in prosperity, increasing of fuel production and state procurement of grain). Ukrainian grain export may be increased to 50 million tonnes.

It is necessary to mark that world grain prices significantly grew and were fixed on a new level. In the end of March 2009 FOB price of wheat was 235 USD per tonne, price of corn – 168 USD per tonne (Analytical agency "Agriculture"). Secondly, substantial drop of world grain price for the nearest 10 years is impossible. Then, the control of strategic grain prices in Ukraine will lead to significant damage to grain producers and will jeopardize the welfare of 15 million people in rural areas. But Ukraine thanks to the world boom to biological fuel has unique possibilities of receiving additional income while exporting grain (Babich and Poberegna, 2000).

In such a case, on condition of sales restrictions absence, favourable grain prices will stimulate its production increase, which is necessary for export, as well as satisfaction of state domestic needs, including development of biological fuel production.

For further grain production growing state policy should be the following:

- provide agrarians with legitimate rights to freely sell grain at the most favourable market prices, including export. In other words, to give them the projected economic incentives;
- promote the development of grain market infrastructure, including its transport and information components;
- stimulate export of grain crops;
- create necessary reserves of grain, which will close the door on any speculative activity in the market of bread;
- develop and implement a seven-year (2009-2015) program to ensure increase of grain production to 80 million tonnes.

Chapter 3. Grain Export in Ukraine

3.1. Ukrainian Grain Export Analysis

The modern world has confronted the problem of food security in terms of rapid globalization and integration. Solving this problem is also influenced by trade flows of agricultural production, including grain - strategically important food of the world's population. Ukraine will not remain aloof of these processes and in recent years, actively interacting with the world grain market, was able to declare itself as a country that has all the prerequisites to take a leading position in the world exporter of grain.

Agriculture production is traditionally playing an important role in county's export (Figure 3.1.).

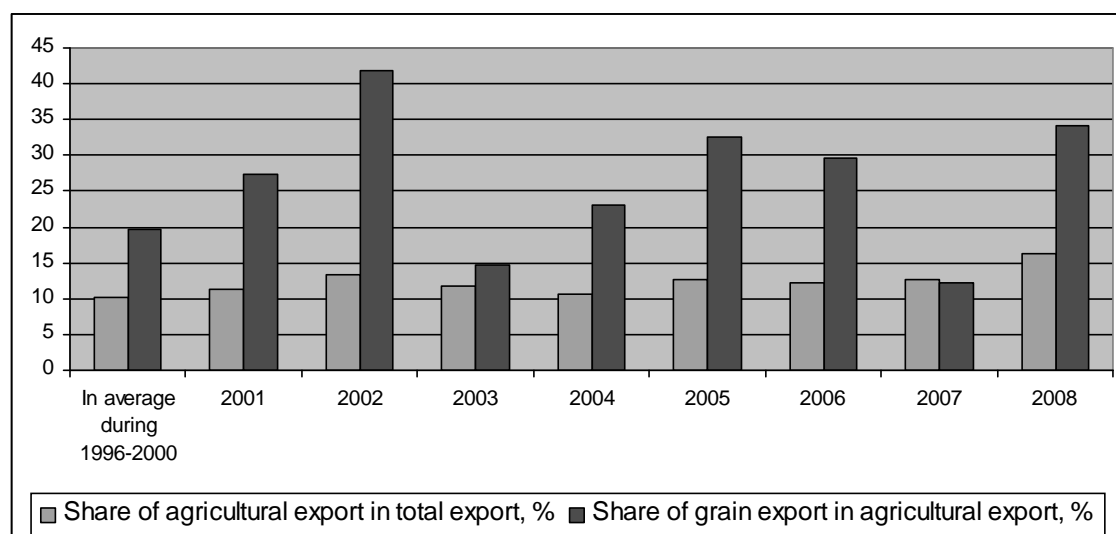


Figure 3.1. The share of agriculture products in total export and grain in total agricultural export.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations using the data in appendix table 5.

According to State Statistics Committee, in the end of 1990's the export share of agricultural products was about 10% in the total value of Ukrainian export, taking second place among the commodity groups.

Grain is traditionally increasing its capacity in building Ukrainian export potential. In 1996-2000 the share of this group was 19.7% in the agricultural export, in 2000-2005, it has been increased by 7.2% and the average was

26.9%. All the time, grain was the main agricultural product, which was exported by Ukraine.

Strong grain position in Ukrainian agricultural exports predetermined by some circumstances which are closely correlated with the peculiarities of the domestic grain market functioning:

- grain market - the basis of agrarian economy in Ukraine, which combines historical, natural and climatic, national, regional and intelligent features that is typical for Ukrainian society;
- grain market production is vital condition for the existence of mankind, and subsequently determining the country socio-economic position in the world;
- grain market is strategic and one of the most important parts in the economy, stimulating or, conversely, strangling the development of many other related industries, food and commodity markets (livestock, poultry, flour, cereals, mixed fodder, brewery, alcohol, starch-treacly industry, etc...)
- level of the grain market development characterizes economic, social and political stability in the country, its food security;
- high return in production compared with other agriculture sectors.

We should also consider the fact that the grain industry does not belong now to those sectors which are growing rapidly, because its development is cyclical, due to some interconnected factors, such as climatic, economic, social, organizational and technological.

During the Soviet Union regime, foreign trade in grain and products of its processing was managed according to state plans. These plans allow to form federal fund of agricultural products and, if necessary, to distribute this products between Soviet republics and foreign countries in the form of real exports. In the event of food shortages in the allied countries, the government was taken the decision to purchase the necessary agricultural products abroad. Moreover, Ukraine was dependent from grain imports during the 1980-1990's, which was caused by significant demand of the grain processing industry. The rapidly growing livestock industry was creating additional demand for fodder which domestic grain production was not able to satisfy (Table 3.1.).

Table 3.1. Export and import of grain and products of it processing in Ukraine.

Years	Production, thousand tonnes	Export		Import	
		Thousand tonnes	In % to own production	Thousand tonnes	In % to own production
1980	36625	987	2.7	7967	21.7
1981	34899	948	2.7	8050	23.1
1982	40420	2099	5.2	6142	15.2
1983	35118	851	2.4	10617	30.2
1984	40070	1752	4.4	7644	19.1
1985	38899	1467	3.8	6481	16.7
1986	41506	1071	2.6	5620	13.5
1987	48061	3634	7.6	4139	8.6
1988	45369	3907	8.6	4170	9.2
1989	51212	5372	10.5	4609	9.0
1990	51009	2952	5.8	2333	4.6

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Thus, during the 1980-1990's, the average amount of grain export was 2363 thousand tonnes (at a minimum value of 851 thousand tonnes in 1983 and the maximum - 5372 thousand tonnes in 1989). All these years (except 1990) Ukrainian grain import exceeded export, the share of imported grain reached 30% of its production volume.

During the Ukrainian independence, grain export was unstable due to the internal and external market transformations (Figure 3.2.).

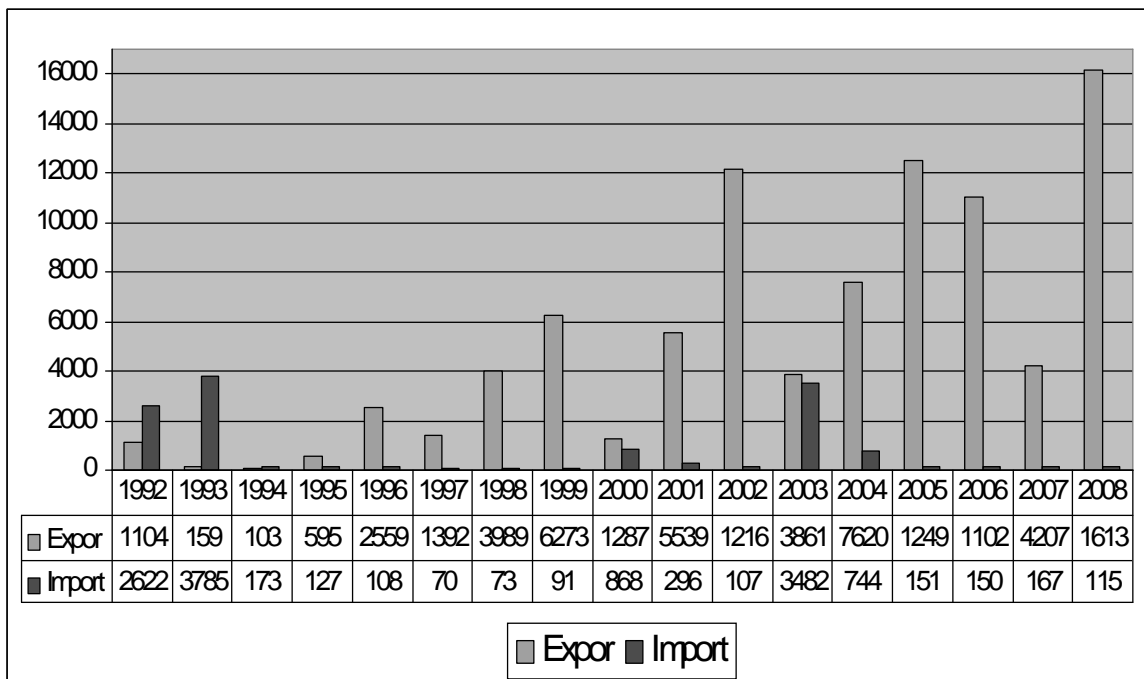


Figure 3.2. Grain export and import, thousand tonnes.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Based on the analysis of grain export in Ukraine for the past 17 years and the literature review it is possible to define the following stages of Ukraine's accession to the world grain market (Berezin, 2002; Kalinchyk and others, 2006; New economic paradigm, 2001; Omelyanenko, 2000; Shoychak, 2007):

The first "passive" phase (1991-1992). Foreign grain trade was limited by Ukrainian export according to its obligations to the Commonwealth of Independent States and Baltic States in the amount of 1230 and 1104 thousand tonnes in 1991 and 1992 respectively (Figure 3.2.). In addition, the food security was in danger due to deficit of monetary funds for government procurements and creating state grain funds. Shortage in food and fodder grain was covered by imports from Canada, USA, France, China, and Great Britain. This period characterized by the origin of the exchange in the country, establishing instruments of customs-tariff regulation, which legal basis was laid in the Law of Ukraine "On Unified Customs Tariff";

The second "liberalization" phase of (1993-1995). Emerging markets in the Ukrainian national economy, in particular in the agricultural sector in the early 90's required new state tactic and strategy in a wide variety of international economic relations. Ukraine chose a policy of foreign trade liberalization. Decree of the Cabinet of Ministers 4-93 "On Unified Customs

Tariff of Ukraine" (of 01.11.1993) approved the advalorem duty rates at 10 and 20% (reduced and full rate of duty respectively). In early 1995 the Cabinet of Ministers resolution 139 increased full and reduced rates of import duty. In particular, reduced and full rate of import duty on such goods as barley, oats and buckwheat increased by 10%. In 1993 the Decree of the Cabinet of Ministers of Ukraine "On export duty in 1993" 3-93 from January, 11 1993 established the first export duties in Ukraine, which spread to most types of agricultural products. For example, the group "Wheat and cereals" was faced the rate of 30%. In early 1994 the export duty on all goods were abolished, and only in 1996 export tariffs were imposed on cattle export.

In 1994-1995 intensive foreign trade liberalization in agriculture products increase agricultural imports in Ukraine. This situation intensified relations between Ukraine and the World Trade Organization and they have established Interagency Commission on Ukraine's accession to the WTO. This Commission planned to gradually adapt existing custom legislation in accordance with international agreements and negotiation process. In that time, foreign grain trade conducted in small amounts and had no significant value in the economy and was intensified only in 1995 at the amount of 595.2 thousand tonnes, unlike to 1993 and 1994, when Ukraine exported 159 and 103 thousand tonnes of grain respectively (Figure 3.2.).

In 1993-1995 the state's export-import relations concerning such products as cereals was influenced by the following factors: government dictatorship policy in sales (in the 1990-1994 government procurements covered from 62% to 80% of the grain market and only in 1995 the share declined to 37%); a significant proportion of barter trade as typical signs of imperfections in commodity-money relations of that period; the low level of knowledge about world grain market; unfavourable weather conditions decreased grain production.

The third "renewal" phase (1996-2000). This period is characterized by increasing grain exports (the supply structure: wheat - 50-70%, barley 20-30% and corn - 5-13%), reducing the role of public order, which was officially cancelled, although regional order continued to exist; barter transactions on the domestic market (accounted for 50% of the total agricultural export), the dynamic development of agricultural markets and open trade in late 1995 and early 1996, which was initiated by the Decree of the Cabinet of Ministers "On the development measures of the agricultural market in Ukraine" 768 from 26.09.1995 and "On the acceleration of agricultural exchange" from 17.11.1995

916. Moreover, about 50 grain traders began to work in the Ukrainian grain market, including 8 overseas, whose activities are characterized by diversify

supply chain. The peculiarity of this supply chain was unpredictability in the relationship between the links and moving of transfer costs from foreign consumers to agricultural producers. In the end of 90's Ukrainian grain market was occupied by about 10 international (Cargill Enterprises INC., Toepfer International, WJ. Export-Import, TradeInGrain Ukraine and others.) and 200 Ukrainian grain traders. Another feature of foreign trade in this period was the search of optimal protection model for domestic producers from foreign grain suppliers. (Boiko, 2007)

In 2000 Ukraine faced grain crisis, which was created after significant grain export by dumped prices in 1999 (6.3 million tonnes). That process stimulated the growth of domestic prices. The state was forced to create restrictions on exports and increase imports of grain in the amount of 871 thousand tonnes worth 118.4 million dollars. The situation in 2000 was primarily created due to inadequate creation of internal market. The Presidential Decree "On urgent measures to encourage grain production and market development" 832/2000 from June, 29 2000 was the first real step in the grain market improvement, which started practical implementation of mortgage and intervention mechanisms of grain purchases. This decree created a state agent of grain purchasing. In addition, the decree introduced the procedure by which the grain export should be only according to concluded export contracts registered at accredited in specialized agrarian exchanges;

Fourth phase of "win and loss positions in the global market" (from 2001 - to present). There were attempts to introduce market regulation methods of the grain market functioning in Ukraine (mortgage and intervention operations). During the last period Ukraine experienced significant growth in production and export of grain, which allowed acquiring the status of the leading world grain exporter with the significant export of 12.5 million tonnes of grain in 2005 year and 16.1 million tonnes in 2008 (Figure 3.2.). Along with this, there were "failures" in the grain market, which weakened the Ukrainian position in foreign markets. In 2003 the country was a net importer of grain. This period is characterized by increasing protection of national producers through improving customs-tariff regulation of foreign grain trade.

During the last years increasing volumes of grain production was the major factor, which established export oriented status for the grain sector. But the essential problem of maintaining this status is large fluctuations in harvest from year to year that indirectly reflected in the volume of exports and imports.

