

# Agri News, Kyiv

**MARKET  
WEEKLY  
REPORT**

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## Highlights

- **Jordan purchased 150 KMT of U.S. HRW wheat**
- **Egypt's GASC bought 230 KMT of soft and hard wheat of French and U.S. origin**
- **Strategie Grains estimates that European grain balance will remain tight this season**
- **Crude oil price dropped slightly**
- **Diverse trends in oilseed markets**
- **Ukraine set a new sunoil output record**
- **Ukraine gathered a bumper soybean crop**
- **For the first time since the 2007/08 season, Ukraine harvested more soybeans than rapeseed**
- **Soybean export pace is much faster than in previous seasons**
- **UkrAgroConsult raised its soybean export estimates for the 2010/11 season**
- **Soybean crushing shows a steady increase**

## **1. GOVERNMENT POLICY AND DEVELOPMENT OF LEGISLATION**

### **1.1. Rada adopted the draft 2011 Budget as a basis**

The Verkhovna Rada of Ukraine adopted in the first reading the draft State Budget for 2011.

Ukrainian Premier Mykola Azarov, First Vice-Premier – Economic Development and Trade Minister Andriy Kliuyev, Finance Minister Fedir Yaroshenko and Justice Minister Olexandr Lavrynovych sat in the parliamentary government gallery during the budget debate and left Parliament after the deputies voted to adopt it in the first reading.

We believe the Verkhovna Rada will pass the 2011 State Budget for 2011. Projected revenues are UAH 281.465 BI with expenditures of UAH 321.948 BI.

General fund revenues are forecast to be UAH 238.581 BI and Special fund revenues at UAH 42.884 BI.

State Budget general fund expenditures are expected to be UAH 279.127 BI and Special fund expenditures are projected to be UAH 42.822 BI.

The deficit is expected to reach UAH 38.843 BI, of which the general fund deficit is set at at UAH 36.844 BI and the special fund deficit at UAH 1.999 BI. Levyi Bereg

### **1.2. World Bank disagreed with Ukraine's government**

The World Bank (WB) predicts the Ukrainian State Budget deficit at 6.5% of GDP in 2010, at 3.5% of GDP in 2011, and at 2.5% of GDP in 2012, WB senior economist Ruslan Piontkovsky told a press conference.

At the same time, in the draft 2011 Budget, the government of Ukraine predicted a budgetary deficit of 3.08% and inflation of 8.9%.

Please note that WB specialists forecast 2010 inflation at 9.8% and that 2011 inflation will be higher than this years' 10.7%. According to WB experts, the reason is that administratively regulated prices will rise faster in 2011 than this year.

### **1.3. Agricultural entities owe banks 7 BI**

The total amount of bad bank debt of the Ukrainian agricultural sector is UAH 7 BI.

Ukrainian agricultural producers have not repaid UAH 7 BI to banks. Leonid Kozachenko, President of the Ukrainian Agrarian Conference, made this sectoral assessment.

“We have over UAH 26 BI – this is the indebtedness of agricultural enterprises to banks. Over half of these loans have been prolonged or restructured...,” said Leonid Kozachenko – “UAH 7 BI out of this UAH 26 BI is accounted for by troubled loans, which are no longer being serviced.” According to him, the banks have no possibility to compensate their losses through sale of collateralized property. “The pledged property is unmarketable,” Kozachenko explains.

The common occurrence of bad debts explains why many financial institutions have lost confidence in the agricultural sector. This spring, on the eve of the planting campaign, i.e. at the peak farmers' need for money, banks were reluctant to extend agricultural credit. Simultaneously, the banks toughened collateral requirements: agricultural companies that managed to receive a loan had to offer real estate, agricultural machinery, or equipment to the bank as collateral. The bankers did not actually provide credit secured against the future crop.

Agricultural companies took a disastrously small total amount of loans last year. Ukraine's agricultural sector credit fell 3.14 times in 2009 against the previous period, down to UAH 4.3 BI. At the same time, the number of borrower companies decreased from 15.000 to 1.700.

Regardless of the apparent improvement in borrower quality the majority of loans banks were short-term loans. Interest rates on loans taken by farmers in 2009 ranged from 16.5% to 39%.

#### **1.4. Ukraine increased sugar production**

The Ukrainian sugar refineries produced 1.53 MMT of beet sugar as of December 14, i.e. 22.7% more year-over-year, reported the National Sugar Producer Association UkrTsukor.

According to the Association, 69 refineries have already finished beet processing and four mills still continue working.

The sugar refineries received 13.25 MMT of sugar beet and processed 12.98 MMT.

Reportedly, UkrTsukor expects Ukraine's beet sugar output will reach 1.6 MMT this season, i.e. 27% more than last season.

In 2009 Ukraine produced 1.264 MMT of beet sugar against 1.574 MMT in 2008.

Experts estimate the annual capacity of the Ukrainian sugar market at 1.8-2 MMT.

#### **1.5. Government wants to found a bank for supporting Ukrainian entrepreneurs**

Finance Minister of Ukraine Fedir Yaroshenko said the government is studying the possibility of founding a bank to support domestic entrepreneurs.

"An intense discussion on this subject is underway, now I surely cannot tell (which bank). But it is being looked for. We'll tell you after the final choice is made," promised Yaroshenko.

Please remember that Ukrainian Premier Mykola Azarov said that in 2011 was an adaptation period to the new Tax Code, during which no fines would be levied; during this period new tax regulations would be refined and businesses and government would become better educated as to the consequences.

He also said that "neither fines will be levied nor penalties imposed within a whole year. All those who said that this code is exceptionally tough, that it would stifle everybody – that was all pointless blathering, politicking about nothing. The government is more interested than anybody to ensure that businesses feel freer."

#### **1.6. Mineral fertilizer imports in Ukraine increased 82%, exports rose 6.7%**

Ukraine increased mineral fertilizer imports 82.2% in January-October 2010 year-over-year, to USD 358,109,000, reported the State Statistics Committee of Ukraine.

According to the report, mineral fertilizer exports grew by 6.7% in the above-mentioned period, to USD 733,215,600.

Please remember that Ukraine reduced mineral fertilizer exports by 57% in 2009 against 2008, to USD 857,847,700, and imports by 57.4% to USD 257,345,800.

## **2. CROP CONDITIONS, DECEMBER 17**

After the autumn growth ended in the Northern, Western, Central and Eastern regions between November 24 / December 2, winter crop plants are in winter dormancy. In the South, where the weather was warmer than usual in the first half of December (the daytime air temperature rose to +8-12°C), the growth of winter crops ceased as late as December 13-15. Nevertheless, their slow vegetation continued in some areas due to warm spells occurring from time to time. Owing to warmth in November and the first half of December along with good moisture condition, full-fledged sprouts are seen over almost all the South, while plants are at the tillering stage in the fields planted before November 20. Even in Crimea, where 230 Th ha (46%) out of the total planted area under winter crops for grain (500 Th ha) was planted in November, crops emerged

over all the acreage and their condition is assessed as good on 61% of area and satisfactory on 39%. In total, winter grains in good condition covered 54.1% of area in Ukraine as of December 8-10, satisfactory crops accounted for 38.4% and poor, thinned crops for 7.5%. These figures are much better than at the same time last year, when good crops totaled 45.3%, satisfactory 43.8%, and weak, thinned crops covered 10.9% of area. Almost all over the country the soil moisture content is optimal and sufficient and that is a very important factor contributing to the future crop.

Research institutions estimate that the wintering of winter crops continues normally as of the middle of December. It should be noted that overgrown winter crops cover a small area this year, but they do exist. So, winter wheat planted on early dates (September 5-10) in Kherson region has formed in some fields 8-14 tillers per plant, large tops and excessive density of stalks.

Winter rape crops are in very diverse conditions. Out of their planted area of 1004 Th ha, 53.5% is in good condition, 35.9% in satisfactory and 10.5% is accounted for by weak, thinned crops. Crops planted in August are overgrown in some places: their plants have formed 10-12 leaves each, are 45 cm high and susceptible to low air temperatures. Plants which emerged in late September and early October have formed 4-6 leaves each and are 15-20 cm high. Being underdeveloped, they are poorly winter resistant.

On the whole, winter crop conditions seen as of the middle of December lead us to expect quite high yields of grain crops next year, if properly cared for.

