

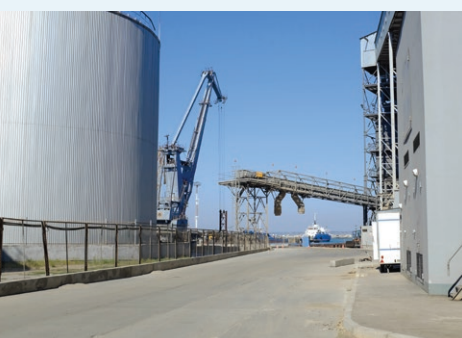


# Ukraine

## An emerging challenge for Australian wheat exports

### The export competitiveness of Ukrainian grain is underpinned by the following factors –

- » The Ukrainian Hryvnia remaining devalued. The Hryvnia devalued 60% against the US dollar in 2014/5, compared to the Australian dollar devaluation of 25% in the same period.
- » Many Ukrainian grain growers are yet to fully embrace modern farming methods that will further reduce their costs of production and improve yield stability (Table 1).
- » Ukraine's logistics and infrastructure challenges are being addressed by investment supported by major European banks and via multi-national grain companies' investments (Figure 1).
- » Ukraine has a large and growing source of demand for grains on its doorstep in several Middle East and north African countries.



### Summary

Europe's largest country by land area, Ukraine is blessed with 32 million hectares of highly-productive soil, favourable climate and a growing capacity to produce large volumes of grain. Over the past decade, as it emerges from a difficult transition to a free market economy after the disorderly collapse of the Soviet Union in 1991, Ukraine has achieved high annual increases in wheat production with virtually no change in the area sown to wheat. By contrast, since the 1990s, Australian wheat production growth has come from increased plantings and more modest increases in wheat yields.

Ukrainian wheat is a growing force not only in Middle East and north African markets but it is now increasingly finding its way into Australia's key South-East Asian markets.

However, despite Ukraine's potential, the Food and Agriculture Organisation of the United Nations and Organisation for Economic Cooperation and Development estimate Ukrainian wheat exports will only increase to 9.7mmt by 2024. This relatively modest 1mmt increase in wheat exports is due to the continuing relative attractiveness of alternative crops such as corn, sunflower and soybeans. The area planted to wheat may not greatly change, with its focus of production shifting to Ukraine's southern regions where rainfall is less.

Despite its apparent advantages, challenges remain for Ukraine. Investing in Ukraine is risky, with ongoing conflict in Eastern Ukraine, political instability, as well as the prevalence of fraud and corruption

at all levels of government and industry (with farming operations no exception). Government finances are in a parlous state and expenditure on defence is a priority. Hence, the Ukrainian grains industry cannot expect much support from its government to greatly accelerate grain production and exports.

**Table 1 Costs of wheat production in Ukraine and Australia\* (AUD/ha)**

Cost component (\$/t)	Ukraine	Australia
Wheat yield (t/ha)	3.35	1.82
Seed	42	27
Fertiliser	181	90
Chemicals	74	110
Diesel	54	15
Labour	25	11
<b>Variable operating costs</b>	<b>376</b>	<b>253</b>
Direct salary and tax	10	43
Land	60	80
<b>Total costs (\$/ha)</b>	<b>446</b>	<b>376</b>
<b>Total costs (\$/t)</b>	<b>133</b>	<b>207</b>