Grain production in Ukraine is defined as a most important branch of the agro industrial complex, which has export orientation based on internal capabilities and world market conditions. This orientation is proved by Ukrainian

possibilities in producing significant amounts of grain and to enter the world grain market as one of the 10 major exporting countries.

While analyzing the structure of the grain export during the last five years I found out that Ukraine is biased toward wheat and barley export. Analysis shows that for 2004-2006 the average share of wheat in the grain export was 42.5%, barley - 27.8% and 18.3% for corn. Ukraine has exported 7.5 million tonnes of wheat or 46.5% from the total grain export in 2008; 5.7 million tonnes of barley (35.6%) and 2.8 million tonnes of corn (17.4%) (State Statistics Committee of Ukraine).

In recent years, export of barley has been significantly intensified. Today Ukraine is one of the world's largest exporters of barley. The reason for this success is an advantageous geographical position in relation to the main importer - Saudi Arabia. In last year the amount of barley exported to Saudi Arabia exceeded 2 million tonnes. The demand will continue to grow in future. There are optimistic prospects for increasing exports of corn because of exceed output over its internal consumption. According to current territorial structure of grain export Ukraine will continue to consolidate in the Asian markets.

Export is a powerful incentive to increase grain production. In perspective one of the most important areas of grain export should be increasing supply of deep processing products, which will create a higher value added.

Ukraine has very specific conditions in grain market. Such conditions are caused at first by a significant demand for cheap Ukrainian grain, secondly, substantial supply that exceed the domestic demand, due to the sharp decrease in demand for feed grain and, thirdly, developing infrastructure in the Black Sea ports of Ukraine.

Thus, Ukraine has reached a "record" amount of grain export in 2008 – 16.1 million tonnes. Among the countries with the largest volume of exports we should note Saudi Arabia, Spain, Iran, Syria, and Israel (Figure 2.10.).

Analysis of general foreign trade intensity shows that despite the instability of domestic agro-food markets, export of agricultural complex grows in weights, and in absolute figures (Table 3.2., Table 3.3.).

Table 3.2. Dynamics of volumes and prices of grain export and import in Ukraine.

Year	Export, F			Import, F		
	Amount, t	Value, thousand USD	Export price, USD/t	Amount, t	Value, thousand USD	Import price, USD/t
Wheat						
2003	901139	80624	89.47	3076222	467412.04	151.94
2004	2553931	288900	113.12	593216	110106.18	185.61
2005	6010426	652292	108.53	9507.9	1476.3	155.27
2006	4671323	595813	127.5	1942.4	856.1	440.76
2007	1055886	190063	180.00	1799.1	1294.5	719.54
2008	7511299.6	1605247.4	213.71	1733.8	1645.1	948.83
Rye						
2003	91882	5994.85	65.25	261471	16808.21	64.28
2004	60547	6388.31	105.51	10609	1707.94	161.0
2005	80523	6879	85.43	7.6	4.5	591.09
2006	34451	3426.5	99.46	5.0	3.6	729.33
2007	-	-	-	68.5	95.66	1396.55
2008	125.0	34.2	273.83	17.7	21.6	1221.25
Barley						
2003	1894831	206799.7	109.14	32862	5969.67	181.66
2004	3710375	37089 .9	99.96	23698	5096.61	215.07
2005	3504995	444819.1	129.91	475	262.65	552.87
2006	4569489	566151.9	123.90	20224	3584.2	177.22
2007	2119731	375371.0	177.08	9211.0	3425.1	371.85
2008	5740515.7	1405269.4	244.80	1346.2	1719.4	1277.21
Corn						
2003	943109	105075.8	111.41	21493	12019.22	559.22
2004	1233853	168978.3	136.95	13955	233654.59	1695.04
2005	2800332	269336	96.18	12901	26449.12	205017
2006	1682496	177067.7	105.24	15656.4	31673.7	2023.05
2007	954293	175195	183.59	23907.2	53886.7	2254.0
2008	2811742.0	670165.1	238.35	33329.5	103669.4	3110.44

The complete table is presented in Appendix table 6.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine, Analytical agency "Agriculture". Own computations.

Table 3.3. Indicators of the Ukrainian foreign trade intensity.

Indicator	Year					
	2003	2004	2005	2006	2007	2008
Total GDP (official exchange rate), billion dollars	50.1	64.9	86.1	107.8	141.2	198.0
Export, billion dollars	23.1	32.7	34.3	38.4	49.2	67.0
Openness ratio, %	46.1	50.3	39.8	35.6	34.9	33.8
Export agriculture production, billion dollars.	2.7	3.5	4.3	4.7	6.2	10.8
Share of agricultural export in total export, %	11.8	10.6	12.6	12.3	12.7	16.2
Grain export, billion doll.	0.4	0.8	1.4	1.4	0.8	3.7
Share of grain export in agricultural export, %	14.6	23.0	32.5	29.7	12.2	34.2

The complete table is presented in appendix table 7.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine, Analytical agency "Agriculture". Own computations.

All this indicates a favourable export conjuncture. As it was highlighted previously, the share of grain export in total export of agriculture products ranged from 7 to about 40%. But starting from 2001 to 2008 the average share was approximately 26.9%, except for 2003 and 2007 when it was introduced significant restrictions on grain export from Ukraine.

As we know, the grain export directly depends on the economic situation in the exporting country, conditions and price situation in the foreign market (Figure 3.3.).

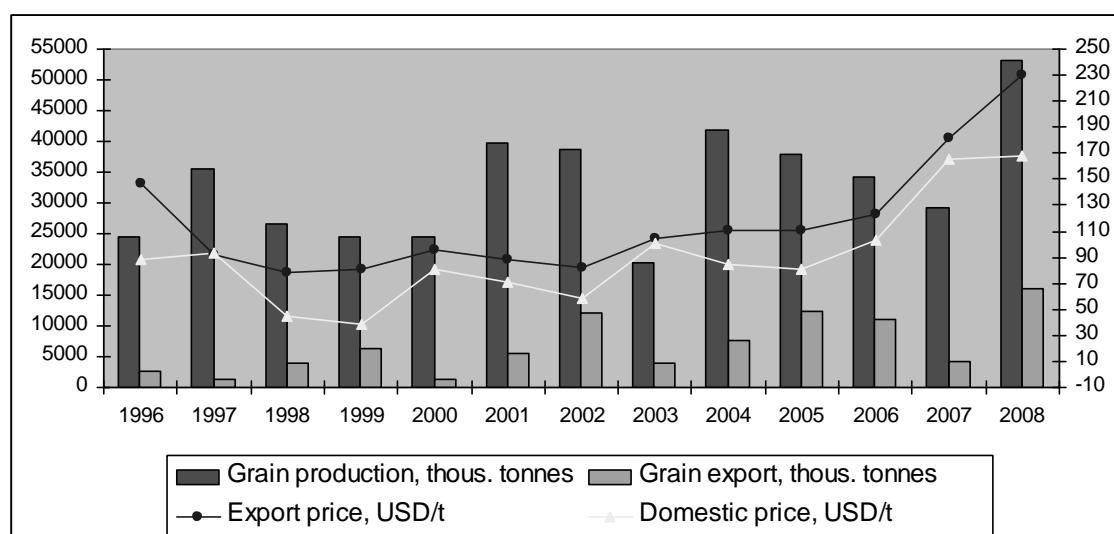


Figure 3.3. Dynamics of production, exports and prices of grain in Ukraine.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine, Analytical agency "Agriculture". Own computations using the data in appendix table 8.

The main factor which motivates Ukrainian grain export is the price, because only in the 1997 export price of grain was lower than the price of domestic market. The largest volume of grain exported in 2002, 2004, 2005, 2006, 2008, in which the difference between export and domestic price was respectively 23.8, 25.45, 29.48, 19.84 and 62.25 U.S. dollars per ton. Although this is not always the decisive factor - in 1996 (58.3 USD/tonne, export - 2559 thousand tonnes) in 1999 (42.4 USD/tonne, export - 6273 thousand tonnes) in 2007 (16.13 USD/tonne, export - 4206.9 thousand tonnes).

According to the analysis we can say, that wheat, barley and corn were the most important exports for the period 1996-2008 years (Figure 3.4., Figure 3.5., and Figure 3.6.). Although barley exports exceeded wheat in some years - 1996, 2003, 2004, 2007. Since 2004, Ukraine is an exporter of all worldwide demanded crops, which confirms the optimistic statement to become a major player on the world grain market.

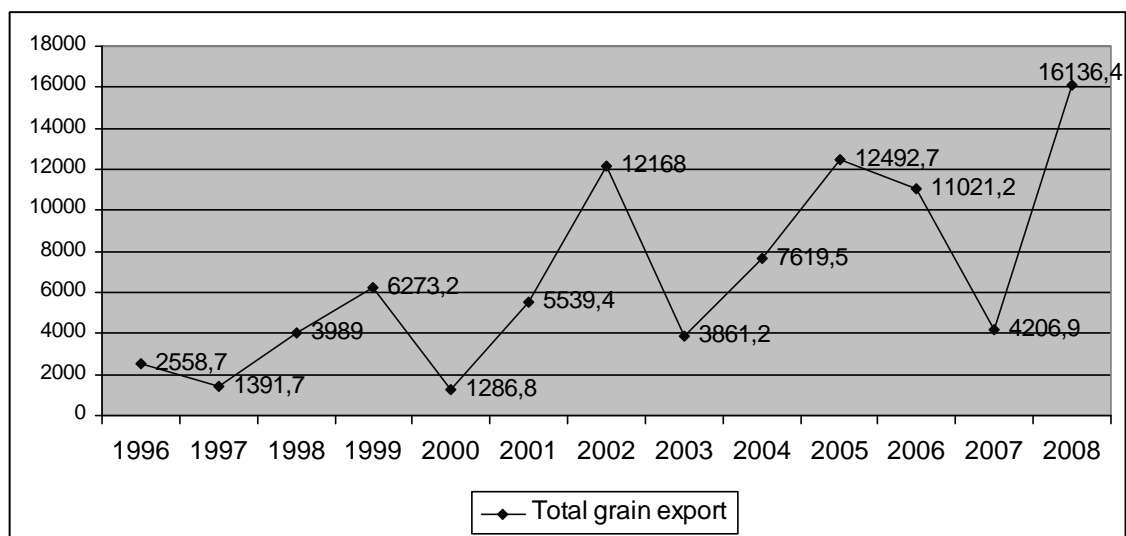


Figure 3.4. Grain export during 1996-2008, thousand tonnes.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations using the data in appendix table 9.

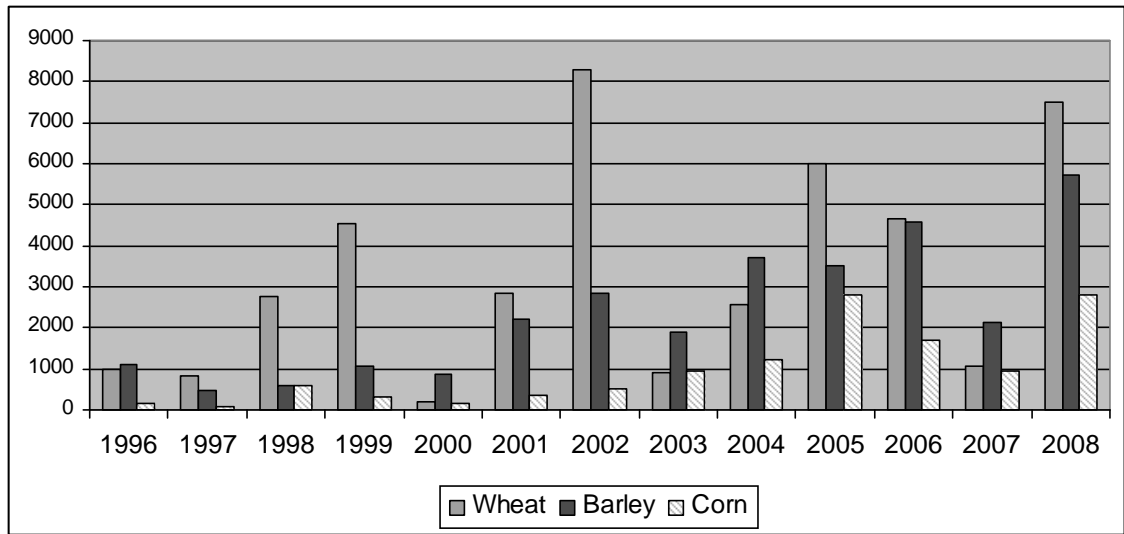


Figure 3.5. Export of main grain crops during 1996-2008, thousand tonnes.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine.

Own computations using the data in appendix table 9.

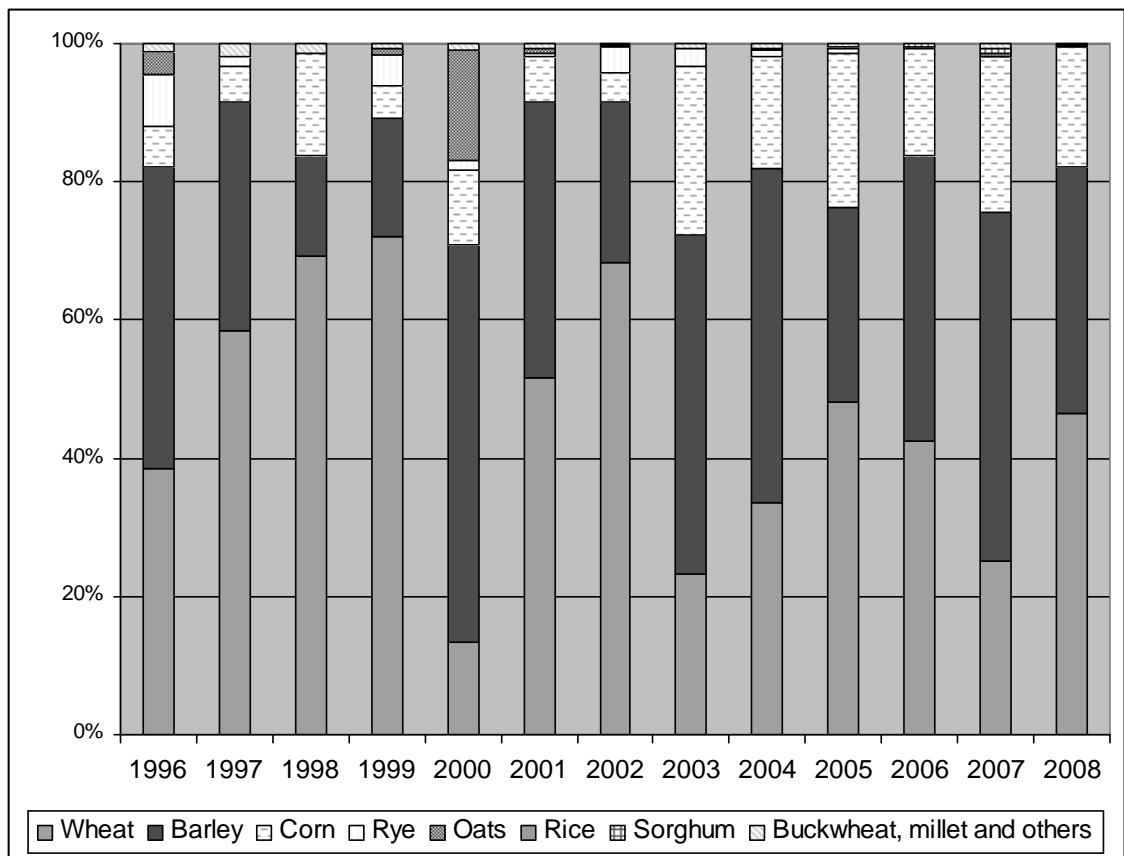


Figure 3.6. Share of different crops in total grain export, %.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine.

