PROBLEMS OF AGRO-INDUSTRIAL COMPLEX
LOGISTICS, LOANS AND CLOSED LAND MARKETS

Irina Dushnik
Executive Director of the Grain and Oilseed Committee of European Business Association

Last marketing year was marked by record figures of the grain market over the time of independence: 66 million tons of grain were harvested, of which almost 45 million were supplied to foreign markets. There are predictions that in the year 2020 grain exports may reach up to 60-70 million tons.

There are problems along with success though. This year the chronic illness of the sphere was agro-logistics. The restriction on the weight of motor transport was introduced, which resulted in an increase in the volume of rail transport. Grain market faced the problem of the lack of grain carriages. 80% of the current park is almost worn out, requiring replacement or overhaul.

At the highest level, EBA made suggestions to enable private business to invest money in the purchase of grain carriages. But for this business it is necessary to create an economic interest: at least in terms of a discount on the transportation rate with their own carriages by 50% against the general park. So far, there has been no decision on this issue. But even it will not solve all the problems. Indeed, along with the problem of the lack of grain carriages, there is also a shortage of locomotives that should carry them. Private business will not invest in locomotives — this is the task of the state. Moreover, the lack of fuel is becoming a traditional problem.

Now Ukrzaliznytsia has introduced a new system of distribution of carriages. It is often criticized for this: there are attempts to penetrate the system, there are also questions about the corruption component of the innovation.

Grain Market is export-oriented. We export more than half of what we produce, and we forecast that by 2020 exports will have grown at least by 150%. Therefore, the issue of infrastructure, agro-logistics and phytosanitary issues will be sharply raised. EBA has long emphasized that phytosanitary procedures need to be aligned with the EU rules. In recent years, it has been possible to achieve a lot in the phytosanitary direction; simplified and accelerated procedure for issuing quarantine and phytosanitary certificates. However, this is not enough. We would prefer to see private laboratories in the process of phytosanitary examination. Business wants them to take the grain, make tests, give conclusions, and pass them on to the state phytosanitary officers. And those, in turn, will issue phytosanitary certificates for export on the basis of those conclusions. At the moment, the market is monopolized by the state structure. Currently, the bill No. 8673 has been registered, which implies the possibility of introducing private laboratories in this segment. We hope it will be adopted.

Grain exporters also suffer from the moral obsolescence of internal rules for grain storage. For example, wheat can be stored and transported strictly sorted within the six classes. However, we export in accordance

Yevgen Kravtsov
Acting CEO of PJSC Ukrzaliznytsia

The question is not so one-sided, it is not just that we lack the cars or locomotives. It is complex. Indeed, the agricultural sector is more complicated than, for example, with metallurgical transportation. It is so, because there is a seasonal nature in it, which coincides exactly with the peak of road works and other transportations.

Yes, there is a park shortage. But the shortage of a cheap park. The cars of Ukrzaliznytsia are 3-6 times cheaper than private ones. There are a lot of logistics companies that take them, and then give them to customers and have an extremely high margin for this. We are trying to prevent this discrimination. When we enter the market and are at the same level with private companies, the issue of the shortage of Ukrzaliznytsia cars will disappear. For we will all be on an equal footing. And it will not make sense to look for our cheap carriage, when the market is the same. Only 30% of the total cargo, which is transported in gondola cars in Ukraine, goes in the carriages of Ukrzaliznytsia. 70% is a private park. So, talking about the shortage of Ukrzaliznytsia cars ... Well, of course! We are 5 times cheaper! And everyone is hunting for it.

The number of parks compared with last year has increased by 3000 cars due to the private park and the repair of the existing ones. But since the spring of this year there was a problem of traction. Railway equipment has a long period of operation — 30-40, even 50 years, but at some point it is no longer subject to fixing holes, it is necessary to replace the driving and carrying parts. We are on the verge of this problem. But we do not have enough money to solve it, because we have not changed the value of our services marketably.

It is with the locomotive park that we are in a situation where diesel locomotives are extremely worn out and we need to buy new ones. Therefore, we communicate with General Electric and other manufacturers in order to replace and upgrade the park quickly. It will be done.

I also see a lot of problems in load capacities. Large elevators can load up to 50 carriages a day. But in the most problematic regions, elevators load as few as 3. That is, if in one place we can send one train once a few days, load it, take it to port and bring it back, in other cases we have to deliver and carry 2-3 wagons every day. This is a completely different performance. Therefore, logistics may be more expensive than in the place where the elevator serves 100 wagons per day. The easiest way is to drop all the problems on the railway and say that it does not cope with the task. I often hear it. Especially over this year. Ukrzaliznytsia turns out to be blamed for everything. This is the wrong approach.
Irina Dushnik  
Executive Director of the Grain and Oilseed Committee  
of European Business Association  

with other standards where there is no such distribution. There is simply a specific list of quality indicators that a particular party has to meet. This is fixed in export contracts. To achieve compliance with these indicators is possible exclusively by mixing several classes of grain. But to form such a lot is impossible at any of the grain storages.