### 3. GRAIN MARKET NEWS

#### 3.1. Milling wheat and flour market

##### WORLD MARKET

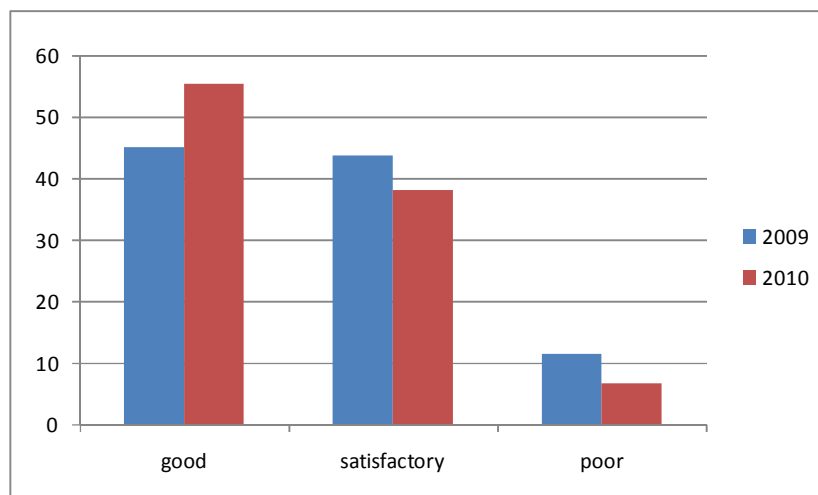
**CBOT.** Milling wheat futures fell last week by USD 14.25 to USD 275.43/MT as result of a stronger U.S. Dollar. Moreover according to forecasts, the weather in Australia may improve and that was another bearish factor.

##### Weather, field works

- **Ukraine.** According to official information, as of December 16 approximately 55.3% of grains were in good condition. The share of weak and thinned winter grains was at the level of 6.6% (7.5% last week).

Te winter grains condition improved greatly in Zaporozhe and Kherson region.

**Winter grains condition, %**



- The weather in **Australia** is becoming dryer, but continued rain complicates harvesting and increases the share of feed grains.

### **MARKET EVENTS AND RUMORS**

**Russia.** On December 16 the Prime-Minister of Russia Vladimir Putin announced the first release of grain from the State Intervention Fund. According to Putin, the first tranche will approximate 1.3 MMT.

The need to intervene is based on significant growth of domestic grain prices in Russia.

In total there are approximately 9.6 MMT of grains in the Interventional fund including 3.5 MMT of feed grains. Russian specialists estimate that the country needs much more feed grains. Consequently the question of grain imports remains.

### **WEEK'S TENDERS**

- **Jordan** purchased 150 KMT of U.S. hard red winter wheat.

The country bought 100 KMT with January shipment at USD 368/MT C&F, and 50 KMT for shipment in the second half of February at USD 367.50/MT C&F.

- **Egypt's** GASC purchased 230 KMT of soft and hard wheat from France and the United States with delivery during February 20-28.

The breakdown of the purchases is the following:

- 120 KMT of French wheat from Invivo at USD 323.85/MT FOB;
- 55 KMT of hard red winter wheat from Toepfer at USD 317/MT FOB;
- 55 KMT of hard red winter wheat from Venus at USD 317/MT FOB.

- **Iraq** issued a new tender to purchase at least 100 KMT of hard wheat of optional origin. It's already the 10<sup>th</sup> tender issued by Iraq this year.

Iraq usually buys more wheat than it requests on tenders. On the previous tender that closed on December 5 Iraq purchased 250 KMT of wheat from the USA.

- **Algerian** OAIC issued a tender to buy 50 KMT of milling wheat of optional origin with delivery in February.

### **UKRAINIAN MARKET TRENDS**

The trends of the Ukrainian milling wheat market remained unchanged. Although farmers still aren't selling wheat prices didn't increase. Millers are not ready to offer higher prices for wheat because they can't raise flour prices.

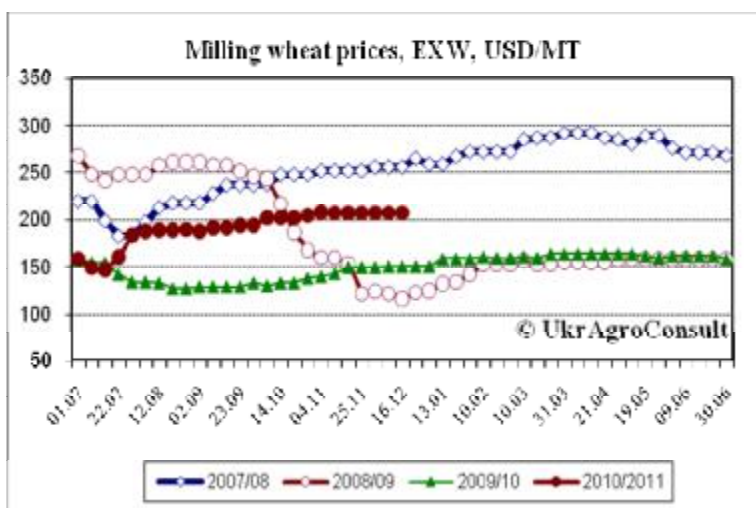
#### **FOB Black Sea ports, US \$/MT. Average bid prices**

Commodity	December 17, 2010	December 10, 2010	November 05, 2010	December 04, 2009
2nd grade wheat (12.5% prot.)	...	...	...	187
3rd grade wheat (11% prot.)	...	...	...	185

Prices for grain shipped from Mykolayiv, Kherson, Berdiansk and other small ports are \$2-3/T less than at Odessa and Illichivsk ports. Traders margin is not included

#### **Domestic milling wheat prices, EXW**

	UAH/\$	Milling wheat 2 <sup>nd</sup> grade (12.5%)						Milling wheat 3 <sup>th</sup> grade (11.5%)					
		UAH/T			\$/T			UAH/T			\$/T		
		Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max
<b>December 17</b>	7.9635	1580	1640	1700	199	207	215	1480	1580	1680	187	199	212
<b>December 10</b>	7.9514	1580	1640	1700	199	207	215	1480	1580	1680	187	199	212
<b>December 03</b>	7.9400	1580	1640	1700	199	207	215	1480	1580	1680	187	199	212



### Domestic flour prices, EXW

	UAH/\$	Wheat flour. top gr.						Wheat flour. 1st gr.					
		UAH/T			\$/T			UAH/T			\$/T		
		Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max
December 17	7.9635	2500	2700	2900	314	339	365	2250	2350	2500	284	297	316
December 10	7.9514	2500	2700	2900	314	339	365	2250	2350	2500	284	297	316
December 03	7.9400	2450	2650	2900	309	331	366	2250	2350	2500	284	297	316

## 3.2. Feed grain market

### WORLD MARKET

CBOT. Corn futures prices grew last week by USD 5.12 to USD 231.26/MT.

**Strategie Grains** estimates that European grain balance will remain tight this season as poor weather is reducing expectations for the EU grain production.

Total grain production in 2010 is expected to decline to 275 MMT that is 1 MMT lower than in the last month's estimate due to reduction of corn and soft wheat production estimates.

Both markets are therefore bullish going forward as both wheat and corn face deficits this season, with stocks in each case expected to be lower than minimum requirements at the end of September 2009.

Moreover according to analysts from **FAO**, world grain supply and demand balance can still tighten considerably with total consumption exceeding world production; thus necessitating a 6 % decline in ending stocks.

### WEEK'S TENDERS

**Israel** purchased about 60 KMT of U.S.-origin corn at USD 1.48 a bushel C&F over Chicago's March corn contract <CH1> which meant approximately USD 289/MT C&F with shipment between March 5-25, 2011.

### UKRAINIAN MARKET TRENDS

Trading on the feed grains market is weak due to limited supply and low activity of exporters. As barley exports are banned for the first three months of 2011 the exporters' demand for barley is practically non-existent. Wheat and corn purchases are also sluggish because of low exports. According to the Black Sea ports' data, during December 01-15 Ukraine exported only 363.1 KMT of grains.

Russian buyers are interested in Ukrainian corn. The corn prices approximate USD 240-250/MT DAF.