Own computations using the data in appendix table 10.

Revenue from grain export is very significant and is not falling below 400 million dollars after 2000. In 2005-2008 it exceeded 1 billion dollars (Figure 3.7.).

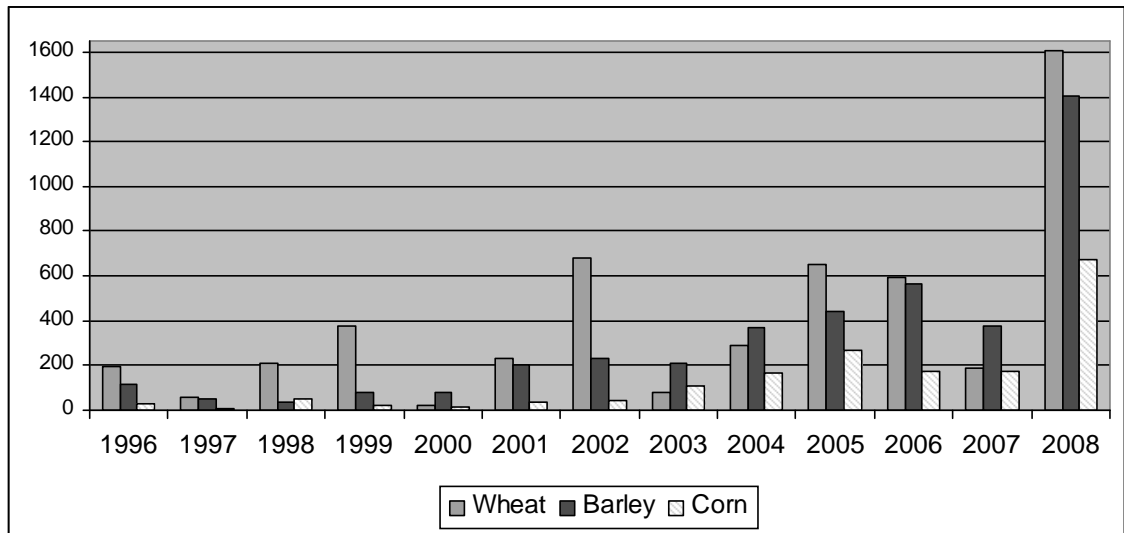


Figure 3.7. Grain export during 1996-2008, million USD.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations using the data in appendix table 11.

The lion's share of earnings was created from export of major crops - wheat, barley, and corn (Figure 3.8.) and due to high world prices (Figure 3.9.).

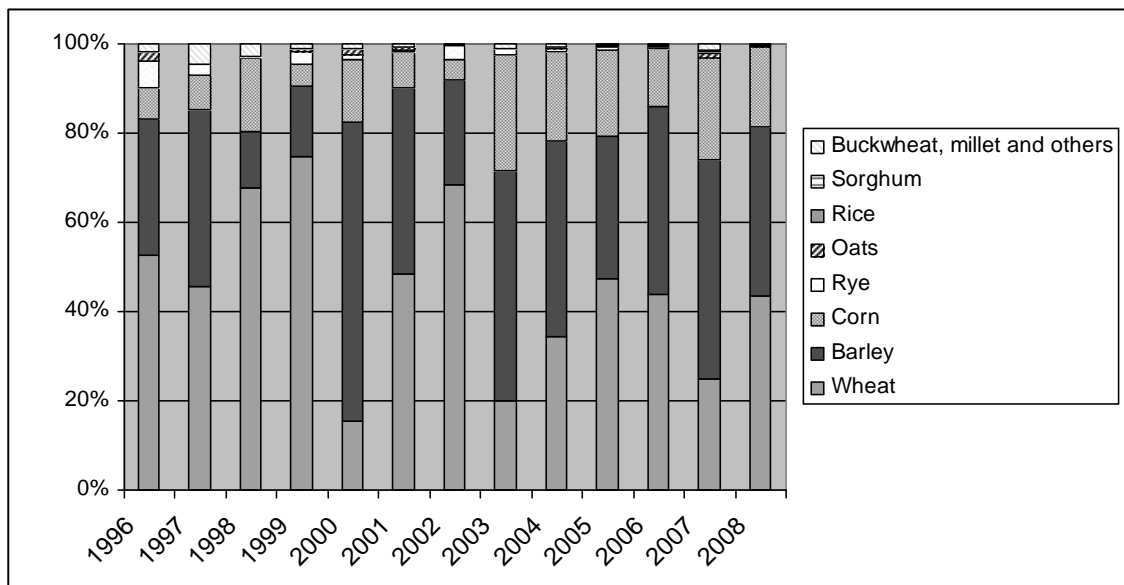


Figure 3.8. The share of revenue received from crops export in total grain export, %.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations using the data in appendix table 12.

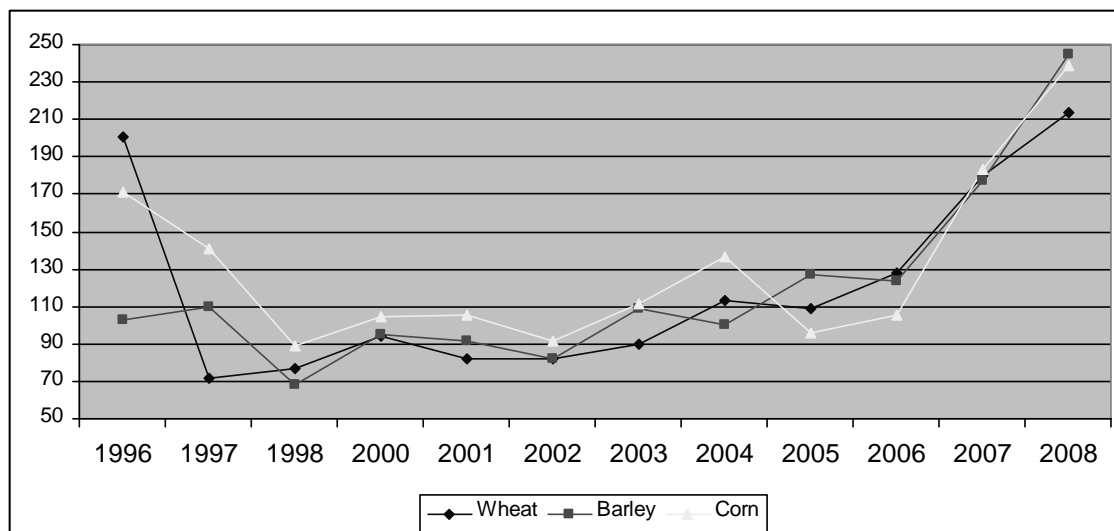


Figure 3.9. Export prices in 1996-2008 USD/t.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations using the data in appendix table 13.

Such situation means that the solving of financial and economic problems of agricultural enterprises is possible only in case of it high productivity and creating a rational export policy. According to statistics, the negative foreign trade balance was only in 2003 (Table 3.4.) when large volumes of grain were imported at high prices.

Since independence, Ukrainian geographical structure of grain export is characterized by reorientation from markets of CIS countries to the markets of Asia, Africa and Europe. The share of wheat exports (in quantitative terms) to these groups of countries has significantly changed for the previous ten years: in the CIS countries - from 66% in 1996 to 1% in 2008, Europe - from 24% to 36%, Asia – 1% to 32%, Africa - from 0% in 1996 to 30% in 2008 (State Statistics Committee of Ukraine).

Table 3.4. Total balance of grain foreign trade, mln. USD.

Indicator	Year					
	2003	2004	2005	2006	2007	2008
Export	402.3	844.3	1384.1	1354.2	763.7	3703.8
Import	522.5	167.0	57.5	59.5	86.6	146.53
Foreign trade balance	-120.2	+677.3	+1326.6	+1294.7	+677.1	+3557.2

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations using the data in appendix table 14.

It is obvious that Ukrainian foreign grain trade is not stable, with negative and positive peaks which have a tendency to growth.

The peculiarity features of Ukrainian grain export are: absence of alternative sales channels except cooperation on unfavourable terms with the private grain trades, which are mainly foreign-owned companies; small help from the state. (Boiko, 2006)

Ambrosov and V. Onehina noted that low production costs are a very important factor that contributes to the growth of grain export (Ambrosov and Onehina, 2005). In particular, the main components, which decreased the real costs of production are low wages in agriculture, compared with developed countries and low rents for agricultural land. We should not deny the quality of crops that grow in Ukraine. One of the main causes of poor global demand for Ukrainian wheat is a low quality corn, which is characterized by low average protein content and gluten and low flour power because third class wheat accounts only 20% in total grain production Ukraine has become an exporter of feed grain. (Kvasha, 2006)

Real exchange rate plays an important role in the competitiveness of the products. Depreciation of Ukrainian currency, which was observed in 90's and in recent times had a positive effect on export growth of grain and producers income. Along with this, not a true value of the exchange rate may provoke unsustainable distortions in the structure of foreign trade, which in future will have an impact on the socio-economic development of the country. (Muzychenko, 2004)

Thus, Ukrainian grain export development is determined by following factors: natural and climatic conditions, the state regulation level of domestic grain market, conditions of institutional environment, the world grain market conditions, costs of grain production, grain quality, availability of sales channels, etc. Ukrainian marketing policy has the possibility of a gradual foreign economic activity diversification, establishing domestic corporate bodies and companies focused on close economic cooperation between all elements of integrated production.

Summarizing all mentioned above, the analyse of strengths and weaknesses of Ukrainian grain export, opportunities for its further development and obstacles to their implementation was done (SWOT-analysis). The analysis results is proposed for consideration in the following form:

Strengths	Weaknesses
<p>Existent significant potential for rapid increase of production volumes;</p> <p>Favourable natural and climatic conditions for growing grain production;</p> <p>Significant volumes of domestic and foreign demand;</p> <p>Low net cost of grain;</p> <p>Increasing demand and prices for grain in the world.</p>	<p>Price unsteadiness and uncertainty;</p> <p>Supply volume fluctuations ;</p> <p>High risk for lenders, poor quantity of involved investments and funds;</p> <p>Low level of material and technical resources supply;</p> <p>Lack of developed market infrastructure;</p> <p>Low population purchasing power;</p> <p>Lack of investments in agriculture;</p> <p>Lack of funds for state agriculture support;</p> <p>High rates of interest and low capital turn-over;</p> <p>Production mainly low quality food or feed grain.</p>
Opportunities	Threats
<p>Ukraine can offer one of the lowest prices in the world grain markets (price leadership strategy);</p> <p>Ukraine can increase production volumes during a short period of time.</p>	<p>Other countries can protect their economy from cheap import of Ukrainian grain;</p> <p>Lack of funds for development and support of agriculture.</p>

Figure 3.10. SWOT analyse of the grain export in Ukraine.

Source: Own conception based on literature overview and market research.

A significant problem of agriculture is price uncertainty. Such situation can lead to enterprises being not able to determine the amount of grain they need to produce. The production costs are in direct proportion to the volumes. Price uncertainty disables predictable profitable production. This leads to significant fluctuations of the supply volumes. Farm units often produce surplus grain production, which net cost greatly exceeds its market price. Grain underproduction also endangers budget losses for grain import, while national producers receive less profits than their due. Consequently, supply volume and price fluctuations cause damage of national producers. That creates distrust of the banking system, which cannot afford to invest money into unprofitable business. It is possible to define credit return probability only when the agricultural production price is known. In terms of price uncertainty there is a risk that enterprises will put up money for significant production volumes, which cannot be absorbed by market, which will lead to price collapse and large-scale credit default of commercial banks.

Lack of financial and credit supply leads to a low level of material and technical resources supply. Budgetary constraints do not give enterprises a possibility to apply necessary amount of mineral fertilizers, plant-protecting agents, purchase POL materials for timely reaping and sowing organization etc. All mentioned leads to unreasonable increasing of production net cost.

A critical shortcoming is the lack of developed market infrastructure. This prevents free market pricing formation, based on the balance of supply and demand and transparent product movements in the market.

Agriculture has a low capital turnover, which makes it look unattractive for investors, especially on the background of high rates for loans in commercial banks. As it is known, efficiency of capital application is determined by two main factors: profitability and rate of turnover. Despite relatively high profitability of grain production, the agricultural capital turnover is carried out once a year. Therefore, the absolute value of the annual return on invested UAH is much lower than in many other industries.

Availability of significant resource potential for quick production volumes increase can be referred to strong points of Ukrainian agriculture. First of all, Ukraine has great land resources, which is a limiting factor for most countries, even such as China, India, Brazil and others. Also, highly qualified work force is on hand, as about 30% of Ukrainian population lives in the countryside. There is a domestic production of mineral fertilizers, agricultural machinery, chemical plant-protecting agents and other resources. Transport infrastructure is being developed, as well as infrastructure for storage and primary processing of grain. Ukrainian scientists grew and released many new varieties of grain crops that are best suited to climatic conditions in Ukraine. (Ovsyannikov, 2007)

A positive factor for Ukraine is that the demand for grain in the developing countries gradually increases while its production and actual reserves fall. All mentioned creates additional opportunities for export in the future.

3.2. Grain Market Conjuncture

In Ukraine setting of prices for grain is determined by special conjuncture characterized by conditions, which usually lead to price misbalance. For Ukrainian grain market two price extremes are indicative: in plenteous years prices are high, in fruitful they are low, but direct producer and consumer usually find themselves in a situation when prices are high for the consumer

and low for the producer, but the State is unable to regulate prices in order to preserve interests of both sides. That is why objective evaluation of price situation on grain market is a key to understanding its state in a price aspect. But we should note that problems of price determination are mainly caused by the fact that there is no such big player on a market as the State or its interference is either untimely or haphazard. State interference is especially necessary in the beginning of the market year – in July-August, as these are buyers' months and financial interventions of the State are extremely necessary to stabilize price conjuncture.

Grain market development trends confirm unstable grain prices and misbalance of the pricing determination system that functions today not in favour of the producer and even not in favour of the consumer (Figure 3.11.).