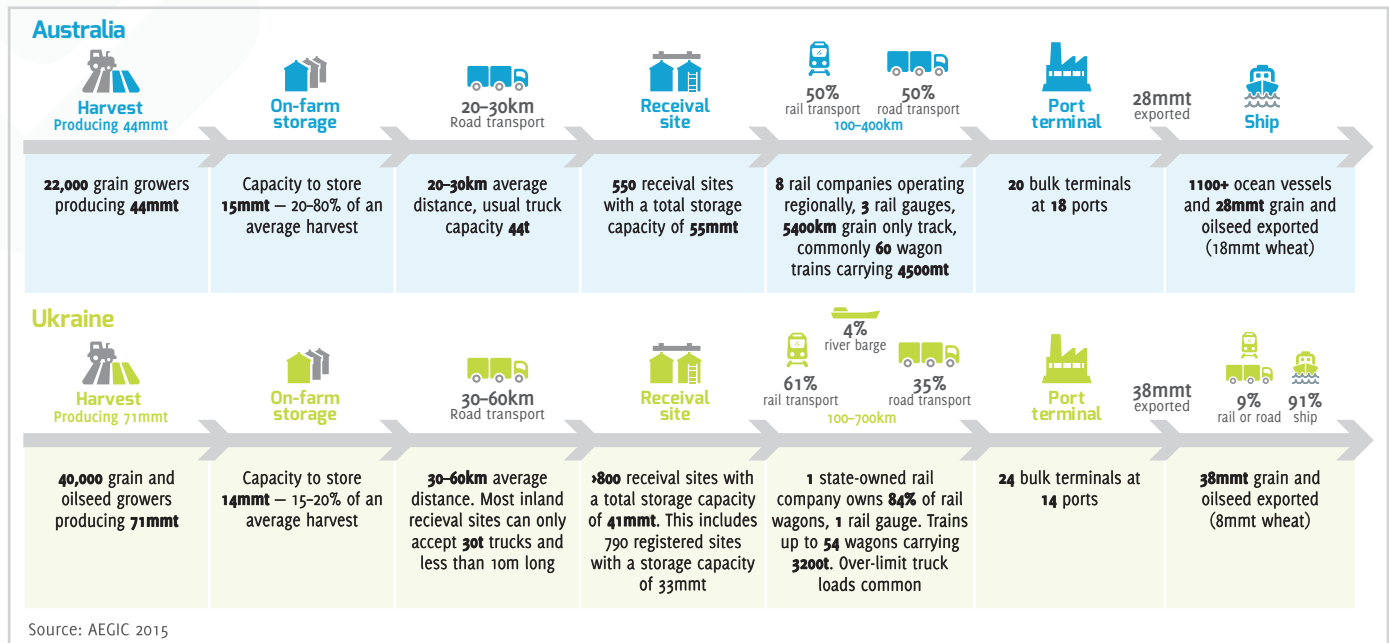
\* Estimates based on weighted averages across regions and production systems

Source: AEGIC 2016

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Figure 1 Supply chains in Australia and Ukraine



## AEGIC's key findings

1. Ukrainian wheat exports are currently a modest threat to Australia's wheat export industry in its key markets. BUT... the potential threat is large, albeit uncertain for many reasons.
2. Ukraine's competitiveness in the international wheat export market is underpinned by greater rates of yield advancement and greater cost efficiencies in its grain supply chains. During the next decade these advantages are likely to undermine Australia's price competitiveness.
3. Ukraine is currently less able, compared with Australia, to reliably satisfy the wheat volume and wheat quality needs of end-users in Asian markets.
4. Australia has time to prepare for and counter likely greater competition from Ukrainian wheat exports.

For these actions to be successful, they need to form part of a broadly-supported, cohesive response by the Australian wheat industry to the threats and opportunities the industry faces. Failure to adopt a well-coordinated approach, which minimises fragmentation and duplication, will weaken Australia's response to these challenges.

## Australia's required actions

1. Collate, monitor and analyse developments in Ukraine (and surrounding nations) and inform the Australian grains industry of the implications.  
*Forewarned is forearmed. Accurate and timely information about emerging competitors increases the opportunity for Australia's grains industry to make strategic decisions based on sound analysis.*
2. Investigate why (or whether) Australian wheat is preferred in our major markets and why Ukrainian wheat is not (or is) preferred in those same markets.  
*If we know what customers value we can better serve their needs.*
3. Convey market and competitor information to those Australian stakeholders whose responses can increase returns for Australian wheat growers.  
*Australian grain growers need to benefit from better serving their customers and reacting to competition.*
4. Use our 'window of opportunity' carefully.  
*It's a tide (not a tidal wave) of Black Sea wheat entering some of our major markets. The Australian grains industry has time to plan and co-ordinate an effective response.*

Download the full report here  
[www.aegic.org.au](http://www.aegic.org.au)



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### More information

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AEGIC is an initiative of the Western Australian State Government and Australia's Grains Research and Development Corporation



GRDC  
 Grains Research & Development Corporation

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