**FOB Black Sea ports, USD/MT. Minimum and maximum bid prices**

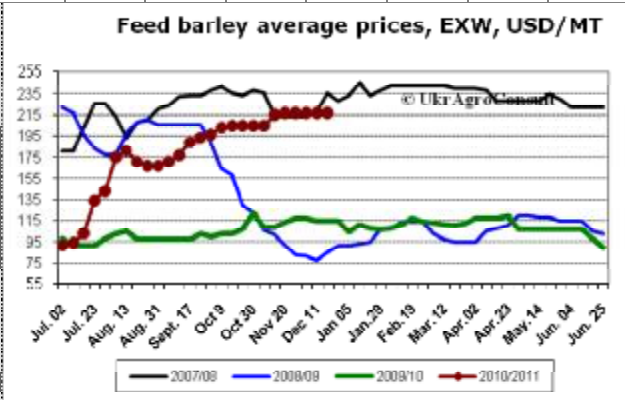
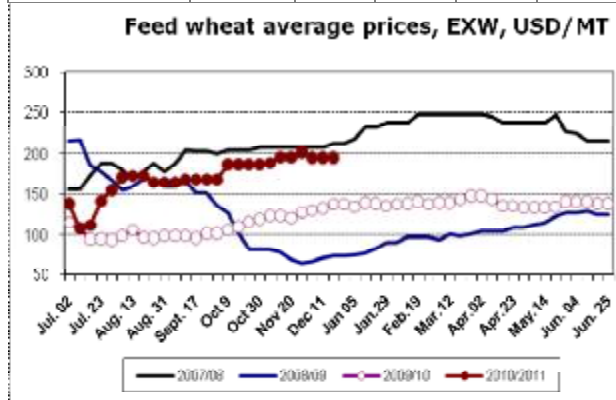
COMMODITY	December 17, 2010	December 10, 2010	November 05, 2010	December 04, 2009
FEED WHEAT	...	...	...	170-175
FEED BARLEY	...	...	...	148-155
CORN	...	...	...	185-192

\* calculated prices

**Domestic feed grain prices, EXW**

	UAH/\$	Wheat						Barley					
		UAH/T			USD/T			UAH/T			USD/T		
		Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max
December 17	7.9635	1500	1550	1600	189	195	202	1630	1730	1830	205	217	231
December 10	7.9514	1500	1550	1600	189	195	202	1630	1730	1830	205	217	231
December 03	7.9400	1500	1550	1600	189	195	202	1630	1730	1830	205	217	231

	UAH/\$	Corn						Wheat bran					
		UAH/T			\$/T			UAH/T			\$/T		
		Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max
December 17	7.9635	1430	1505	1580	180	189	199	900	1000	1100	113	126	139
December 10	7.9514	1430	1505	1580	180	189	199	900	1000	1100	113	126	139
December 03	7.9400	1430	1505	1580	180	189	199	900	1000	1100	113	126	139



**4. OILSEED MARKET**

**4.1. World Market**

**Crude oil**

World crude oil prices fell by \$0.67/barrel during the week of December 9-16, to \$87.7/barrel against \$88.37/barrel a week ago.

Last week, US crude oil stocks showed the most significant decline in the past 8 years. However, crude oil stocks nevertheless remain far above the average level. Oil refineries, as a rule, reduce their stocks before the year's end in order to reduce tax payments. Also fuel demand in the USA fell 2.7% last week.

**Soybeans/Soy oil**

The January prices for soybean complex increased insignificantly on the CBOT. Soybeans rose in price to \$12.89/bushel (\$12.81/bushel a week ago) and soyoil price went up to 54.15 cents a pound (54.12 cents a pound a week ago).

Oil World cut its estimate for Argentina's soybean output to 50.50 MMT in the beginning of 2011 against a 54.4 MMT crop in the beginning of 2010. The 2011 soybean crop in Paraguay shrank to 7.0 MMT against 7.38 MMT in 2010. At the same time, Uruguay's soybean crop may expand to 2.05 MMT in 2011 against 1.95 MMT in 2010. The Brazilian soybean output may also rise by 0.5 MMT owing to greater than expected acreage expansion along with favorable weather conditions.

**Rapeseed/Rape oil**

Rapeseed prices on the Matif did not change throughout the week: they are at EUR 470/MT.

**Palm oil**

A slight price growth (+\$15/MT) is observed in the palm oil market. This year’s output of crude palm oil in Malaysia may fail to reach the previously declared volume of 17.5 MMT. The reasons for the output decline are a shortage of labor resources and heavy rainfalls in the monsoon period, which slowed down harvesting and decreased tree yields.

As a result, the estimate for this year’s crude palm oil production in Malaysia amounts to 17.2 MMT, whereas the country produced 17.56 MMT in 2009.

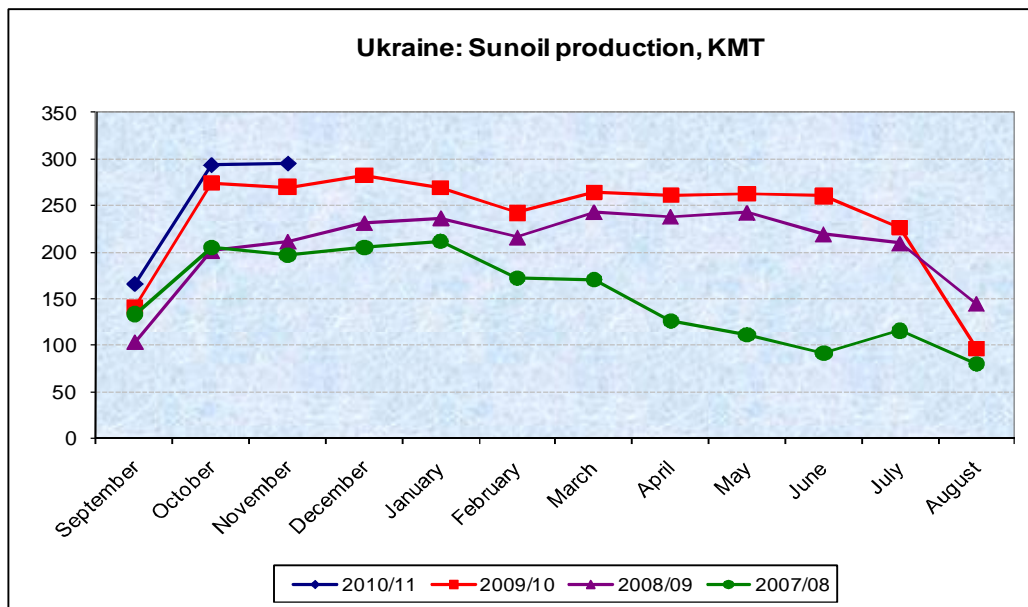
**4.2. Facts and rumors**

- **Ukraine.** 128.2 KMT of sunoil was exported via Ukraine’s ports during the 15 days of December (65 KMT during the 15 days in November 2010), 12 KMT of sunmeal (42 KMT), 13 KMT of sunseed and 26.4 KMT of soybeans (18 KMT).
- **Russia.** During the 3 months of the 2010/11 season (September-November) Russia imported 205 KMT of palm oil. This is 53% more than at the same time last season (134 KMT) and 28% more than at the same time in the bumper 2007/08 season.
- **Russia/Belarus/Kazakhstan.** Fat-and-oil companies of Russia, Belarus and Kazakhstan established a non-commercial organization named the Fat-and-Oil Industry Association of the Customs Union.
- **Egypt.** The Egyptian state-owned company FIHC purchased 20 KMT of soy oil through a tender from Bunge for \$1289/MT C&F with delivery in the second half of January.

**4.3. Market trends**

Ukrainian sunoil slightly rose in price in the export market. Seller prices are \$1350-1360/MT Fob with January/February delivery. Buyer prices are at \$1330-1340/MT Fob. After some slack, Egypt again announced a tender for purchase of 10 KMT of sunoil with delivery in the second half of January and/or the first half of February.

In November 2010, large and medium-sized Ukrainian crushers produced 296 KMT of sunoil. This is only 2 KMT more than in October 2010 (294 KMT) and 10% more than a year ago (268 KMT).



Sunseed prices almost did not change and currently equal UAH 4150-4250/MT EXW and UAH 4250-4300/MT CPT. The domestic trade in sunseed actually stopped. Crushers have accumulated sunseed stocks for at least 3 months of work. Most likely, large-scale sales/purchases of sunseed will begin not earlier than March. Crushers will begin to replenish stocks and farmers will need money for field work.