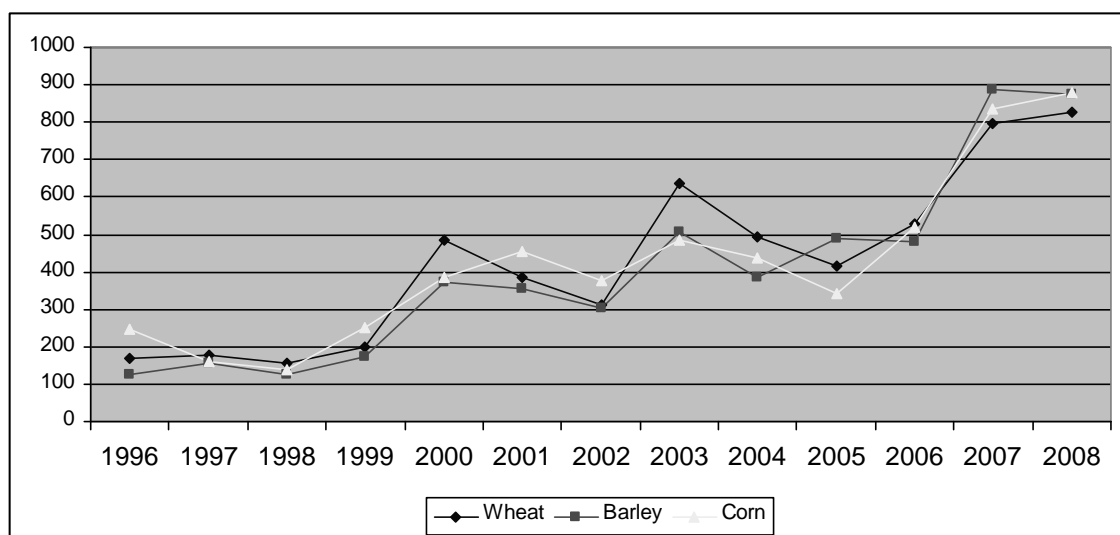


Figure 3.11. Average grain prices in Ukraine, UAH/t.

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations using the data in appendix table 15.

Estimation of pricing dynamics for main kinds of grain produced in Ukraine entitles us to believe that the fact of constant price instability takes place. For example, average price for 1 t of grain in year 2000 was 443.8 UAH/t, in 2001 it lowered to 381.3 UAH/t, in 2006 it was 515.2 UAH/t and in 2007 market "received" a price boom up to 833.5 UAH/t, in 2008 – 886.6 UAH/t. Such price conjuncture is determined by unstable supply and insufficient interference policy of the State. (State Statistics Committee of Ukraine)

However, frequent fluctuations in prices for grain have a negative impact on the motivation of its production. Price situation for analyzed period remains

unstable despite government's intentions to balance it with allocation as it was in 2006-2008. Evaluating marketability of grains from pricing perspective one should point out that as always determinative index of its estimation is economic efficiency of producing. On Ukrainian agricultural enterprises for the period of 2000-2006 one can see increase of sold grain net cost through years, meanwhile price trend was lowering during 2004-2005, and as a result profitability of 1 t of grains is decreasing considerably. (Boiko, 2007)

Unstable prices for agricultural products limit "regenerative potential" of agricultural enterprises. Profit from selling 1 t of grain in 2000 was 172.3 UAH, but in 2005 it was only 12.3 UAH (3.1 % profitability), which is absolute negative index for this culture. Price situation improved only in 2006, when supply of grain decreased considerably not only in Ukraine but in the whole world, however profitability indexes of grain producing in 2007 are much better though they are assured in circumstances of unstable producing volumes and prices proportion as well as growing prices for provisions, but in any case not by production efficiency cost. (State Statistics Committee of Ukraine)

Figure 3.12. shows the structure of wholesale prices for wheat. Apparently, the enterprises expenses for grain storage and processing and its primary conversion make 9.9% of grain sale price.

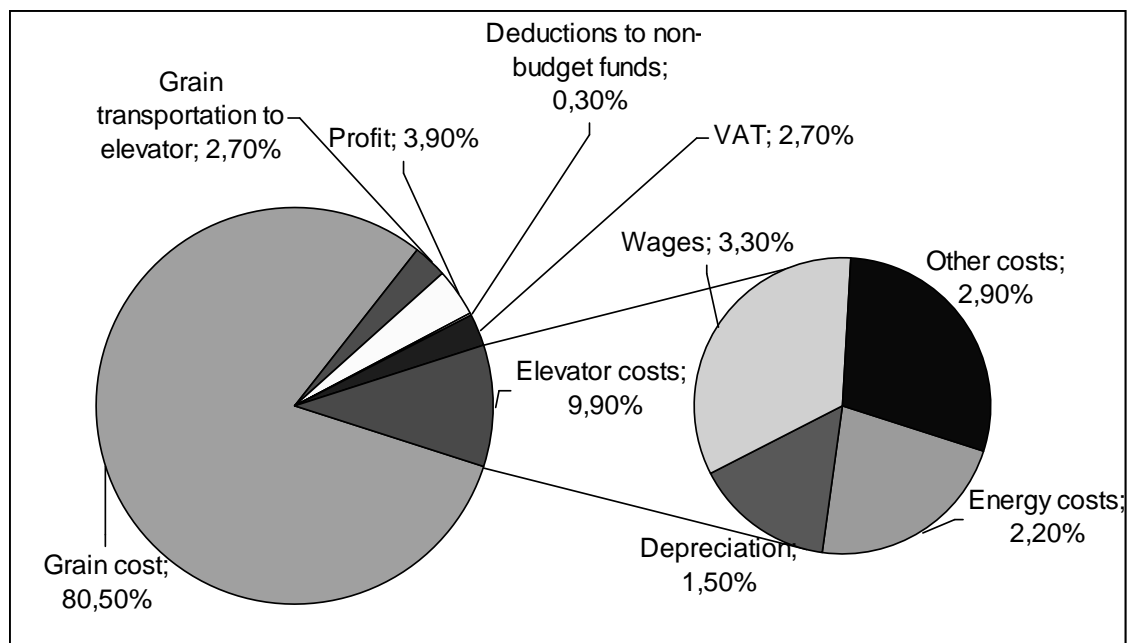


Figure 3.12. Formation of wholesale prices for wheat.

Source: Own computation based on researches of Berezin, 2002; Zakharchuk and Shovkalyuk, 2003; Zubets, 2006; State Statistics Committee of Ukraine.

Long-distance grain transportation is made by rail. Even if the grain is exported by sea, at first it is delivered to port elevators by rail, and after that it is transferred to a ship. The railway carrying capacity is an important limiting factor for both export and the production of grain in general.

Ukrainian Railway claims that the railroad has enough grain-carriers to take care of yield transportation. But in the railway employees' opinion, the shippers should use the cars more qualitatively - not to detain them. Interchange of vehicles on the railways for 2008 was 5.84 days, and the time of car delay on customs and quarantine formalities takes an average of 4-5 days. As a result Ukrainian Railway is losing in car turn around and cedes Russia and Kazakhstan on the world grain market. Also Ukrainian Railway leaders appeal to representatives of trader companies, ports and elevators managers with a request to plan their orders in advance and coordinate grain loading and unloading in order to prevent delay of cars. In general Ukrainian Railway amount of grain-carriers by the end of 2008 was about 13 thousand units. The volume of grain transportation was 2.5 million tonnes per month. (Ukrainian Railway)

All ports in Ukraine are state property, while investment in port infrastructure is implemented jointly with private capital. Ports provide area, access roads, piers, and private investors are constructing grain terminals, set up handling devices and other infrastructure. This led to increase of Ukrainian ports carrying capacity up to 26 million tonnes of grain a month in 2008, which significantly exceeds the railway carrying capacity. (Ukrainian Railway)

Ukraine's competitive advantage in net cost of grain is largely reduced due to high transaction costs that arise because of poor transportation infrastructure and inefficient elevator- storage system. While selling one ton of grain for export, these costs are 17.5-22.5 USD per tonne. In 2008 expenses on feed grain exports were 21.6 USD per tonne or 27% of export price. (Sabluk, 2007; Ministry of Agrarian Policy of Ukraine)

During the research there was developed an overall structure model of grain transportation expenses in Ukraine (Figure 3.13.) as well as the method of their calculation, according to which the level of transport costs and grain price policy are affecting the transportation of grain for export.

It is possible to calculate the transport component in the grain export price by the formula:

$T = GE + RS + TE + PS + CP$
 GE – grain elevator;
 RS – railway services;
 TE – terminal elevator;
 PS – port services;
 CP – custom procedures.

Formula 3.1. Transport component in the grain export.

Source: Ministry of Agrarian Policy of Ukraine, State Statistics Committee of Ukraine.

Own conception.

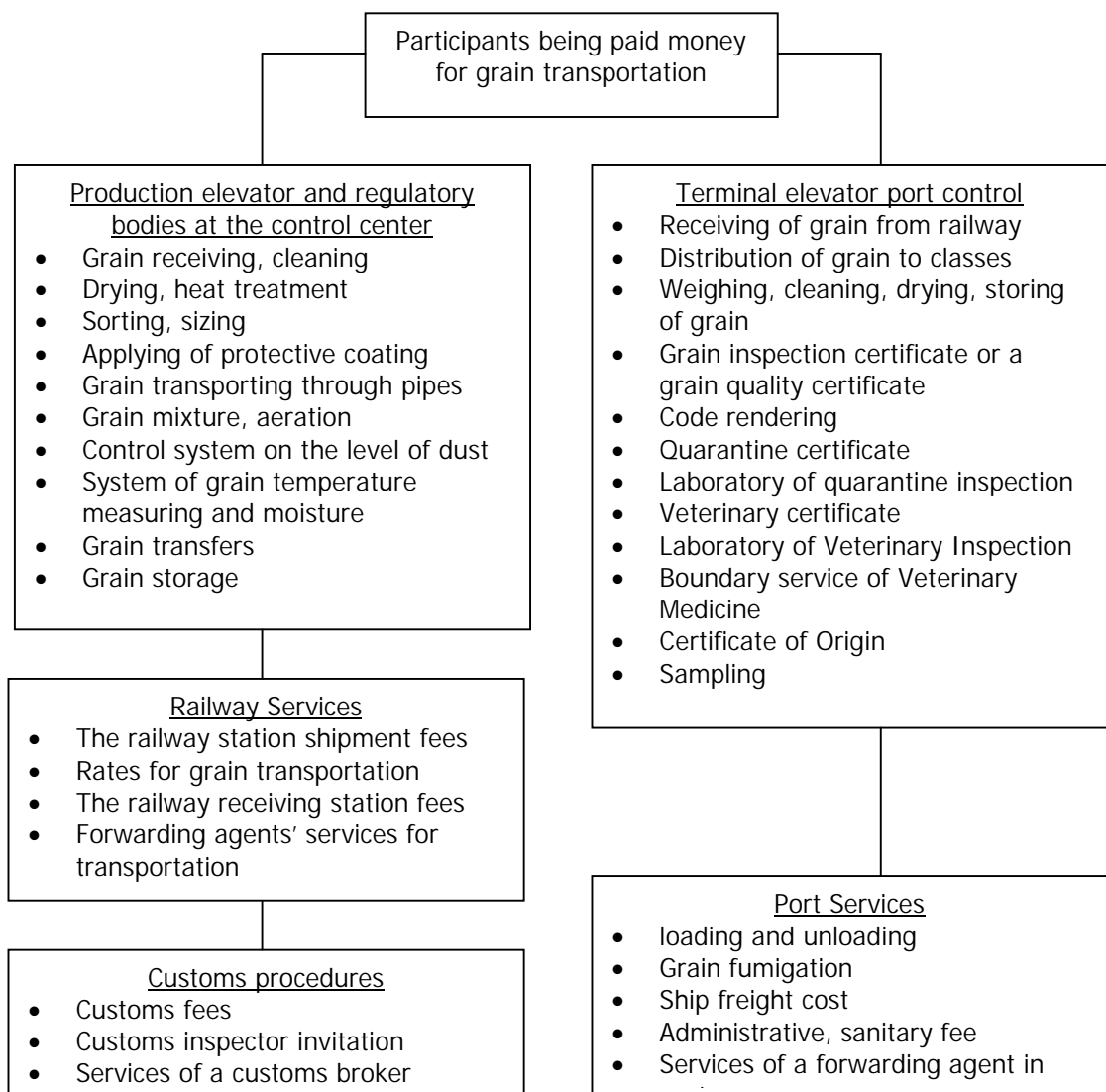


Figure 3.13. A model of total cost structure for grain transportation in Ukraine.

Source: Ministry of Agrarian Policy of Ukraine; Bilousko, 2005; Sabluk, 2007. Own conception.

Analysis of the Ukrainian grain export transport infrastructure shows that the biggest problems are connected with three main factors: throughput of ports, freightage rates and availability of special equipment for railway transportation.

Taking into account everything above one can state that on the first place producers change supply volumes according to expected price level. On the second place large increase of grain supply is leading to price collapse that causes economic losses to producers. They are able to assure this more and more each year. (Harichok and Kurinets, 2001) On the third place main part of the harvest is sold in the third and fourth quarter which leads to the biggest season based price collapse. Agricultural enterprises are unable to hold the harvest in order to sell it more profitably later. On the fourth place yearly dramatic oscillatory movements create a situation when producers cannot foresee level of these movements for the next year and cannot maximize their profit optimizing production volumes accordingly. Pricing uncertainty makes predictable profitable production impossible.

Market price depends not only on supply and demand volumes but on the market structure as well: how many producers and consumers are available on the market, what volumes of grain they handle.

There are more than 54 thousand of agricultural and farming enterprises in Ukraine nowadays, which form grain supply on Ukrainian market. (State Statistics Committee of Ukraine)

Base supply is formed by 76 firms (members of Ukrainian Grain Association), which control 80% of grain market (Ministry of Agrarian Policy of Ukraine). Being united in one association these firms are forming a monopsony that can set advantageous price on a market, affecting volumes of demand. Oliynyk agrees with this, saying that "increasing of agricultural and industrial products price disparity partially happens due to imperfection of market mechanism. Agriculture and agricultural market are in the clutch of surrounding markets: material and technical market and food market". Both these markets have oligopolistic structure and enterprises, working on them; primarily guarantee their welfare at the expense of agricultural producers. (Oliynyk, 2005)

As it is seen from Figure 3.14., the role of traders and commercial structures in the market for 2000-2008 increased significantly. In 2008 they held over 72% of the grain, while the share of implementation through their own markets and agro dealers fell from 35 to 14%. A part of grain, sold by processing enterprises, remains insignificant – only 4%.

