



August 4, 1999

The Mounting Threat Of Ukrainian Wheat Exports

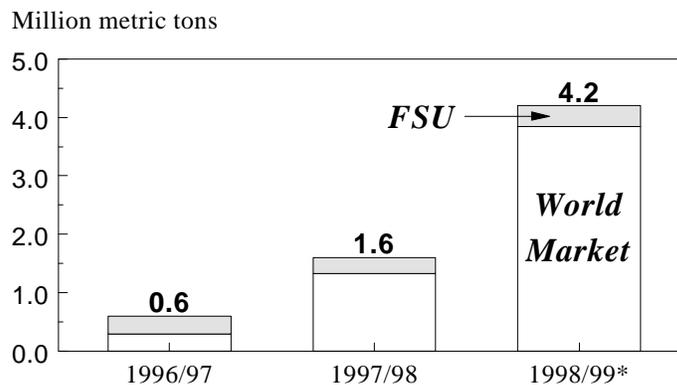
Summary

Ukraine is quickly becoming a major wheat exporter because of a combination of competitive advantages that are hard to beat. Additional market experience could lead to further growth, especially as infrastructure is upgraded and production rebounds from current depressed levels.

Strong Growth As Exporters Focus On Non-FSU Markets

Wheat exports have risen seven-fold in just 3 years to around 4 million tons. In contrast to the Soviet era when most went to Russia and other FSU countries, now almost all spills onto world markets. Feed-quality wheat to South Korea and Israel competes with U.S. corn, while milling wheat to North Africa and the Middle East has reportedly displaced traditional suppliers, notably the EU.

Ukraine's Wheat Exports Soar As They Find New Markets Outside The FSU Region

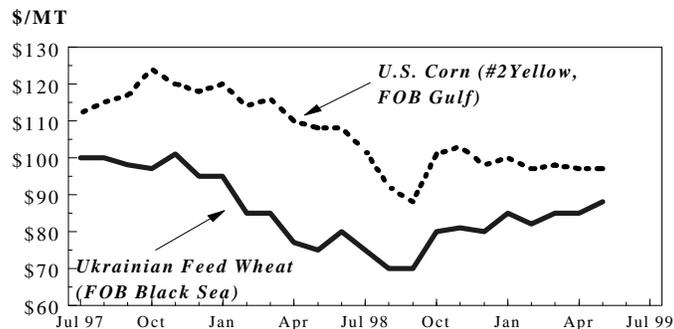


Source: Total is USDA, while breakdown is based on Ukrainian data.

Low Prices, Flexible Shipping Help Secure New Sales

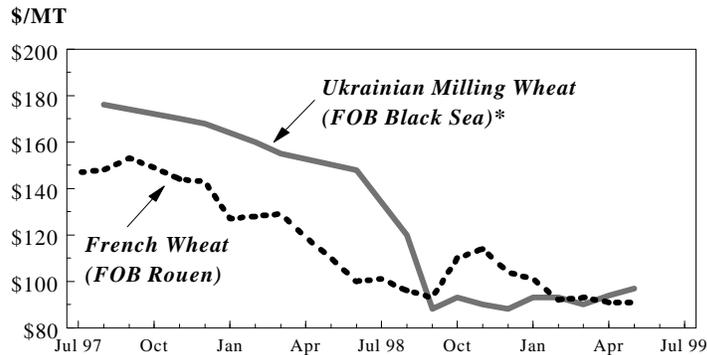
Low production costs and the recent currency devaluation have allowed Ukraine's emerging private traders to offer low prices that increasingly undercut the competition. Proximity to key import markets in North Africa and the Middle East gives them a freight advantage over most leading exporters (with the notable exception of the EU).

Ukrainian Feed-Quality Wheat Is \$10-30/MT Cheaper Than U.S. Corn



Sources: US: USDA; Ukrainian: Agricultural Market News, Kiev.

Milling Wheat Has Undercut French Prices By Up To \$25/MT Despite Higher Protein



Note: * 11-12% protein wheat, which is higher than is typical for French wheat.

Sources: French: EU Grain Market News Geneva; Ukrainian: Agricultural Market News, Kiev.

However, even the EU often cannot compete with Ukraine's flexibility in offering small vessels that are increasingly popular with private importers in the Mediterranean Basin. That intensified competition could pressure regional prices and maintain the need for high EU subsidies.

Further Growth Is Possible With Improved Marketing And Quality

Last year's (1998/99) jump in exports were facilitated by improved rail and port services and by better organization of the domestic trade. Ukrainian traders are already visiting key importers to promote new crop sales, a practice virtually unheard of just a year ago. New Ukrainian grain standards due to come into force soon may also boost grain marketing by introducing internationally-accepted criteria.

As Ukraine's infrastructure is upgraded and traders gain market experience, wheat exports could grow even more. Production has shrunk by about half since the collapse of the Soviet Union, but should begin to recover as traders exploit these competitive advantages.

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