**FOB Black Sea ports, US \$/MT. Minimum and maximum bid prices**

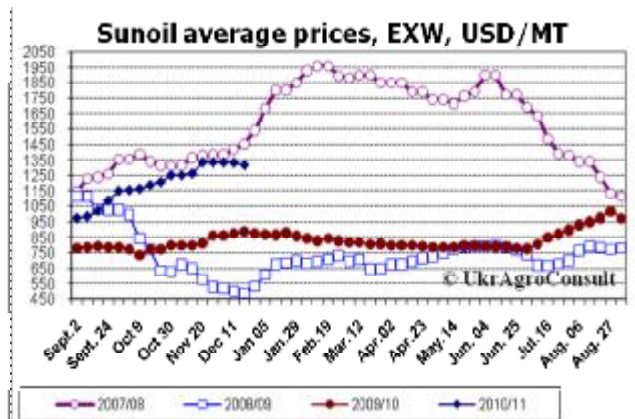
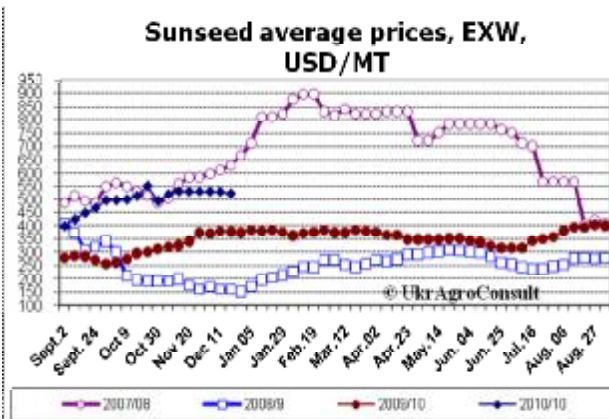
Commodity	December 17, 2010	December 10, 2010	November 05, 2010	December 04, 2009
SUNSEED	n/a	n/a	...	420
SUNOIL	1350-1360 seller 1330-1340 buyer Jan/Feb	1330-1335 seller Jan/Feb	1320-1350 seller 1290 buyer Dec	900-910 January
SUNFLOWER MEAL	265-275	265-275	290-310	170-175 FOB/DAF
Rapeseed FOB, \$/MT	n/a	n/a	...	3000-3100 CPT- port

Prices for oilseed shipped from Mykolayiv, Kherson, Berdiansk and other small ports are \$2-3/T less than at Odessa and Illichivsk ports. These are prices paid to Ukrainian suppliers. Traders margin not included

**Oilseed complex domestic prices, EXW**

	UAH/\$	Sunseed						Sunoil (crude)					
		UAH/T			USD/T			UAH/T			USD/T		
		Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max
December 17	7.9635	4100	4150	4200	515	521	527	10400	10500	10600	1306	1318	1331
December 10	7.9514	4150	4200	4250	522	528	534	10500	10600	10700	1320	1333	1346
December 03	7.9400	4100	4200	4300	516	529	543	10500	10600	10700	1325	1335	1348

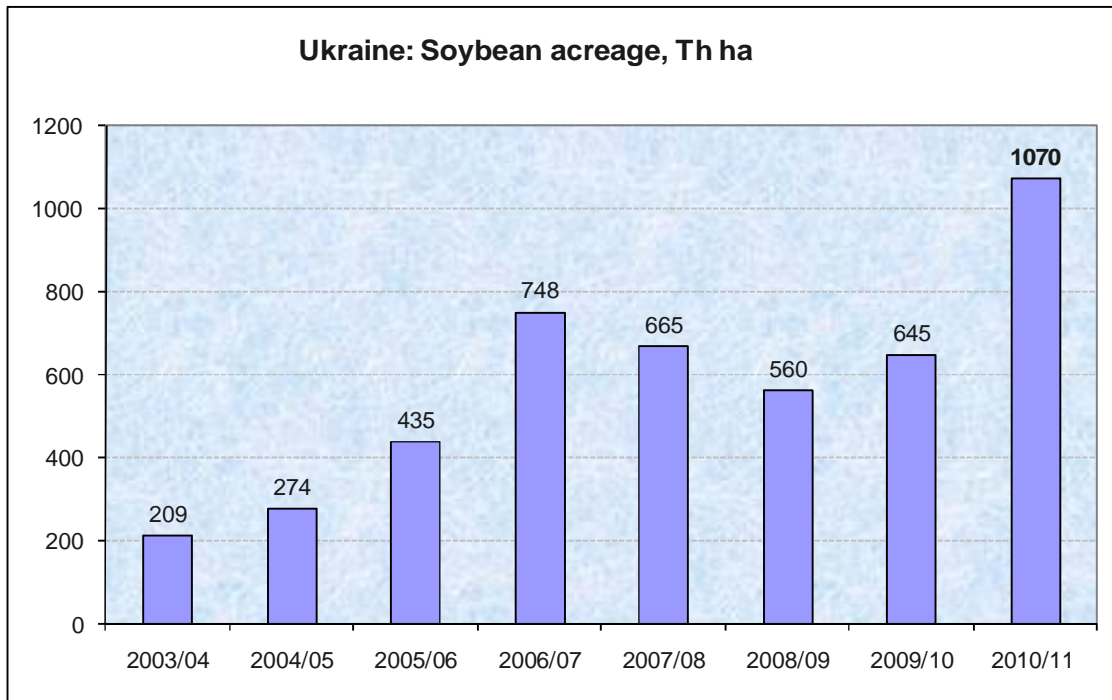
	UAH/\$	Soybean						Rapeseed					
		UAH/T			USD/T			UAH/T			USD/T		
		Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max	Min	Avg.	Max
December 17	7.9635	3100	3200	3250	389	402	409	...	...	...	...	...	...
December 10	7.9514	3150	3200	3250	396	402	409	4000	4100	4200	505	518	530
December 03	7.9400	3150	3200	3250	397	403	409	4000	4100	4200	505	518	530



**5. SUPPLY & DEMAND BALANCE OF SOYBEAN, DECEMBER 2010**

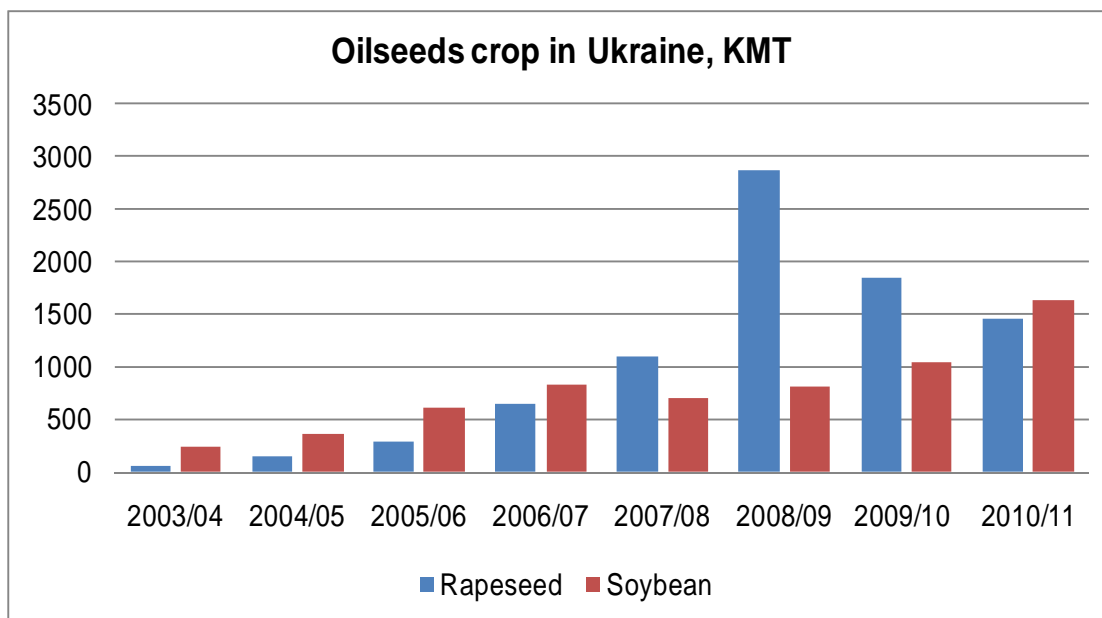
- Ukraine gathered a bumper soybean crop
- For the first time since the 2007/08 season, Ukraine harvested more soybeans than rapeseed
- Soybean export pace is much faster than in previous seasons
- UkrAgroConsult raised its soybean export estimates for the 2010/11 season
- Soybean crushing shows a steady increase

Due to significant loss of winter grain and winter rape crops, the planted acreage under soy exceeded 1 Ml ha in the 2010/11 season, i.e. it is 66% larger than last year (645 Th ha). A similar situation was already seen in the 2006/07 season. At that time soy crop area expanded by 72% to 748 Th ha.