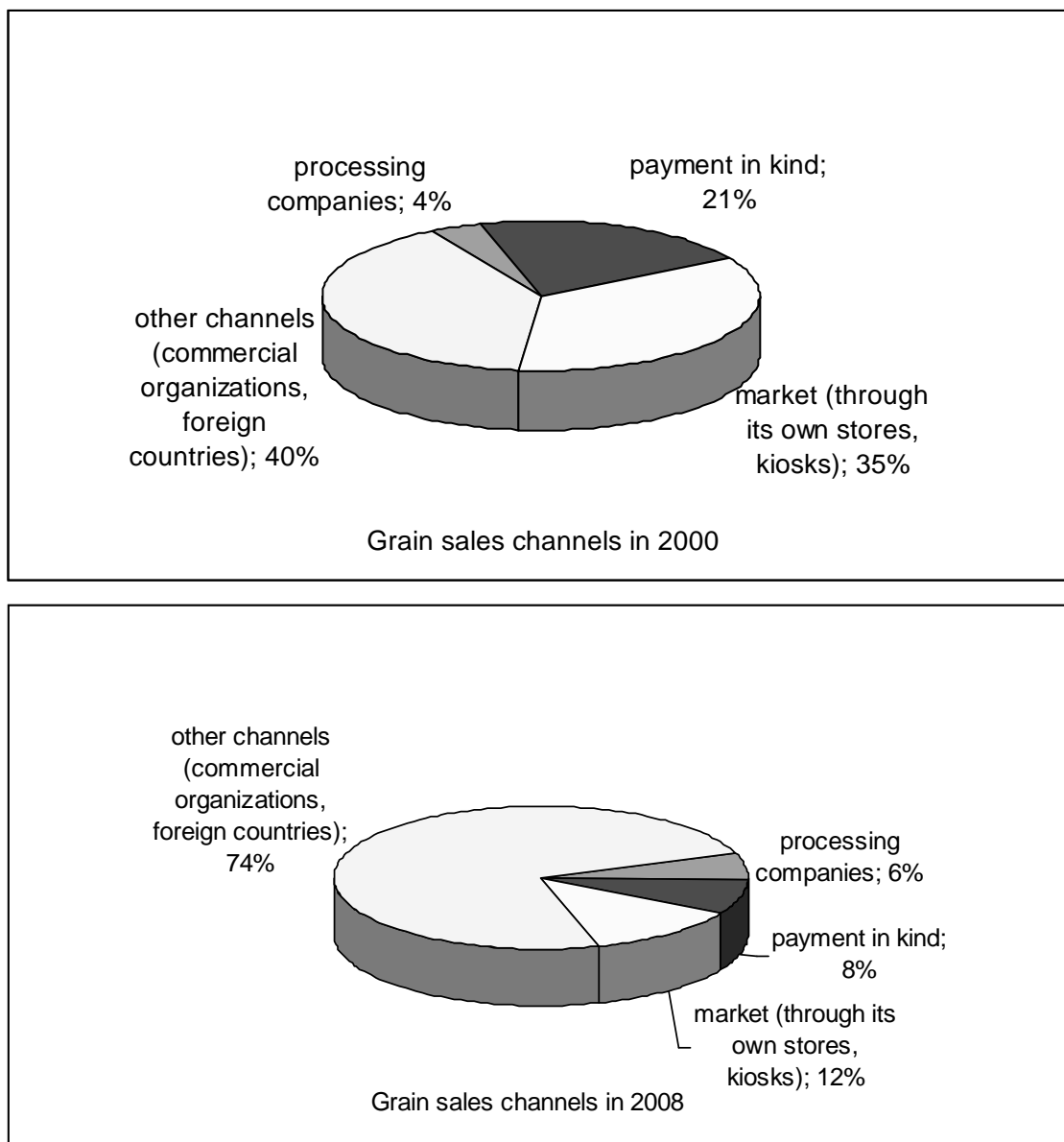


Figure 3.14. Grain sales channels in 2000 and 2008.

Source: Ministry of Agrarian Policy of Ukraine, State Statistics Committee of Ukraine. Own computation.

The problem of chaotic export of grain and the actual lack of export policy is relevant for grain market and it negatively affects the price conjuncture and income of direct grain producers.

However, the most significant problem of grain market, which generates all the others, is the lack of balance between demand and supply of grain. Domestic producers are still traditionally producing grain just to produce and usually they occur in a bad situation as in 2008, which is an example of

inconsistency between demand and supply offers, as a result, prices are falling, but a significant part of producers cannot sell grain at all. Total grain production was 53.26 million tonnes in 2008. At the same time 10 million tonnes of grain was saved on the "uncertified silos" for a long time. Two rainy weeks in Ukraine in late September made it unfit for further use. (Mykhailov, 2008)

According to the Ministry of Agricultural Policy, about 16.14 million tonnes of grain were exported from Ukraine in 2008, including 7.5 million tonnes of wheat and 5.7 million tonnes of barley. However, purchase prices for grain in autumn 2008 in Ukraine were 20-25% lower than prices in autumn of 2007. Prices for 3rd class wheat was 900-1000 UAH/t, feed (5-6 class) - 600-650 UAH/t, barley - 700-800 UAH/ton, corn - 600-650 UAH/t. This situation is partly connected to the prices of grain on the world market (Analytical agency "Agriculture"). According to State Statistics Committee of Ukraine, the prices fell considerably, that led to a reduction in profitability of agricultural labour in grain industry and worsened the financial condition of the industry.

The problems of grain export are still focused on pricing, but the situation with the prices is difficult to predict because of chaotically market changes, although it is possible to set some assumptions. Changes in prices during previous years is unacceptable for a comprehensive guide to predictions, because wholesalers today lack of financial resources and the state is unable to withdraw from the market oversupply of grain, paying a high price for it. Businesses that buy grain lack bank loans today, so by the tradition of past years they are unable to purchase a large quantity of grain in short term, and therefore they offer a low price or do not buy at all. The reasons for this should also be looked for at pricing in world agro-food products markets, in addition to it world production by volume exceeds last year performance, especially for feed grain prices and this trend, considering conditions, can be sustained. Also it is necessary to consider the impact of the global financial crisis, which is one of the ingredients of today's problems in Ukrainian grain production complex.

The global economy today is in a recession that has engulfed virtually all spheres of economic development, but the most profound manifestations of crisis are demonstrated by financial system, which directly depends on the progress of agro-food industry. The reason for this conclusion about Ukraine is that due to entry into global markets, national economy entirely gets under the influence of trends in the world economy, the financial system in particular. Agro-food market is a kind of hostage of these processes, but as its link with the world market, there is an increasingly necessary to consider possible changes, including the financial results, which depend on pricing, investment, lending, insurance, etc.

At a time when export of grain, which occupies a significant place in the Ukrainian economy, is involved in the processes related to the financial crisis, a necessary step by the state should strengthen the regulatory impact on the market and the economy of agriculture in general. One of these directions is considered to be regulation of prices and incomes, and balance of demand-supply at grain market.

Chapter 4. Grain Market Regulation in Ukraine

4.1. Regulatory Policy in the Ukrainian Grain Market

Ukrainian grain market is evolving chaotically, which is reason to consider grain production as risky in the financial and economic terms. Grain production remains fragile, industry offers market from 20 to 50 million tonnes of grain annually, successful year changes to off year (in terms of volume) and vice versa. Society is supplied with food, but the situation on the grain market does not give any hope for creating high-performance, competitive grain production with a significant export orientation. Agricultural market system should be efficient and work towards balancing the demand and supply. This is one of the key questions today.

Agricultural market in general and grain market in particular are still unorganized, unregulated and there are no effective marketing channels of sales, especially for households. The existing channels are monopolized by intermediaries.

The main issue of the grain market regulating is the price situation and stabilization measures which are implemented or will be implemented by the state. This issue is quite important, because the state must solve a double task: to prevent a sharp rise of grain prices in the domestic market, based on the purchasing power of population, and ensure proper level of crops growing profitability. The grain market development means creating grain supply, based on the population needs, export possibilities and use appropriate tools or regulation mechanisms, including the state regulation.

State regulation, as a system of instruments and institutional structures aimed at balancing the industry development. But the structural transformation in the agrarian sphere formed uncompetitive system of market relations, which inhibits formation of efficient production and effective infrastructure. The processes that occur in the Ukrainian agricultural market, have signs of systemic crisis, due to a long adaptation period to market conditions; disparateness price for the agriculture and industry products, lack of food supply and low-income population, lack of civilized land market, technical and technological retardation and low efficiency of agricultural production.

Recently, agriculture has become more attractive for investment capital, but only in big land areas and for investors who have closed production cycles and access to export channels. The real owners, small producers, households

do not receive any revenue. Agriculture remains a donor for other industries in financial, resource areas and through agricultural capital redeployment.

The main feature of modern agricultural reality is the states which produce significant amounts of agricultural products become the world economic leaders. In this situation, Ukraine, more than ever has quite achievable prospects to become one of the world leaders in grain production. Ukraine is using only one third of its production potential. At the same time, the half of arable land is using to produce grain. That is why development of the Ukrainian economy is dependent on grain production efficiency.

In recent years, Ukraine has received relatively high gross yields of grain crops. This is an evidence of some positive changes in Ukrainian agriculture. A complex of agriculture market reforms is another sign of beginning a new era in agriculture. However, there is quite a wide range of outstanding problems that hinder the grain industry development and outline the objective features of grain market regulation.

It should be noted that the grain market as a system of economic relations, which emerging around the certain product (grain) is a special entity which is controlled by specific state regulation. In Ukraine, state regulation of grain market is done by the Ministry of Agrarian Policy, Ministry of Economy, as well by relevant government institutions (Agricultural Fund, State Reserve). Nature of state regulation arises from the need to ensure national food security and the formation of export potential. In general, the importance of grain market state regulation is explained by the need to develop national grain production and export potential. This regulation must be effective and implemented in the perspective of building a competitive production, effective system of sales in the domestic and international markets. Effective risk management system at the stage of grain realisation is one of the priorities and very important aspect of grain market regulation.

Implementation of regulatory policy requires appropriate legal and institutional support. Ukraine has started to build it legal base since the declaring of independence, but there still lots of questions regarding the effectiveness of regulatory institutions.

Ukrainian grain market is functioning according to the law "On grain and grain market in Ukraine, "On state support of the Ukrainian agriculture", "On Fundamental principles of state agricultural policy until 2015". The legal framework needs some modifications in the way to reduce hard administration. A significant step in this direction was made after adopting Presidential Decree «On measures for grain market development» from 18 September 2007. This legal document is aimed at creating conditions for further development of the

grain market, increase competitiveness of domestic production, ensure food security. The implementation of this very important document is a necessary condition for the effective development and market regulation.

Ukraine develops grain market according to following programmes: "State target program of the village development until 2015" approved by the Cabinet of Ministers, from 19 September 2007 1158 and The Concept of the State program «Grain of Ukraine - 2008-2015». Grain market functioning is managed by such institutions as Ukrainian Commodity Exchange, Agricultural Fund and the State Reserve. However, Ukrainian Commodity Exchange actually exists only formally, it does not call for any bidding in the classic sense. The only one function what is really done by Commodity Exchange is grain export agreement registration. Agricultural Fund operates as a business rather than regulatory body. The state does not fully financing all procurement which is defined by the Law of Ukraine "About state support of the Ukrainian agriculture". The responsibilities of the Agrarian Fund and the State reserve are not clearly divided in the area of intervention policy. Futures trade as a protection mechanism for price fluctuations does not exist.

4.2 Licensing and Quota Allocation as Methods of Grain Export Regulation

The decision to introduce export quotas of grain in 2006-2008 marketing year is greatly connected with significant changes in the world market. Due to increasing production of biological fuel, with grain crops being the raw materials for it, and other factors, there was a visible growth of world prices for grain crops. The scale of prices on the world market changed and recorded on a new level.

With entering of grain sub complex to the world market there is a problem of grain export regulation for the domestic market balance development and providing of grain export needs for the state.

According to the Law "On foreign economic activity", regarding export of goods there are stipulated restrictive measures such as automatic and manual licensing.

Automatic export licensing as an administrative procedure of registration and issuance of a license does not have restrictive impact on the goods, which export is licensed.

Manual export licensing, as an administrative procedure of registration and issuance of licenses, is used in the case of quotas (quantitative or other restrictions) on the export of goods.

Licensing of goods export is introduced in Ukraine in particular in case of significant bias on certain goods in the domestic market, which have strong values for life in Ukraine, especially agricultural products.

According to part 7 of article 16 of Law of Ukraine "On foreign economic activity", the decision to use quotas regime is taken by the Cabinet of Ministers of Ukraine adopted by the central executive authority on economic policy defined list of specific goods, the export of which is subject to a regime of quotas, period of this regime and quantitative or other restrictions on each product.

However, part 1 of article 9 of this law established that the approval of lists of goods, which export is a subject of quotas or prohibition, in particular, in accordance with Article 16 of Law of Ukraine "On foreign economic activity" belongs to the competence of Verkhovna Rada (Supreme Council). Thus, the regime of export goods can be used only for goods, a list of which is approved by Verkhovna Rada of Ukraine.

If one considers a special law for grain market, according to paragraph 2 of Article 9 of Law of Ukraine «On grain and grain market in Ukraine», the main principles of state policy to regulate grain market are to prevent restrictions on the movement of grain and food processing, guarantee agricultural producers the rights of free selection of grain and its sale price, as well as the measures to increase grain exports.

Article 18 of Law of Ukraine «On grain and grain market in Ukraine» guarantees market grain right to freely dispose their own resources and products of grain processing, to conclude agreements for their sale, including for export. This means that the guaranteed right of free disposal of grain resources may be restricted only in the manner provided by law.

According to the provisions of Article 14 of the Law « On State Support of the Ukrainian Agriculture» decisions of the Cabinet of Ministers, other central bodies of central executive authorities do not validate the implementation to: limiting the legal rights of owners of agricultural products to free possession, use or disposal of it; input of any administrative, quantitative or qualitative restrictions on the free and unimpeded movement of agricultural products throughout Ukraine and to export, except as expressly defined by the Law of Ukraine « On State Support of the Ukrainian Agriculture».

Thus, special legislation on the grain market and the agricultural sector does not provide the introduction of licensing and export quotas of grain. For

the application of such restrictive measures on the grain market on the basis of Law «On foreign economic activity» Verkhovna Rada of Ukraine should adopt a decision (on making the product to the list).

Despite the lack, in accordance with the laws, of the legal grounds for the introduction of licensing and export quotas of grain, in 2006/2007 marketing year by the resolution of the Cabinet of Ministers "On addition Annex 12 to the Cabinet of Ministers since December, 30 2005 1304" dated September 28, 2006 year, there was introduced an administrative regulation (licensing) of grain exports and mixture of wheat and rye (meslin).

The reason for such action was very significant volumes of grain, claiming to exports, which several times exceeded the expectations of exports from the leaders of ministries.

On October 11th, 2006 the Cabinet of Ministers adopted a resolution number 1418 "On amendments to the resolution of the Cabinet of Ministers since 30 December 2005 1304 ", which has been already quoted (restrictive licensing) exports of wheat, rye, barley and corn. The previous resolution was cancelled.