For three years, the members of the EBA Grain and Oilseed Committee have been pushing for the idea of mixing grain everywhere—both on the territory of linear elevators, in sea ports and at river terminals. After all, the instructions of the Ministry of Agrarian Policy, which regulates this process, have long been morally obsolete. Moreover, conscientious exporters find themselves in unequal competitive conditions with those who practice grain mixes of different classes contrary to domestic regulations.

Rodion Rybcinsky  
Director of the public association  
“Millers of Ukraine”  

Exports of flour grow by 20% each year. Ukrainian millers plan to multiply it by live in the near future.

The only question is how possible it is. After all, Kazakhstan satisfies the needs of the Asian market, Argentina works on Latin America’s multi-million dollar market, in Africa we compete with France. The priority markets for Ukrainian exporters are the Middle East and North Africa, and we are actually trying to get them from the most active players in the market of flour—Turkish manufacturers. And even that happens with the help of price dumping. This is due to the fact that the Turks are working with our own grain. But Turkish producers have a lot of preferences from the state, while Ukrainian flour millers operate on one hundred percent market conditions without state aid. There are other fundamental problems hampering the development of the industry.

1) the limited access of flour millers to leading technologies and equipment of the fifth and sixth generations;

2) the lack of a policy for stimulating agricultural producers to grow high-quality grain, suitable for the production of high-quality flour, and not only for export;

3) very expensive loan capital.

Kateryna Rozhkova  
Deputy Governor  
of the National Bank of Ukraine  

If we talk specifically about exporters, then there are available currency resources. Despite the fact that they are still too high in comparison with European countries, for Ukraine—they are the lowest during the existence of commercial banking system.

The rate, of course, has increased, because we target the level of inflation in advance. We do not react, but target. Therefore, this is important for all, including exporters, banks and consumers. Keeping inflation in the corridor is a guarantee of financial stability. In addition, we expect that in the first half of 2018 we will enter the projected inflation range. So, we hope that today rates will be fixed, and in the first half of 2018 will be reduced, and resources will become more affordable.

Banks want to lend and even know where the loans should go. But when you have 50% of non-working assets, and you cannot do anything with these borrowers, because you lose the rights with bankruptcy, how much are you willing to give new loans?

Olga Trofimtseva  
Deputy Minister of Agrarian Policy  
and Food of Ukraine  
on European Integration  

Currently, the Guidance on grain accounting is being developed, which allows mixing grain at port elevators. But this is a short-term solution to the problem. According to the Ministry of Agrarian Policy and the S3GS, it is necessary to follow the world standards of grain grading and to unify with the largest number of markets.

Aivaras Abromavichus  
Former Minister of Economic Development  
and Trade of Ukraine, investor  

Bank loans have insanely high liquidity. Because the number of deposits has increased, and the number of conscientious solvent borrowers has decreased with the crisis, the trust in the banking sector after cleaning has increased, and banks have lowered the deposit rate. Accordingly, there was an opportunity to lend to business at more attractive rates. Today, honest and transparent agribusiness, like any other, especially those with export dollar revenues, can take a bank loan at a rate of 5% per annum in dollars. This is something that has not happened in Ukraine’s history. When someone says that there are no loans – this is not true, there are.

Those who work opaquely, do not carry out international reporting, pay wages in envelopes, sell for cash, do not have the opportunity to come to the bank and get loans at attractive rates. You just need to do business properly.

There are many factors hindering the development of agribusiness. First of all there is no free agricultural land market. And if you do not own land, you can not dispose of your constitutional right to do with it anything you want – to sell, rent, etc., you will not invest in it.

On these wonderful chernozems it would be good to set up irrigation systems. In Ukraine it is quite easy to reach the yields of not 65 million tons, as now, but 100 million tons. Also around your lands it is sensible to build processing facilities. But you will not do this, because it is expensive, and the land is not yours. Any restrictions, when there is no free market, result in our lagging.

Igor Mazepa  
CEO Concorde Capital  

If the land market starts to function properly, we will clearly see an increase in the inflow of investments, and not only in agriculture, but also in related industries, as well as in the financial sector (lending to agricultural production). Investors like bright signals. The opening of the land market can become such a signal, a turning point in the perception of the country.