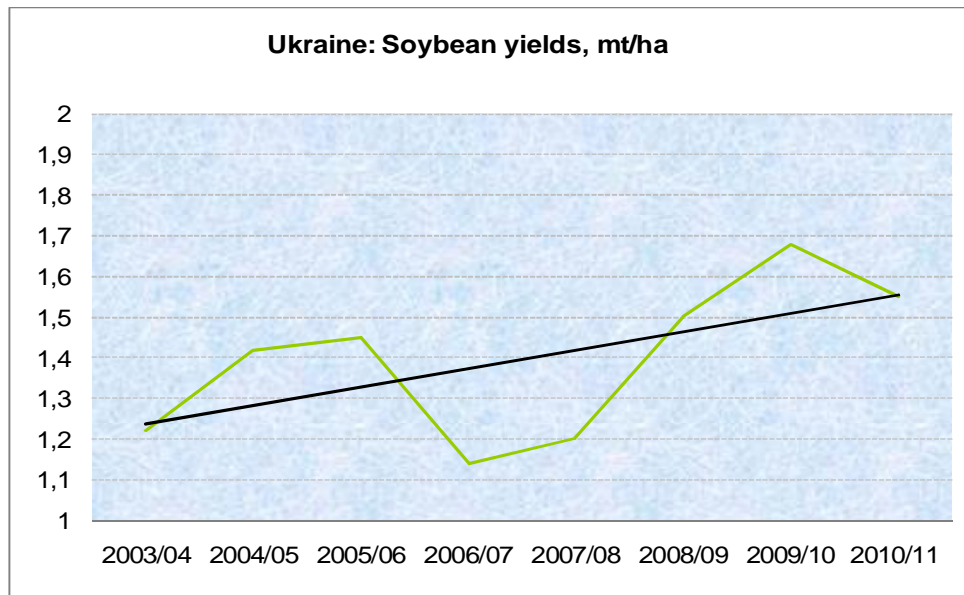


Owing to the acreage expansion, the soybean crop reached a record level of 1.63 MMT. This means a 56% rise in the crop year-over-year (1.043 MMT in 2009).

Remarkable was that Ukraine's soybean crop exceeded its rapeseed crop for the first time since the 2007/08 season.



Although soybean yield fell to 1.55 MT/ha (1.68 MT/ha in 2009), it nevertheless remains high.



Besides, there are other similarities with the 2006/07 season. As grain export restrictions were imposed in the 2006/07 season, exporters switched to exports of soybeans. An unprecedented amount of soybeans – 420 KMT – was exported at that time.

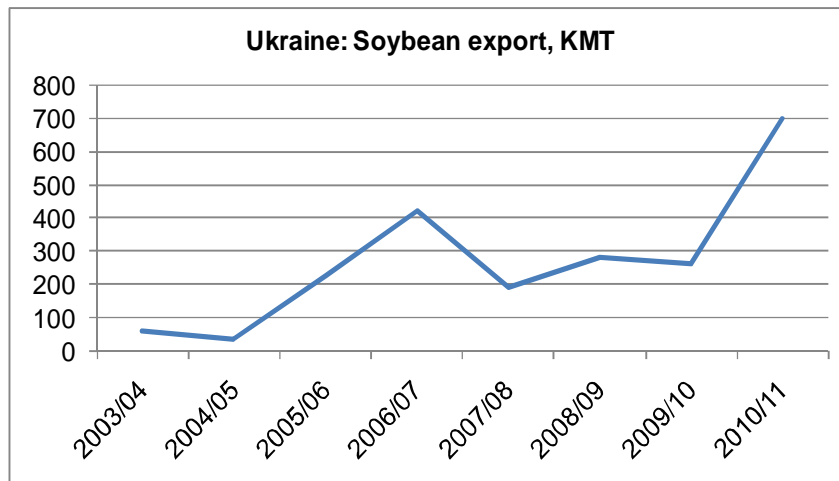
A similar situation is seen in the current season. The pace of soybean exports is much faster than in the previous seasons. In total, roughly 135.5 KMT of soybeans was exported from Ukraine during the 3 months of the season (September-November) (69.2 KMT at the same time last season). Besides, this is even more than the record soybean export of the 2006/07 season (98.7 KMT).

**Ukraine: Soybean export, KMT (UkrAgroConsult)**

	2010/11	2009/10	2008/09	2007/08	2006/07
September	10.3	0.1	0	0.3	0
October	21.1	26.7	0	17	20
November	104.1	42.4	17.8	33.2	78.7
<b>Total Sep./Nov.</b>	<b>135.5</b>	<b>69.2</b>	<b>17.8</b>	<b>50.5</b>	<b>98.7</b>
<b>Total season</b>	<b>700*</b>	<b>269</b>	<b>279.8</b>	<b>190.3</b>	<b>419.6</b>

\*forecast

We estimate that December soybean exports can also be expected at a record level. Therefore we raised our soybean export estimate for the 2010/11 season to 700 KMT (the previous estimate equaled 550 KMT).

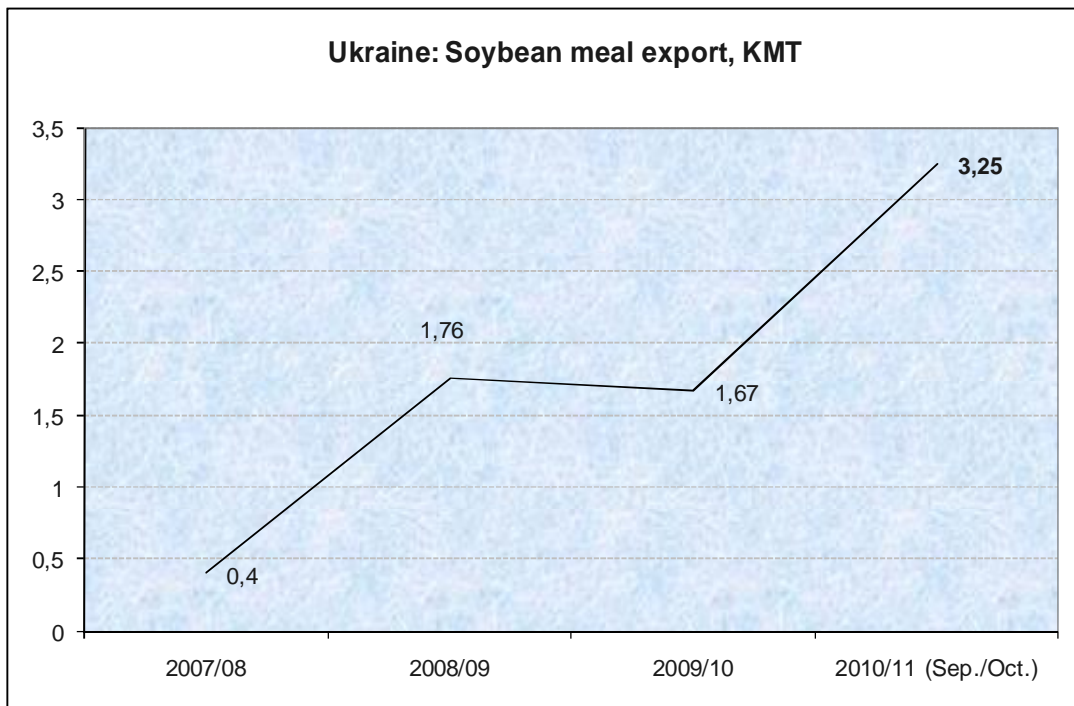


In addition, we expect soybean crushing to substantially increase to 800 KMT in the 2010/11 season against 650 KMT in the 2009/10 season.

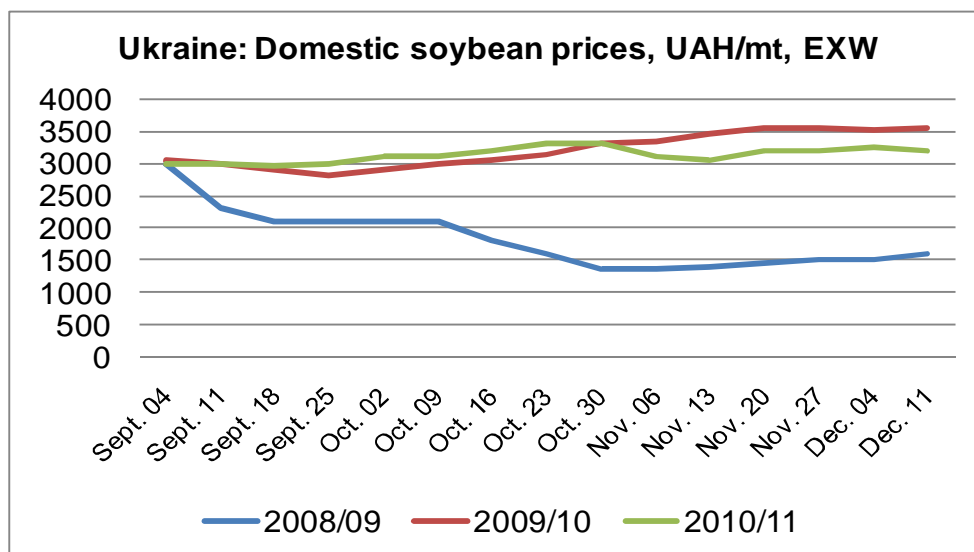
Record soybean crushing in 2010/11 will allow to greatly increase soy meal production to 595 KMT (490 KMT in 2009/10) and to almost fully meet domestic demand.