A decision about procedure for issuing licenses for exports of agricultural products and distribution of quotas was approved, under which 80 percent of quotas are allocated among the applicants who made export of agricultural products during the past three years, in proportion to their actual volume of exports for the period values and 20 per cent of quota is distributed among other subjects of economic activity in proportion to the volume of agricultural products, declared for export. (Ministry of Agrarian Policy of Ukraine)

In addition, there was formed a Commission in order to review applications for export of agricultural products licenses and to distribute quotas. Quotas for wheat export were previously distributed among 11 companies by the end of the marketing year, quotas for barley export - 34 companies, quotas for maize export - 43 companies. (Ministry of Agrarian Policy of Ukraine)

The existence of export quotas in the 2006-2008 marketing years brought significant losses or reduced profits of the vast majority of grain market participants and adversely affected the image of Ukraine in world grain markets.

Export grain quoting, which was applied in 2006-2008 marketing years, is considered an extreme case in both world practice and national legislation.

Introduction of export quotas allows, in an instantly administered manner, to reduce exports to a level below that is determined by market factors that can increase the grain volumes for domestic consumption. In the short term, the introduction of export quotas of grain leads to benefits to processing

plants and livestock farms, but these benefits will be smaller than the loss of producers (owners) of grain because prices are falling not only on grain, which is intended for internal consumption, but also on all the volumes of grain, including those that are exported within quotas. In other words, due to the introduction of grain export quota regime, money is «washed out» of the grain production. (Sabluk, Kaliyev and others, 2008)

In addition, a mechanism of export quotas distribution, as required by the legislation, is not perfect, it violates competition in the market.

In the long term grain export quotas will be negatively displayed on both producers and grain consumers. It will lead directly to the following:

- reducing of export price of grain in the future;
- reducing of domestic production of grain;
- reducing of grain producers' income;
- reducing of goods and services production in general;
- further growth of domestic prices of food.

In case of restrictive activities, relating to trade (export quotas, export duties, a temporary export embargo), Ukrainian society is losing more than receiving. (Zubets, 2006)

It should be noted that such measures do not meet the world experience and will not be approved by the international community, particularly by the WTO, which could affect the amount of foreign investment, and not only in the grain industry. In addition, the impact of such measures on consumer prices is indirect. Artificial restriction of competition will lead to reduction of processing enterprises competitiveness.

In contrast to the regime of administrative restrictions on grain exports, hold of a liberal trade regime on grain market will guarantee the most favourable price level to grain producers. It will contribute to increase of grain production, technological upgrading and development of grain production, a significant export potential, increasing incomes of grain producers.

Instead of restrictive measures on exports of grain, there should be used other alternative ways of correcting of interindustry grain redistribution. Export of grain must be liberal.

These alternative measures promoting interindustry redistribution (i.e. temporary support for redistribution of grain for domestic consumers at a time when because of the lack of resources and administrative constraints, used to them, they can not compete with exporters) can be:

1. Distribution of interest rates compensation when getting loans for grain purchase for their own needs on grain processing enterprises. This measure would not only positively affect the rate of

accumulation of stocks by processing enterprises, but also additionally smooth seasonal fluctuations in prices on grain market.

2. Limiting bidders for sale of grain from state reserves and/or state food reserve by processing enterprises that buy grain for their production needs. Such restrictions are not quite right in terms of competition, as well as existing legislation, but could be used as an exceptional measure.

3. The development of forward procurement by processing enterprises. There should be developed and implemented mechanisms to guarantee the supply of grain that is purchased under forward agreements, particularly through the distribution of possible risks from the state. (Boiko, 2006; Shoychak, 2007)

It should be clarified that everything mentioned above concerns a situation where domestic grain production exceeds domestic consumption, and prices on the world market are high.

In conditions of domestic consumption excess over export volumes in order to curb growth in domestic purchase prices it makes sense to:

- help reducing the infrastructure costs associated with import of grain,
- abolish import duties on grain (Ukraine is an export-oriented country; it imports grain only in exceptional cases. Taking into consideration expenses for marketing, abolition of import duties on grain in no way threatens the interests of grain domestic producers. This measure will be supported by WTO),
- explore the possibility of preferential tax treatment applying for transactions in grain imports (payment by bills etc.). (Sabluk, 2007; Ovsyannikov, 2007)

The thought of Banyeva I. is very actual: as the domestic grain production exceeds domestic consumption, but world prices for grain are at a moderate level in order to guarantee the producers' income, it may be appropriate to implement the measures promoting grain export. (Banyeva, 2001, 2002)

4.3 Main Problems of Ukrainian Grain Market and Recommendations for it Resolving

Outstanding VAT to grain exporters. The main problem, hindering the development of export potential of Ukraine, as well as economic benefits from exports, is the state arrears of export VAT refund.

According to the survey, which Ukrainian Grain Association held in October 2008, arrears of VAT refunds to the companies - members of UGA (on average per company) are 15.7 million, 6.7 of which - overdue debts (Ukrainian Grain Association). Obviously, these figures are typical for the whole market for medium and large companies engaged in grain export.

In fact, exporters are unable to return budget arrears of VAT, paid to producers many months ago with the purchase of grain. To restore full activity and working capital, export companies have to take loans. As a result, expenses for export activity are further increasing.

In current circumstances, with a new government, grain exporters rely on rapid and effective debt redemption of VAT refund, the development of transparent and simple mechanism for solving this problem.

Imperfection of the Law of Ukraine "On state support of the Ukrainian agriculture". The law "On state support of the Ukrainian agriculture" needs substantial revision and improvement. In particular, the procedures of Agricultural fund activities are not clearly written in the law, which creates preconditions for the inefficient use of budgetary funds. For example, a competitive selection procedure of grain warehouses, which will be used for mortgages and intervention operations, is not described.

In addition there is no mechanism for selection of proposals for procurement within the intervention operations. For example, the price of the stock market for a product fell to a level below the approved minimum purchasing price. The following questions emerging: Does this mean that all applications, submitted to the stock market at such prices, are considered by the Agrarian Fund to purchase? Will the purchase process occur within a particular regime? Will interventions work only against those who have the status of farmers or against producers or extend to all subjects of the agricultural market? How will the need of food reserve stockpiling correlate to market conditions (for example, if legally defined accumulation of reserves will need to be combined with high prices in the market when the sale of goods is provided for by statute or law)? Who will provide the guarantee of obligations fulfillment, because until recently by no means all transactions on stock market

were put into action and without it the price guidance for public procurement is getting virtual signs?

Unfortunately, there are no answers to these questions not only in the Law of Ukraine "On state support of the Ukrainian agriculture", but also in the Decree of the Cabinet of Ministers "On the Agrarian Fund", which is developed pursuant to law. This means that the most important from a practical point of view matters are not given due attention either because of misunderstanding of the issues, or because of a bid to a "manual control".

The Law of Ukraine "On state support of the Ukrainian agriculture" envisages the creation of Agricultural exchange, which quotation should be a starting point for the beginning of financial or trade intervention. But the specifics of such a market creation (in particular, monopoly right of the Agrarian Fund on the adoption of policy decisions on activities of the exchange) not only come in contradiction with the Law of Ukraine "On the Mercantile Exchange", as well as with international practice, but also rejects the Ukrainian stock market a few steps back.

Over recent years Ukrainian exchanges were presented with a fait accompli of the necessity to observe so-called "recommended prices". As a result, grain producers have to sell the grain at lower prices in the second half of the season, spending more money on storage.

With entry into force of the Law of Ukraine "On state support of the Ukrainian agriculture" legislative provision is actually brought under such price dictates.

Statutory possibility of so-called "consultations" in general is a hidden form of market operators' blackmail. Their essence from the perspective of state about this is the following - "if prices in the market in our opinion are too high (or low), and you do not agree to reduce (or increase) them, we will introduce administrative regulation". And the state administrative regulation is - not more than fixing of the flawed practices of the administrative restrictions that were applied in the previous years, but now at the legislative level.

Indeed, the only way, for example, to reduce prices in the market - is holding of commodity interventions. If the Agrarian Fund has the corresponding reserves - the administrative regulation is not necessary. And if there are no corresponding stocks, it is not only unnecessary but also harmful, as it will increase share of a shadow market.

In addition, the possibility of administrative market regulation (the minimum and maximum prices, quotas) actually deprives operators of the market the opportunities to enter into long-term agreements for domestic and

export market. As a result, Ukraine can forget about the possibility of entering the world's most promising grain sales markets.

Problems that limit the return from grain export. The problems associated with the possibility of setting price and quota restrictions, including for export, were mentioned above. It is only necessary to add that the possibility of failure of contracts – is a risk, but risk must be always paid. This may not necessarily occur in determining the cost of each specific contract. Rather, the result may be reducing the overall level of export prices after the first such precedent. Primarily, this factor will negatively affect the activity of the companies with Ukrainian capital, for which it will be difficult to overcome possible problems with the grain supply from other countries.

Another large block of questions relating to the economies of export operations is infrastructure costs. In particular, the problem of high railroad rates for the transportation of grain remains actual. In practice, the growth of these rates made road transportation at a distance of 350-400 km more profitable for the grain owners. In fact, "Ukrainian Railway" is backing out of service for domestic grain owners, giving the benefits to alternative goods transport or transit. If in the near future there will be further increase of railway rates, the situation in this area will become even more critical. (Ukrainian Railway)

Another issue is the need to pay for the disinfection of cars. For this procedure, which does not bring any practical benefits, owners of grain have to pay 219 UAH per car in 2008. (Analytical agency "Agriculture")

Grain business representatives experience some problems in the interaction of bodies of Veterinary Medicine. The following issues require operative decision:

- different cost of services associated with obtaining of veterinary certificate in the regions and districts of Ukraine;
- the need to pass 4 levels of testing and approvals for exports of grain (laboratory, region, district, port);
- high amount of service fees associated with obtaining of veterinary certificate;
- lack of effective interaction between grain companies and the State Department of Veterinary Medicine. (Analytical agency "Agriculture")

As a result, in some areas grain owners are forced to pay more than 10 UAH per ton of grain during veterinary inspection. These are funds that grain producers receive less. (Analytical agency "Agriculture")

Partially (as in the case of quarantine services) problem is connected with the regulations of the Cabinet of Ministers dated 14 June 2002, No. 833

"On approval of the selection of samples of animal, vegetable and biotechnological origin for analysis".

Paragraph 6 of the article 6 of the mentioned regulation governs that "a batch of feed for farm and domestic animals, poultry and fur animals is any amount of grain, feed, premixes, vitamin-mineral supplements, tuberous root, hay, straw, silage and haylage of the same quality for single receiving, shipping, sale or storage, weighing not more than 100 tones."

In other words, when a shipment of grain (e.g., with a volume of 1000 tons), which is on one grain elevator and confirmed with one document of quality, the shipper has to take 17 veterinary and quarantine certificate (17 cars 62 tons each) instead of one. In this case the price of the work is increased in 17 times.

Legislative uncertainty of state support of grain prices mechanisms. Provisions of the Laws of Ukraine "On grain and grain market in Ukraine" and "On state support of the Ukrainian agriculture" differ in the part of regulation of mortgages and intervention operations with grain.

For example, mortgage and intervention operations can be conducted basing on both the Law of Ukraine "On grain and grain market in Ukraine" (operations carried out by state agents and authorized persons) and the Law "On state support of the Ukrainian agriculture"(the operation carried out by the Agrarian Fund). And in both laws there is the rule under which "The standards of other laws are in parts that do not contradict the norms of this Law." Thus, we have a legal conflict in this matter.

The existing market regulation methodology is inefficient and does not create any incentives to grain producers. This is objective reality and the paradox of Ukrainian pricing. Today it seems that grain market regulation in Ukraine is aimed mostly at lowering prices for consumers and does not take into account the necessary conditions for reproduction manufacturer potential and does not provide any support for its income.

Prospects for the Ukrainian agricultural market lay in the area of increasing its competitiveness in the world market. The main need for active development of grain market and the excessive attention of the state is justified by direct grain market influence on food security, ensuring the appropriate level for its population. The state should guide all actions on the organization a modern infrastructure, monitoring the grain market, which will create optimal production structure and increase the competitiveness in the world grain market.

State regulation should be aimed to move grain market from shadow, encourage use of Agrarian exchange as an official channel of grain realisation.

The priority task of stimulating grain market development and improving its effectiveness is creating cooperative marketing channels as an alternative to commercial intermediaries. These channels will be the most appropriate way of grain supply for households and small farms.

According to current economic situation of the grain producer and the majority of consumers price regulation becomes one of the most important tasks. Such regulation should be aimed to create appropriate price for both consumers and producers. In nowadays Ukrainian grain production is not in the best condition due to low prices and declining profitability. Producers are losing economic interest to produce grain because of critically low profitability (Figure 2.11.).

The top priority for the grain market development should become the principles of economic regulation that would guarantee producer's income, stimulate the market infrastructure development and private business in rural areas and promote grain export with a high degree of processing. The essence of this regulation is to ensure a balance of supply and demand in quantitative and qualitative parameters, their optimal ratio. Today there is a necessity to improve legislation, information and analytical support of grain market. It is recommended to create inter-industry agencies and commissions for monitoring and forecasting the business cycle, creating new market standards, certification of grain storage conditions; grain stocks calculation.

Based on the importance of this regulatory sphere it is necessary to define and implement strategic and tactical directions of state regulation of the market.

Strategic directions include:

- guarantee of state food security, coordination of volume and structure of national production with the world market climate, ensuring prompt response to its changes;
- promotion of standards of material and technical, technology support and remuneration to the world standards, which will become a result of sustainable economic interest in producing grain;
- continuous improvement of legal framework development of grain production sub complex and regulation of grain market, control over compliance with laws;
- formation of effective and capable market infrastructure, including information support, creating equally competitive production-marketing conditions for all market participants; support of trade and exchange transactions transparency in grain market and its predictability;

To implement the strategic directions of grain market state regulation it is proposed to implement interim or tactic measures that may have a systematic character as well as such, which will be completed with some time, that is:

- guarantee of sufficient stocks of food and feed grain formation in order to ensure domestic consumption;
- improving of existing efficiency and formation of market infrastructure, in particular concerning the establishment of advisory bodies with functions of internal and external grain market monitoring;
- creation of a market system conditions monitoring and forecasting, collection and dissemination of intelligence information among all its participants, and providing the program with relevant budgetary funding. There should be formed a special unit in the Ministry of agricultural policy for that;
- providing of optimization of production and circulation of grain, the empowerment of producers to access high technologies;
- state support for the development of storage facilities, improvement of transport infrastructure and formation of cooperative marketing channels;
- enhance of the functional role and wide usage of Agrarian Fund regulatory capacity regarding streamlining effects on grain market conditions in particular through the Agrarian Exchange;
- promotion of minimizing grain sales for shadow schemes, through the revitalization of agricultural sales houses, formation of harvesting sales structures at the regional level as an alternative to commercial intermediaries;
- shaping the competitiveness of domestic grain to foreign markets by improving its image characteristics;
- improving of the regulatory framework and agricultural market system of state regulation, adjusting it to EU legislation.