Soy meal imports to Ukraine have been gradually shrinking in recent years. According to our estimates, approximately 45-50 KMT of this commodity will be imported in the 2010/11 season against 156 KMT imported in 2005/06.

We also do not rule out that soy meal exports will rise. More soy meal was exported during the 3 months of the new 2010/11 season alone than for the whole season in the past years. And we hope the soybean crop expansion will allow Ukraine to eventually turn from a net importer into a net exporter of soy meal.



Despite the bumper soybean harvest seen this season, domestic soybean prices in November/December 2010 were mostly stable at approximately UAH 3100-3200/MT.



In view of the strong soybean demand from both exporters and crushers, we do not expect the situation to change significantly in the near future. The trend of the second half of the season will depend on the pace of exports. We do not rule out that prices will even slightly increase if soybean exports keep at the current level, i.e. roughly 100 KMT a month.

**Soybean supply and demand balance, KMT**

<b>Soybean</b>	<b>2010/11*</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2007/08</b>	<b>2006/07</b>
Opening stocks	16	5	8	9	13
Crop	1627	1043	810	700	832
Import	1	1	1	1	1
<b>SUPPLY</b>	<b>1644</b>	<b>1049</b>	<b>819</b>	<b>710</b>	<b>846</b>
Crushing, incl. industrial	790	650	460	445	340
Seed	130	110	67	60	70
Export	700	263	280	190	420
Loss	10	10	7	7	7
<b>DEMAND</b>	<b>1630</b>	<b>1033</b>	<b>814</b>	<b>702</b>	<b>837</b>
Closing stocks	14	16	5	8	9

\*forecast

**Soy oil supply and demand balance, KMT**

<b>Soy oil</b>	<b>2010/11*</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2007/08</b>	<b>2006/07</b>
Opening stocks	5	4	1	2	1
Production	150	125	88	85	65
Import	1	1	1	1	1
<b>SUPPLY</b>	<b>156</b>	<b>130</b>	<b>90</b>	<b>88</b>	<b>67</b>
Domestic consumption (incl. industrial)	89	76	53	72	48
Export	60	44	28	7	10
Loss	4	5	5	5	5
<b>DEMAND</b>	<b>153</b>	<b>125</b>	<b>86</b>	<b>87</b>	<b>65</b>
Closing stocks	3	5	4	1	2

\*forecast

**Soy meal supply and demand balance, KMT**

<b>Soy meal</b>	<b>2010/11*</b>	<b>2009/10</b>	<b>2008/09</b>	<b>2007/08</b>	<b>2006/07</b>
Opening stocks	15	9	5	11	4
Production	595	490	345	335	255
Import	50	66	88	125	158
<b>SUPPLY</b>	<b>660</b>	<b>565</b>	<b>438</b>	<b>471</b>	<b>417</b>
Domestic consumption	635	544	425	463	403
Export	8	2	2	1	
Loss	3	4	4	3	3
<b>DEMAND</b>	<b>646</b>	<b>550</b>	<b>429</b>	<b>466</b>	<b>406</b>
Closing stocks	14	15	9	5	11

\*forecast

## 6. LOGISTICS & TRANSPORT

- *Ukraine. In February 2011 Kherson port plans to open a new grain export complex*
- *"Nibulon" asks the Kherson authorities land for grain terminals*
- *Odessa Regional Council requests to take off Giurgiulești from Moldova*
- *Russia. OZK started a new investment program and plans to create its own transportation company*
- *Due to grain export ban grain transshipment through Novorossiysk in Jan-Nov 2010 felt by a third*
- *Russia adopts strategy of development of maritime activities through 2030*
- *Kazakhstan. Aktau port will be expanded*

**Ukraine. Where is a terminal to be built?**

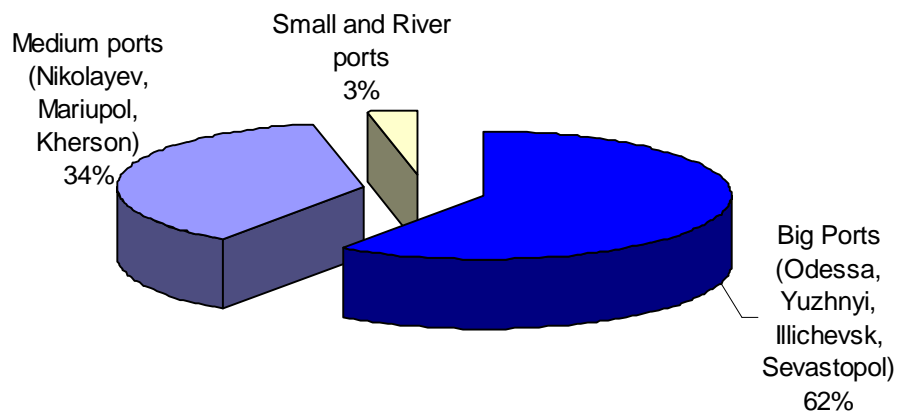
The increasing grain production and export potential of Ukraine, strengthening demand for modern handling facilities, keen competition in main ports force investors to look for new logistics schemes to promote their commodities. Thus, the geography of the construction of grain handling facilities has overstepped the limits of the seaport premises and investors are opening up other maritime enterprises.

Initially, the construction of export grain terminals was concentrated in the country’s largest ports: Odesa, Yuzhny, and Illichivsk. Often these ports already had grain handling capacities. Besides, the ports were attractive to investors because of their proximity to grain growing regions, convenient ground delivery of grain and sufficient depths (11-13 m) for receiving large-tonnage ships.

However, many of the Greater Odesa ports have limited possibilities for expansion because they are located within the city limits and near residential houses. Therefore grain market participants pay attention to ports of other regions and other maritime enterprises.

The Azov basin ports are, of course, of great importance for the grain market: medium-sized ports account for over a third of the Ukrainian grain export.

**Ukraine. Share of the ports in the grain exports, 2009/10 MY**



Their appeal is limited by shallow depths near berths and low throughput of the Azov terminals. In addition, the cost of ground delivery of grain to these regions is higher than delivering through the South ports.

In recent several years, exporters began to develop Ukraine’s primordial recreation area, i.e. Crimea, in particular Sevastopol. Convenient bays ensuring year-round navigation, sufficient depths (13 m), and through shipment of grain by the Dnieper Railways make this region promising from the viewpoint of export grain logistics.

Investors do not only decide in favor of Western Crimea – they invest in the development of port facilities in the Southern coast of Crimea, which is a traditional recreation area. A terminal for handling of 5 MMT of grain and simultaneous storage of 30 KMT is being constructed in the port of Feodosia on the premises of OJSC Stroydetal. It is planned to carry out dredging to increase the depth to 15 m.

In recent years, an important trend in the construction of private terminals was the development of not only sites adjacent to government-run seaports but also building terminals on the premises of other maritime enterprises, in particular fishing ports or shipyards. So, a specialized grain terminal was build in the Illichivsk fishing port in 2004-05 and ABS grain terminal was put

in operation in the Kerch fishing port in 2004. In December 2009, another grain terminal was launched on the premises of Yuzhny Sevastopol shipyard in Sevastopol.

The construction of terminals outside the state seaports is aimed at reducing the direct impact of the state regulator on the company's tariff policy and allows setting grain handling tariffs, fees and payments independently on the basis of the market supply and demand factors.

According to the experience of building other types of terminals, a step of leaving is a timely and effective measure in the conditions of an uncertain government policy in the transport sector as a whole and on private in particular.

The construction of a container terminal started in the Illichivsk fishing port in summer 2010, and as early as December 25 a Maersk container ship first called in the port instead of the Illichivsk commercial seaport. On December 4, the second call was made and the third and fourth ones were announced. Thus, it can be said that the ship calls to this terminal have already become regular.

Another incentive to the development of handling facilities in Ukraine may become the coastal premises of fish canneries.

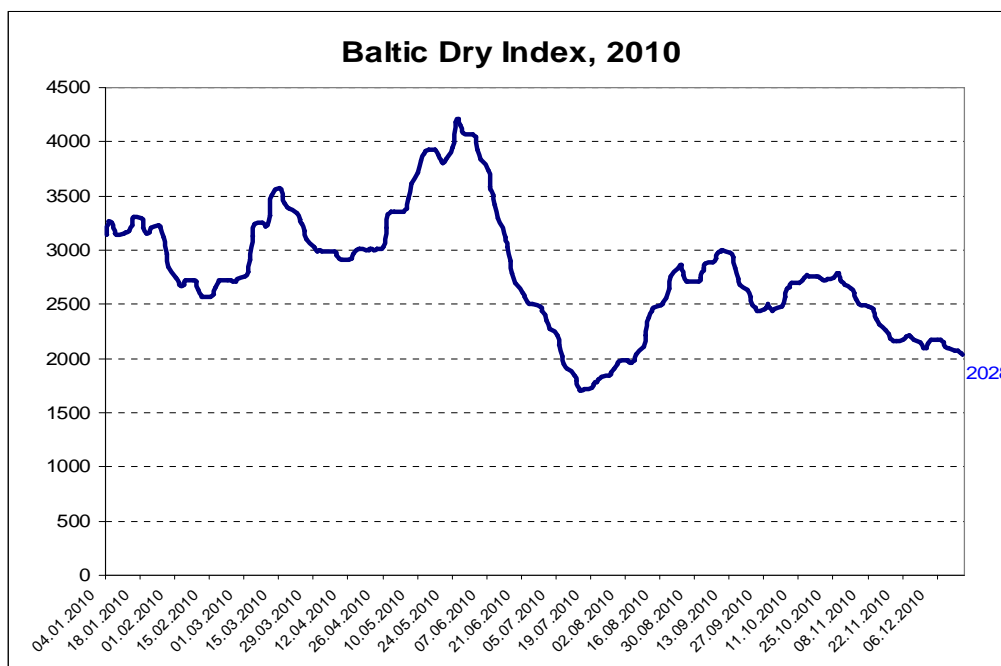
The Ukrainian fishing fleet now has only one paying way for the ground development: fish canning bases. The key reason for low fish production in Ukraine is that the Ukrainian fishing fleet has no access to the resource-rich world ocean, since it can only fish within a very limited water area after other countries ousted Ukrainian fishers from highly profitable zones. In addition, the total catch of fish from inland waters declines due to the land sale moratorium.

As a result, the large production facilities of former fish canneries just become unnecessary and their premises can be considered by investors as sites for constructing new handling facilities.

**Baltic Dry Indexes and Grain Freight Rates**

After a brief period of volatility the freight market started to decline. Baltic Dry Index dropped to 4-month low. During the period of the current decline that has continued for eight consecutive sessions, BDI has lost almost 7%, since the beginning of a general downward trend which started in late October, nearly 30%.

Basis for reducing the BDI is low demand and excess supply of free tonnage in both oceans.



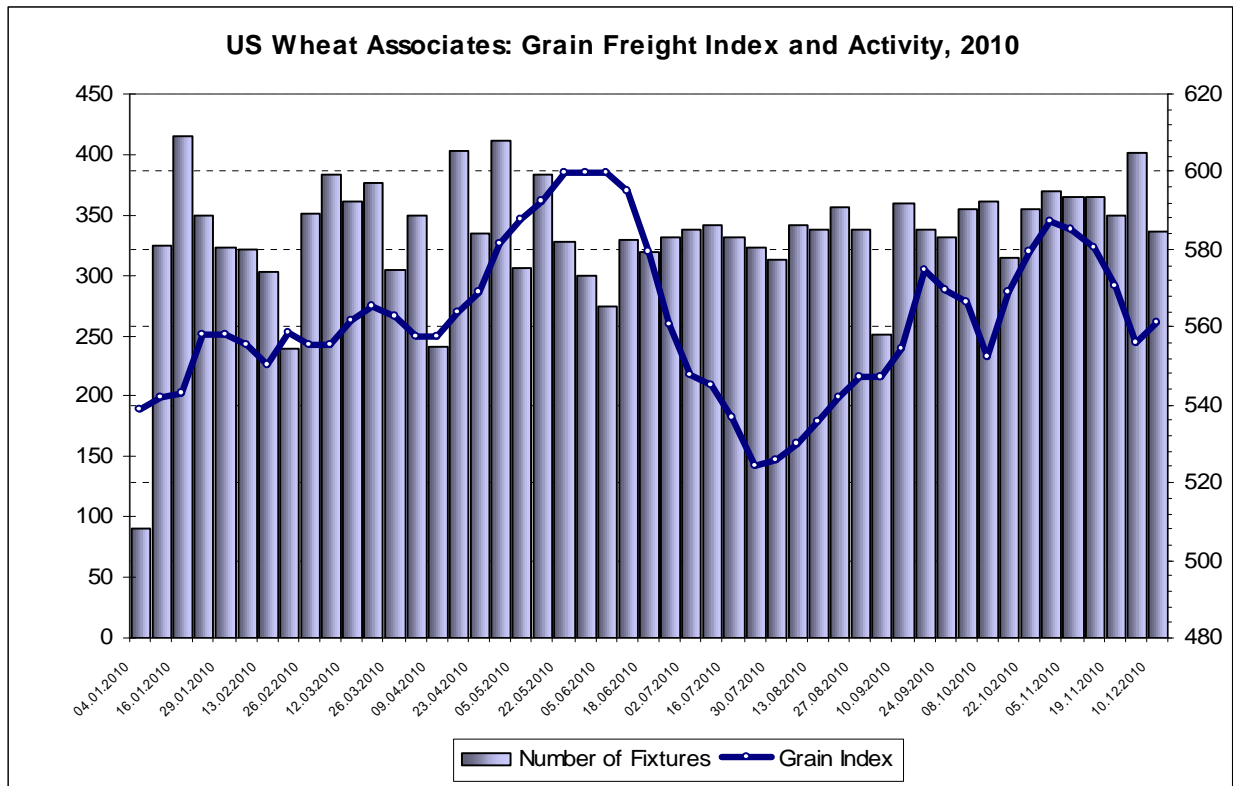
Sector of large vessels such as Capesize shows the growth for the second consecutive day, but it did not have a significant impact on the market dynamics, as it usually does. The reason for this is the fact that the Capesize sector had already reached its bottom. On Western Australia - China route rates rose to USD8.7/MT against USD8.38/MT previous week, on Brazil-China route - dropped to USD21.16/MT against USD21.54/MT.

The largest decline is observed in the Panamax sector. On trans-Pacific routes time-charter rates fell to USD13.616 dollars daily against USD15.252 daily, which is the minimum level since Aug 27, 2010.

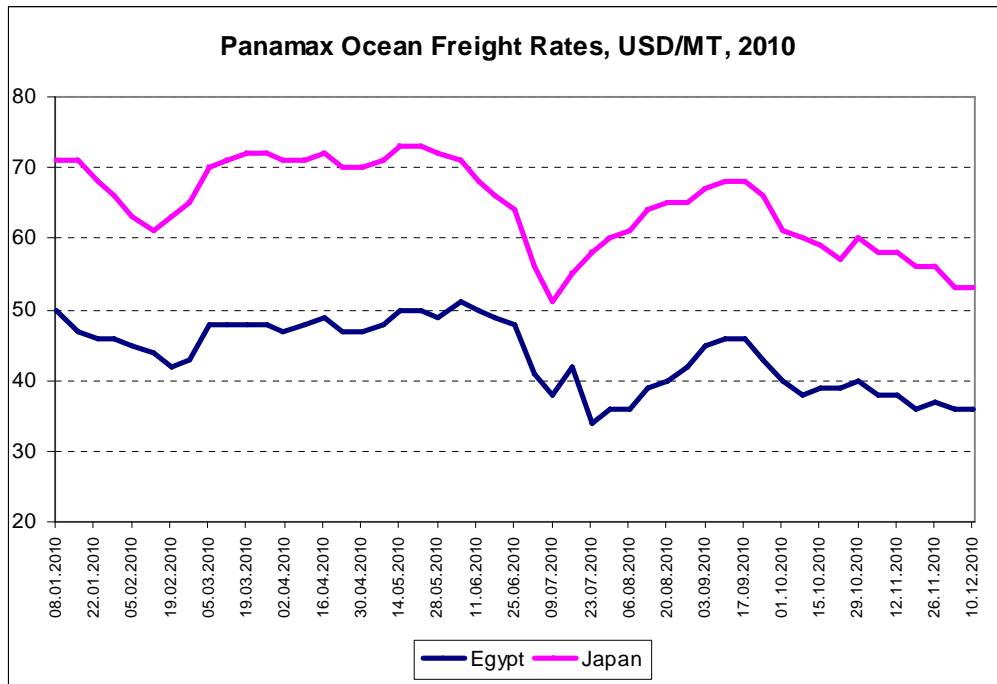
In the Pacific the negative influence was caused by heavy rains and flooding in Australia. As a result, shipment of goods (sugar, grain, coal) from Australia have been disrupted.