In general, state regulation of grain market for its greater efficiency should be integrated in all important economic segments: pricing policy, credit, tax policy, foreign trade, which should refill one another. Necessary condition for eliminating the negative phenomena in the development of grain market should be considered an integrated approach to the implementation of state regulation of grain market, which along with trade and financial interventions, used by the Agrarian Fund to stabilize the price, would include stabilization measures of grain supply toward regulation of production according to domestic needs and taking into account the export potential of grain production.

The increase in grain exports is impossible without economic incentives to the production. It is necessary to have a state support mechanism in order to promote a sustainable economic interest, to create conditions for production of competitive products, implementation of which would ensure adequate reproduction of agriculture. There must be created conditions on which the owner sells grain freely on market prices on both domestic market and for export. Taking into consideration the international experience of grain market regulation and individual competitive advantages of Ukraine, it is advisable to focus not on direct state support income of grain producers and widespread use of price support, but on creation of favourable conditions for work, profitable now for grain producers of free market mechanisms. They provide liberal approaches grain market management (including exports) together with the protection of the vulnerable populations' interests by the use of targeted subsidies for the purchase of food.

Introduction of administrative restrictions on exports of grains may be appropriate only in exceptional circumstances. Its use as a measure of the market state regulation to balance the market situation will have serious negative consequences on the state and prospects of grain production will deepen the negative processes in agriculture. Instead of restrictive measures on exports, as appropriate, other alternative ways of correcting cross grain redistribution should be used.

In terms of export surplus with low world prices it is appropriate to implement measures of promoting grain export, in particular reducing of trade barriers in the country. It may be appropriate to use the support of producers' income, including direct payments to the income of grain producers.

Agrarian economy requires building of a new regulation policy, domestic agricultural market and its formations requires strong attention on increasing of agricultural products competitiveness on domestic and foreign markets through a balanced use of market and government regulation mechanisms.

Conclusion

The carried out research of theoretical foundations of the effective export policy formation on the world grain market gave the opportunity to make a number of fundamental conclusions and suggestions on areas, methods and forms of agricultural intensification of international trade relations.

Market transformations in Ukraine in recent years, dynamic integration processes, liberalization of foreign trade and the weakening of the state role as the main player on the grain market led to worsening of economic conditions, separate organizational and economic aspects of agricultural producers. In particular, it concerns the effectiveness of production sales, which is sold by producers at not always suitable price for them. Therefore this brings up the question of raising performance of grain producers' sales activity, particularly through the development of foreign trade component.

The usefulness of foreign economic activity of Ukrainian grain producers is determined by the combination of geopolitical, natural, organizational, technological and socio-economic preconditions. First of all, these are favourable natural and climatic conditions and availability of fertile black soil for growing high quality grain that meets world standards of export. High production competitiveness on the global market will ensure a stable cash flow that will implement efficient technologies and increase production. The smallest, comparing with other areas, expenses in the supply chain will be due to unique geographical location against water and rail connections, availability of necessary infrastructure. Ukraine produced 53.3 million tonnes of grain in 2008, 16.1 of which were exported.

Conceptual foundations of the modern export policy formation found trend of overwhelming trade in agricultural commodities, particularly grain, primarily between developed countries, accompanied by constant increased supply of agricultural production. Moreover, Ukraine borrowed foreign experience for the strategy for sales of agricultural goods of wide range. Geographical reorientation of Ukrainian grain trade was mainly to the countries of Western Europe, Asia and North Africa. The main reasons for this lie in the peculiarities of transport and grain market's infrastructure, since these markets are more stable, effective and predictable for grain traders.

In recent years the interdependence of grain economy and the world grain market become increasingly closer. First of all it is connected with the restoration and establishment of the country as a powerful global manufacturer and exporter of grain, which may influence the global market situation. In recent years the world grain market functioning show significant impact of

Ukraine, but restructuring agro enterprises, processing and marketing of grain, formation of effective agricultural policies still remain problematic, which in some way hinders the strengthening of the Ukrainian positions in the world grain market.

A barrier to increase grain export efficiency is the lack of economic incentives. Profitability of grain production is low. The reason for that is absence of stable market, unstable and not predictable agricultural policy, artificial restraint of grain prices in terms of higher prices for fertilizer, fuel, pesticides, etc.

The most significant problem of grain market, which generates all the others, is the lack of balance between grain demand and supply. Domestic producers are still traditionally produce just to produce and usually they occur in a bad situation as in 2008, which is an example of inconsistency between demand and supply offers, as a result, prices are falling, but a significant part of producers cannot sell grain at all.

The problems of grain export are still focused on pricing, but the situation with the prices is difficult to predict because of chaotically market changes, although it is possible to set some assumptions. Businesses that buy grain lack bank loans today, so by the tradition of past years they are unable to purchase a large quantity of grain in short term, and therefore they offer a low price or do not buy at all. The reasons for this should also be looked for at pricing in world agro-food products markets. Also it is necessary to consider the impact of the global financial crisis, which is one of the ingredients of today's problems in Ukrainian grain production complex.

The reason for this conclusion about Ukraine is that due to entry into global markets, national economy entirely gets under the influence of trends in the world economy, the financial system in particular.

At a time when export of grain, which occupies a significant place in the Ukrainian economy, is involved in the processes related to the financial crisis, a necessary step by the state should strengthen the regulatory impact on the grain market. One of these directions is considered to be regulation of prices and incomes, and balance of demand-supply at grain market.

For years of the Ukrainian economy reformation there were significant changes in the grain export regulation. All export duties on grain, most quotas and licenses, significant limitations in the framework of indicative prices and export compulsory registration were cancelled. Substantial liberalization of policies on the agricultural products export did not create the conditions for stimulating exports.

Based on the synthesis of world and domestic experience in development and government regulation of foreign trade products, such actions are reasonably acceptable for Ukraine: regulation of export-import operations with non-tariff methods, required state participation in the processes of price formation on grain market, targeted government support of grain producers, market mechanisms to promote grain trade and direct producers access to the world grain market.

Forming of an effective export policy should ensure such legal regime, under which VAT will be promptly returned to grain exporters, sales channels will be liberalized, the system of customs and tariff regulation in the direction of protecting domestic grain producers will be improved, as much foreign direct investment as possible will be attracted in the grain industry, long-term loans on easy terms will be provided to agro-traders and producers.

Consistent implementation of the above strategic and tactical measures of the export policy formation will improve the macroeconomic situation in the country and restore economic growth to a qualitatively new basis. Such growth will lead to creation of the modern world competitive grain sector.

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List of Tables and Figures

Tables:

Table 1.1. The share of export in the total GDP.....	17
Table 2.1. Dynamics of the sown area under major grain crops, thousand hectares.....	28
Table 2.2. Grain yield in Ukraine, centners per hectare.	30
Table 2.3. Grain production by categories of farms, thousand tonnes.	32
Table 3.1. Export and import of grain and products of it processing in Ukraine.....	41
Table 3.2. Dynamics of volumes and prices of grain export and import in Ukraine.	46
Table 3.3. Indicators of the Ukrainian foreign trade intensity.	47
Table 3.4. Total balance of grain foreign trade, mln. USD.....	51

Figures:

Figure 2.1. World grain structure in 1965 and 2007.	19
Figure 2.2. Changes in the grain yield during 1965-2007.....	20
Figure 2.3. Structure of world grain production.	21
Figure 2.4. Main wheat producers in the world in 2007, million tonnes.	22
Figure 2.5. World wheat balance, million tonnes.....	23
Figure 2.6. World feed grain balance, million tonnes.	24
Figure 2.7. Structure of the sown area under major grain crops in 1990 and 2008, thousand hectares.	29
Figure 2.8. Grain Yield and Production in Ukraine.	31
Figure 2.9. Amount of grain sold by agricultural enterprises, thousand tonnes.	33
Figure 2.10. Grain export to the main trading partners in January-December 2008, thousand tonnes (total grain export was 16136,37 thousand tonnes).	35
Figure 2.11. Grain production profitability in Ukraine, %.	36
Figure 2.12. Where should move Ukrainian grain industry?.....	37
Figure 2.13. Factors, which determine the vector motion.	37
Figure 3.1. The share of agriculture products in total export and grain in total agricultural export.	39
Figure 3.2. Grain export and import, thousand tonnes.	42
Figure 3.3. Dynamics of production, exports and prices of grain in Ukraine.....	47
Figure 3.4. Grain export during 1996-2008, thousand tonnes.	48
Figure 3.5. Export of main grain crops during 1996-2008, thousand tonnes.	49
Figure 3.6. Share of different crops in total grain export, %.	49
Figure 3.7. Grain export during 1996-2008, million USD.	50
Figure 3.8. The share of revenue received from crops export in total grain export, %	50
Figure 3.9. Export prices in 1996-2008 USD/t.....	51
Figure 3.10. SWOT analyse of the grain export in Ukraine.	53
Figure 3.11. Average grain prices in Ukraine, UAH/t.....	55
Figure 3.12. Formation of wholesale prices for wheat.....	56
Figure 3.13. A model of total cost structure for grain transportation in Ukraine.	58
Figure 3.14. Grain sales channels in 2000 and 2008.....	60

Appendices

Table 1. Dynamics of the sown area under major grain crops, thousand hectares.

Table 2. Grain yield in Ukraine, centners per hectare.

Table 3. Grain production by categories of farms, thousand tonnes.

Table 4. Amount of grain sold by agricultural enterprises, thousand tonnes.

Table 5. The share of agriculture products in total export and grain in total agricultural export, %.

Table 6. Dynamics of volumes and prices of grain export and import in Ukraine.

Table 7. Indicators of the Ukrainian foreign trade intensity.

Table 8. Dynamics of production, exports and prices of grain in Ukraine.

Table 9. Grain export during 1996-2008, thousand tonnes.

Table 10. Share of different crops in total grain export, %.

Table 11. Grain export during 1996-2008, million USD.

Table 12. The share of revenue received from crops export in total grain export, %.

Table 13. Export prices in 1996-2008 USD/t.

Table 14. Total balance of grain foreign trade, mln. USD.

Table 15. Average grain prices in Ukraine, UAH/t.

Table 1. Dynamics of the sown area under major grain crops, thousand hectares.

Indicator	1990	2000	2004	2005	2006	2007	2008	2009	2009 in comp. to 1990, %
Grain crops - Total	14583.4	13646.5	15433.5	15004.8	14515.2	15233.9	15650.5	15953.4	109.4
Agricultural enterprises	14190.7	11975.2	11992.4	11507.6	11164.1	11820.4	12134.5	12465.8	87.8
Households	392.7	1671.3	3441.1	3497.2	3351.1	3413.5	3516.0	3487.6	888.1
Wheat	7576.2	5619.3	5673.2	6664.6	5582.8	6294.2	7119.9	6821.7	90.0
Agricultural enterprises	7517.6	5228.6	4724.3	5430.7	4547.6	5176.7	5838.5	5563.8	74.0
Households	58.6	390.7	948.9	1233.9	1035.2	1117.4	1281.4	1257.9	2146.6
Rye	519.1	669.4	738.5	623.5	373.6	350.9	466.9	487	93.8
Agricultural enterprises	499.6	608.7	628.3	514.7	274.4	258.2	374.4	392.0	78.5
Households	19.5	60.7	110.2	108.8	99.2	92.6	92.5	95.0	487.2
Barley	2729.0	3985.2	4678.5	4499.9	5305.5	4996.2	4217.1	4756.0	174.3
Agricultural enterprises	2666.5	3305.2	3333.5	3270.4	3918.7	3567.7	2908.8	3459.6	129.7
Households	62.5	680.0	1345.0	1229.5	1386.8	1428.5	1308.3	1296.4	2074.2
Corn	1233.5	1364.4	2467.3	1710.9	1776.9	2202.3	2539.3	2515.4	203.9
Agricultural enterprises	1013.9	947.4	1734.7	1046.5	1148.1	1621.4	1911.2	1915.9	189.0
Households	219.6	417.0	732.6	664.4	628.8	580.9	628.1	599.5	273.0

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 2. Grain yield in Ukraine, centners per hectare.

Year	Grain crops - Total	Wheat	Rye	Barley	Corn
Agricultural enterprises					
1990	35.1	40.2	24.3	33.9	37.9
1995	24	29.8	19.7	21.7	26.8
2000	18.3	19.3	14.6	17.7	25.9
2001	25.8	30.4	20.1	24.1	26.9
2002	25.8	29.7	19.1	23.1	32.7
2003	17.4	14	15.2	15.4	32.3
2004	28	31.8	21.9	24.2	37.6
2005	25.9	28.7	16.5	20.4	45.9
2006	23.7	25.2	14.9	21.4	38.1
2007	22.3	23.6	15.6	14.8	41.9
2008	35.5	37.4	23.2	30.5	49.9
2008 in comp. to 1990, %	101.1	93.0	95.5	90.0	131.7
Households					
1990	35.8	33.3	24.9	30.3	42.6
1995	28	28.3	24.3	23.6	35.8
2000	26.9	25.7	21.2	22.7	38.8
2001	33.8	36.1	27.5	32.9	39.1
2002	32.9	35.2	26.9	31	37.9
2003	20.6	16.9	18	13.3	38.9
2004	29.4	31.1	23.9	25.4	40.6
2005	26.4	27.5	20.8	21.1	39.2
2006	25.6	25.8	19.8	22.4	36
2007	20.2	22.7	19.6	14.2	31.6
2008	31.9	33.5	22.2	29.8	39.3
2008 in comp. to 1990, %	89.1	100.6	89.2	98.3	92.3

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine.
Own computations.

Table 3. Grain production by categories of farms, thousand tonnes.

Year	Grain crops - Total	Wheat	Rye	Barley	Corn
All categories of enterprises					
1990	51009.0	30373.7	1259.5	9168.9	4736.8
2000	24459.0	10197.0	968.3	6871.9	3848.1
2003	20233.9	3599.3	624.0	6833.2	6875.1
2004	41808.8	17520.2	1592.5	11084.4	8866.8
2005	38015.5	18699.2	1054.2	8975.1	7166.6
2006	34258.3	13947.3	583.6	11341.2	6425.6
2007	29294.9	13937.8	562.5	5980.8	7421.1
2008	53264.3	25882.6	1050.6	12611.2	11422.3
2008 in comp. to 1990, %	104.4	85.2	83.4	137.5	241.1
Agricultural enterprises					
1990	49563.8	30178.6	1211.4	8979.3	3790.4
2000	19964.2	9199.3	839.9	5329.8	2231.0
2003	14596.0	2657.3	472.2	5263.0	4240.2
2004	31708.6	14582.1	1328.7	7674.1	5899.1
2005	28790.4	15307.3	827.5	6382.2	4563.3
2006	25698.6	11281.5	387.7	8236.0	4163.5
2007	22848.1	11505.6	381.9	4117.4	5730.6
2008	42067.5	21594.1	859.4	8812.1	8958.7
2008 in comp. to 1990, %	84.9	71.6	70.9	98.1	236.4
Households					
1990	1445.2	195.1	48.1	189.6	946.4
2000	4494.8	997.7	128.4	1542.1	1617.1
2003	5637.9	942.0	151.8	1570.2	2634.9
2004	10100.2	2938.1	263.8	3410.3	2967.7
2005	9225.1	3391.9	226.7	2592.9	2603.3
2006	8559.7	2665.8	195.9	3105.2	2262.1
2007	6446.8	2432.1	180.6	1863.5	1690.6
2008	11196.8	4288.5	191.2	3799.1	2463.6
2008 in comp. to 1990, %	774.8	2198.1	397.5	2003.7	260.3

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 4. Amount of grain sold by agricultural enterprises, thousand tonnes.

Year	Grain crops - Total	Wheat	Rye	Barley	Corn
1990	14549.3	10711.9	366.5	1606.0	695.9
2000	10725.6	5364.2	437.3	2909.9	1046.4
2003	8999.2	2186.9	328.8	2998.7	2512.5
2004	16698.1	7745.9	761.3	4561.6	2562.5
2005	19458.4	10045.2	479.1	3857.2	4029.6
2006	17814.2	8459.5	372.1	4969.0	3000.8
2007	13965.4	7455.5	222.4	2575.7	3049.2
2007 in comp. to 1990, %	96.0	69.6	60.7	160.4	438.2

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 5. The share of agriculture products in total export and grain in total agricultural export, %.

Years	Share of agricultural export in total export, %	Share of grain export in agricultural export, %
In average during 1996-2000	10.2	19.7
2001	11.2	27.4
2002	13.3	41.9
2003	11.8	14.6
2004	10.6	23.0
2005	12.6	32.5
2006	12.3	29.7
2007	12.7	12.2
2008	16.2	34.2
2008 in comp. to 2007, %	+3.5	+22.0

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 6. Dynamics of volumes and prices of grain export and import in Ukraine.

Year	Export, F			Import, F		
	Amount, t	Value, thousand USD	Export price, USD/t	Amount, t	Value, thousand USD	Import price, USD/t
Wheat						
1996	984374	197736	200.88	20783.1	2470.4	118.86
1997	812276	58481	72.00	3235.7	539.5	166.73
1998	2766862	212417	76.77	575.2	113.4	197.09
1999	4525718	379533	83.86	1323.0	197.66	149.40
2000	201157	19002	94.44	673393.7	82897.51	123.10
2001	2852610	233107	81.70	181929.1	25376.1	139.48
2002	8303973	682633	82.3	4530	423.33	93.45
2003	901139	80624	89.47	3076222	467412.04	151.94
2004	2553931	288900	113.12	593216	110106.18	185.61
2005	6010426	652292	108.53	9507.9	1476.3	155.27
2006	4671323	595813	127.5	1942.4	856.1	440.76
2007	1055886	190063	180.00	1799.1	1294.5	719.54
2008	7511299.6	1605247.4	213.71	1733.8	1645.1	948.83
Rye						
1996	189096	23012	121.69	3666.9	342.1	93.29
1997	21493	2865	133.32	X	X	X
1998	2044	174	85.38	1227.0	97.0	79.02
1999	271784	15331	56.41	X	X	X
2000	18380	1180	64.13	15304.4	1967.13	128.53
2001	20410	1404	70.00	7157.0	705.2	98.53
2002	467733	30495	65.2	X	X	X
2003	91882	5994.85	65.25	261471	16808.21	64.28
2004	60547	6388.31	105.51	10609	1707.94	161.0
2005	80523	6879	85.43	7.6	4.5	591.09
2006	34451	3426.5	99.46	5.0	3.6	729.33
2007	-	-	-	68.5	95.66	1396.55
2008	125.0	34.2	273.83	17.7	21.6	1221.25
Barley						
1996	1117130	114896.6	102.85	12756.8	1691.3	132.58
1997	461114	50591.0	109.71	365.3	139.7	382.44
1998	581724	39726.9	68.29	X	X	X
1999	1065253	80206.61	75.29	127.8	32.81	256.73
2000	864700	82474.0	95.38	22933.0	3553.85	154.97
2001	2212092	202830.0	91.70	27715.9	5271.8	190.21
2002	2836225	273475.0	82.3	18123	2993.37	165.17
2003	1894831	206799.7	109.14	32862	5969.67	181.66
2004	3710375	37089.9	99.96	23698	5096.61	215.07
2005	3504995	444819.1	129.91	475	262.65	552.87
2006	4569489	566151.9	123.90	20224	3584.2	177.22
2007	2119731	375371.0	177.08	9211.0	3425.1	371.85
2008	5740515.7	1405269.4	244.80	1346.2	1719.4	1277.21
Corn						
1996	152355	26043.3	170.94	10952.2	5597.4	511.08
1997	70708	9966.8	140.96	13778.4	5568.7	404.16
1998	588099	52256.4	88.86	6589.9	6574.7	997.69
1999	304841	23781.5	78.01	1383.8	1117.33	807.44
2000	163217	17113.0	105.00	91973.2	16150.57	175.60
2001	368201	38826	105.45	3312.1	3424.1	1033.81
2002	496683	45620	91.8	4624.5	5872.32	1269.82
2003	943109	105075.8	111.41	21493	12019.22	559.22
2004	1233853	168978.3	136.95	13955	233654.59	1695.04
2005	2800332	269336	96.18	12901	26449.12	205017
2006	1682496	177067.7	105.24	15656.4	31673.7	2023.05
2007	954293	175195	183.59	23907.2	53886.7	2254.0
2008	2811742.0	670165.1	238.35	33329.5	103669.4	3110.44

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine, Analytical agency "Agriculture". Own computations.

Table 7. Indicators of the Ukrainian foreign trade intensity.

Indicator	Year												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total GDP (official exchange rate), billion dollars	44.5	50.2	42.0	31.6	31.3	42.4	49.6	50.1	64.9	86.1	107.8	141.2	198.0
Export, billion dollars	15.6	15.5	12.9	11.7	14.6	16.3	18.0	23.1	32.7	34.3	38.4	49.2	67.0
Openness ratio, %	35.0	30.8	30.6	36.9	46.5	38.4	36.2	46.1	50.3	39.8	35.6	34.9	33.8
Export agriculture production, billion dollars.	2.7	1.2	1.0	1.0	1.3	1.8	2.4	2.7	3.5	4.3	4.7	6.2	10.8
Share of agricultural export in total export, %	17.4	7.8	7.9	8.9	8.9	11.2	13.3	11.8	10.6	12.6	12.3	12.7	16.2
Grain export, billion doll.	0.4	0.1	0.3	0.4	0.1	0.5	1.0	0.4	0.8	1.4	1.4	0.8	3.7
Share of grain export in agricultural export, %	14.8	8.3	29.4	38.4	7.7	27.4	41.9	14.6	23.0	32.5	29.7	12.2	34.2

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine, Analytical agency "Agriculture". Own computations.

Table 8. Dynamics of production, exports and prices of grain in Ukraine.

Indicator	Year												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Grain production, thousand tonnes	24571	35472	26471	24581	24459	39706	38804	20234	41809	38016	34258	29295	53264
Grain export, thousand tonnes	2559	1392	3989	6273	1287	5539	12168	3861	7619.5	12492.7	11021.2	4206.9	16136.4
Part of grain production, which were exported, %	10.4	3.9	15.1	25.5	5.3	14.0	31.4	19.1	18.2	32.3	32.2	14.4	30.3
Export price, USD/t	146.8	91.85	78.7	80.8	95.4	87.9	82.0	104.2	110.56	110.71	122.84	181.54	229.53
Domestic price, USD/t	88.5	92.7	45.0	38.4	80.7	70.7	58.2	100.6	85.11	81.23	103.00	165.41	167.28
The difference between export and domestic price, USD/t	+58.3	-0.85	+33.7	+42.4	+ 14.7	+17.2	+23.8	+3.6	+25.5	+29.5	+19.8	+16.1	+62.3

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine, Analytical agency "Agriculture". Own computations.

Table 9. Grain export during 1996-2008, thousand tonnes.

Crops	Year												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Wheat	984.4	812.3	2766.9	4525.7	201.2	2852.6	8304.0	901.1	2553.7	6009.5	4667.9	1055.9	7511.3
Rye	189.1	21.5	2.0	271.8	18.4	20.4	467.7	91.9	60.5	80.5	34.5	-	0.1
Barley	1117.1	461.1	581.7	1065.3	864.7	2212.1	2836.2	1894.8	3693.9	3501.8	4569.5	2119.7	5740.5
Oats	86.7	1.4	0.04	55.5	241.4	42.9	29.4	2.1	22.6	4.3	0.7	16.5	7.9
Corn	152.4	70.7	588.1	304.8	163.2	368.1	496.7	943.1	1233.9	2795.6	1682.4	954.3	2811.7
Rice	756.9	0.1	0.2	0.2	0.2	0.3	0.09	0.01	0.2	0.7	2.5	6.7	3.4
Sorghum	0.07			0.2		1.8			9.9	34.9	45.8	24.8	37.7
Buckwheat, millet and others	28.3	24.6	50.0	50.2	15.0	41.1	34.1	28.2	44.8	65.4	17.9	29.0	23.7
Total	2558.7	1391.7	3989.0	6273.2	1286.8	5539.4	12168.0	3861.2	7619.5	12492.7	11021.2	4206.9	16136.4

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 10. Share of different crops in total grain export, %.

Crops	Year												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Wheat	38.5	58.4	69.4	72.1	13.4	51.5	68.2	23.3	33.5	48.2	42.4	25.1	46.5
Rye	7.4	1.5	0.1	4.3	1.2	0.4	3.8	2.4	0.8	0.6	0.3	-	0.001
Barley	43.7	33.1	14.6	17.0	57.5	39.9	23.3	49.1	48.5	28.0	41.5	50.4	35.6
Oats	3.4	0.1	0.0	0.9	16.0	0.8	0.2	0.1	0.3	0.0	0.0	0.4	0.05
Corn	6.0	5.1	14.7	4.9	10.9	6.6	4.1	24.4	16.2	22.4	15.3	22.7	17.4
Rice	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.02
Sorghum	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.4	0.6	0.2
Buckwheat, millet and others	1.1	1.8	1.3	0.8	1.0	0.7	0.3	0.7	0.6	0.5	0.1	0.7	0.1
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 11. Grain export during 1996-2008, million USD.

Crops	Year												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Wheat	197.7	58.5	212.4	379.5	19.0	233.1	682.6	80.6	288.9	652.2	595.3	190.1	1605.2
Rye	23.0	2.9	0.2	15.3	1.2	1.4	30.5	6.0	6.4	6.9	3.4	-	0.03
Barley	114.9	50.6	39.7	80.2	82.5	202.8	233.5	206.8	369.4	444.4	566.2	375.4	1405.3
Oats	7.6	0.1		3.0	1.7	3.3	2.0	0.1	2.1	0.3	0.1	5.9	2.0
Corn	26.0	10.0	52.3	23.8	17.1	38.8	45.6	105.1	169.0	268.9	177.1	175.2	670.2
Rice	0.4	0.05	0.1	0.07	0.02	0.05	0.02		0.1	0.3	1.1	3.0	2.9
Sorghum	0.01			0.01		0.1			1.0	3.6	4.9	4.2	8.9
Buckwheat, millet and others	5.9	5.7	9.1	5.0	1.4	4.1	3.4	3.7	5.9	6.5	5.7	10.0	9.3
Total	375.7	127.8	313.8	506.9	122.8	483.7	997.7	402.3	842.8	1383.1	1353.8	763.8	3703.8

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 12. The share of revenue received from crops export in total grain export, %.

Crops	Year												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Wheat	52.6	45.8	67.7	74.9	15.5	48.2	68.4	20.0	34.3	47.2	44.0	24.9	43.3
Rye	6.1	2.3	0.1	3.0	1.0	0.3	3.1	1.5	0.8	0.5	0.3	0.0	0.001
Barley	30.6	39.6	12.7	15.8	67.1	41.9	23.4	51.4	43.8	32.1	41.8	49.2	37.9
Oats	2.0	0.1	0.0	0.6	1.4	0.7	0.2	0.0	0.2	0.0	0.0	0.8	0.1
Corn	6.9	7.8	16.7	4.7	13.9	8.0	4.6	26.1	20.1	19.4	13.1	22.9	18.1
Rice	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.4	0.1
Sorghum	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.3	0.5	0.2
Buckwheat, millet and others	1.6	4.5	2.9	1.0	1.1	0.8	0.3	0.9	0.7	0.5	0.4	1.3	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 13. Export prices in 1996-2008 USD/t.

Crops	Year											
	1996	1997	1998	2000	2001	2002	2003	2004	2005	2006	2007	2008
Wheat	200.88	72.00	76.77	94.46	81.72	82.21	89.47	113.12	108.52	127.52	180.00	213.71
Rye	121.69	133.32	85.38	64.23	68.80	65.20	65.25	105.51	85.43	99.46	-	273.83
Barley	102.85	109.71	68.29	95.38	91.69	82.32	109.14	100.03	126.90	123.90	177.08	244.8
Oats	88.15	100.39	100.00	69.01	76.31	69.13	70.49	95.14	76.10	128.39	355.78	258.5
Corn	170.94	140.96	88.86	104.85	105.45	91.85	111.41	136.95	96.18	105.24	183.59	238.35
Rice	589.34	551.19	439.88	130.66	173.30	192.92	402.63	329.40	397.13	430.75	452.83	834.12
Sorghum	158.05	-	-	-	62.50	-	-	104.23	103.94	107.75	170.77	237.2
Buckwheat, millet and others	209.22	232.44	182.77	89.81	100.16	100.50	129.7	130.97	99.51	318.55	344.12	389.72

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 14. Total balance of grain foreign trade, mln. USD.

Indicator	Year												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Export	3757.0	1278.3	313.8	506.9	122.8	483.7	997.7	402.3	844.3	1384.1	1354.2	763.7	3703.8
Import	27.3	19.7	19.1	20.0	120.1	50.2	24.4	522.5	167.0	57.5	59.5	86.6	146.53
Foreign trade balance	+3729.7	+1258.6	+294.7	+486.9	+2.7	+433.5	+973.3	-120.2	+677.3	+1326.6	+1294.7	+677.1	+3557.23

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.

Table 15. Average grain prices in Ukraine, UAH/t.

Crops	Year												
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Grain crops:	168.4	176.1	154.2	200.4	443.8	381.3	312.5	535.1	453.1	417.8	515.2	833.5	886.6
Wheat	168.8	177.8	158.0	200.4	487.0	386.0	309.9	635.3	492.8	415.2	527.0	796.7	827.7
Rye	194.6	206.6	165.7	180.6	468.8	342.0	227.7	425.0	394.3	317.2	413.2	843.3	852.9
Barley	123.5	155.1	125.7	175.1	374.2	354.1	304.2	508.3	386.7	488.5	480.8	889.2	876.4
Corn	248.1	159.4	140.3	251.0	386.4	454.4	377.4	486.0	437.7	343.1	517.6	833.6	880.2

Source: State Statistics Committee of Ukraine, Ministry of Agrarian Policy of Ukraine. Own computations.