Demand for grains from the Western Hemisphere continues to remain high. Last week purchases of American grains was made by Egypt, Jordan and Israel. Egypt also bought Argentine wheat.

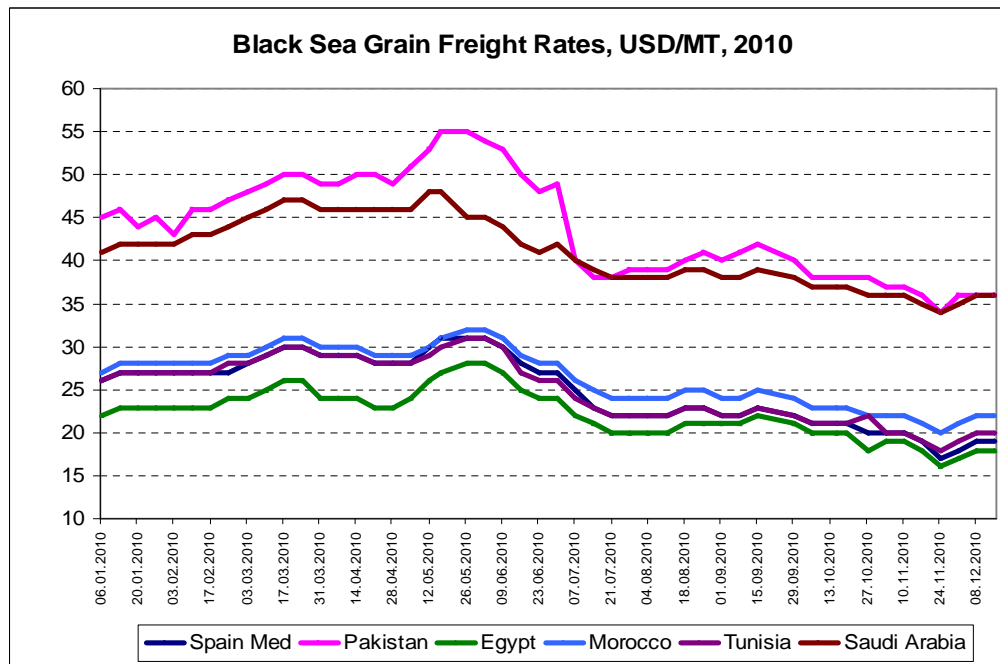
The Grain Freight Index, calculated by US Wheat Associates, rose to 561.2 points.



Ocean grain freight rates with shipments from the United States remained unchanged as compared with previous week, as well as rates on major routes.



In line with the general trend grain freight rates from the Black Sea region remained unchanged.



**News&Comments**

● **Ukraine. In February 2011 Kherson port plans to open a new grain export complex**

In February 2011 Kherson Commercial Sea Port will put into operation the grain export complex with the simultaneous storage capacity of 24 KMT, the press service of Infrustrcutre Ministry said.

According to information, the new grain complex, the first pile that was filled in April of this year, already has a solid foundation. It is being built 11 silos with diameter ranging from 10 to 17 meters, combined with the transport galleries, which will move the grain. The complex will also include shiploader and host the reception of grain that will be delivered both by rail and trucks.

The capacity for rail cars unloading is 350 tons per hour, trucks - 300 tons/h. In addition, the port intends to develop the container traffic and attract new types of cargo.

Since November port handles about 35 containers in a month in experimental mode. The port expected from April 2011 this flow could increase substantially. Through Kherson port will get the export and import container line between the ports of Turkey and Dniepropetrovsk. New freight in can bring to our port up to 70 containers per month. In navigation period these goods' flow will increase threefold, " Mr.Sergey Ignatenko, head of the port, said,.

- **"Nibulon" asks the Kherson authorities land for grain terminals**

"Nibulon" plans to build in the Kherson region 3 grain handling systems. As it was reported by the press service of the Kherson Regional State Administration "Nibulon with a request to facilitate allocation of land for construction the grain transshipment complexes in Beryslav, Novovoronts areas of the region, as well as in district of Genichesk.

According to the press service, the leadership of Governor is ready to assist "Nibulon" with respect to allocation the land in the districts for the construction of the grain transshipment terminals. At the same time, officials of Kherson region expect to get orders for the construction of piers, docks at Kherson State Plant Pallada, attracting capacity of dockyards of Kherson region to the construction of ships for grain transport from the transshipment complexes of "Nibulon, as well as attracting manufacturing facilities construction regional companies to perform work on the construction of these objects.

- **Odessa Regional Council requests to take off Giurgiulești from Moldova**

Odessa Regional Council sent a letter to the President of Ukraine Viktor Yanukovich with a request to break the agreement on transfer to Moldova a plot of land on which today houses the port Giurgiulești. This became known during the III session of the Odessa Regional Council of VI convocation.

According to the deputy of the Odessa Regional Council of Regions Party, Vyacheslav Strashilina, who sent a letter to the President, in connection with the fact that Moldova has not transferred to the Ukraine land under the highway Odessa-Reni, the Ukrainian government should break the treaty with Moldova and pick up a piece of land which the port Giurgiulești.

Pleas, note, that the treatment was supported by 114 deputies, while the last session this treatment had get supporting only from 25 deputies.

- **Russia. OZK plans to create its own transportation company**

JSC "United Grain Company (OZK) plans to create its own transportation company before the end of 2011. This was reported to the journalists by the company's CEO Mr. Sergei Levin. According to him, now they had begun working on drafting a business plan. It is scheduled for completion in January-February 2011.

Levin said the start of the transport company' working depends on how quickly the UGC will be able to get the necessary volume of rail cars. Moreover, if the UGC could not find a suitable offer on the market, it will place the order to build the rail cars. "The optimal number of grain carrying railcars, calculated to the present date is 3 th units", Mr. Levin said. He explained this number is based on data for their own company's needs and "the prospects for its work in both their purposes and for the market." "We are creating all the infrastructure not only for ourselves," the head of the OZK said. According to him, the first phase can be obtained about 1,000 rail cars.

Let's remind this project is implemented jointly with JSC "Russian Railways". In the summer of 2010 OZK informed about their intentions to invest in this project RUR5,7-6 bln. The volume of grain transportation in the export direction, according to the company's plans, would amount to 8 MMT per year.

- **OZK started a new investment program**

JSC "United Grain Company (OZK) is developing an investment program for three years, the minimum cost is estimated at RUR13 bln.

"The three billion rubles, which will be allocated for additional capitalization of the company, we plan to attract at least 10 billion rubles in private investments and financing from the banks," General Director Sergei Levin said at a press conference.

According to him, these funds will be used to implement large-scale investment program for the next three years, which includes about 30 projects in infrastructure development of the grain market.

Levin said the first billion rubles of budget funds the company expects to get until the end of the present year, another two - at the beginning of the next year.

According to him, these measures will help the company in 2013 to reconstruct the two grain terminals - in Novorossiysk and Eysk, as well as to build a new deep-water grain terminal. In particular, they worked out the possibility to build it in Taman. In addition, there are plans to build a terminal in the Far East, most likely in the port of Nakhodka, he added.

Levin said the program also provides for the upgrading and construction of 18 linear grain elevators.

- **Due to grain export ban grain transshipment through Novorossiysk in Jan-Nov 2010 felt by a third**

Throughput of the Group of Novorossiysk Commercial Sea Port in January-November 2010 amounted 74 562.7 KMT, 5.4% (4 240.2 KMT) lower than the volume of transshipment for the same period in 2009, the press office of the enterprise.

According to information, reducing turnover in the reporting period due to the introduction in August 2010 ban on grain exports from Russia, which resulted in drop of grain handling volumes by 2 455.2 KMT as to compare the same period of 2009. During this period, processing of cereals amounted to 5.7 MMT, which is 29,9% less than the same period last year (8.214 MMT).

- **Stevedoring companies in port Temryuk are suggested to create a management company to develop road and rail approaches**

Leaders of the stevedoring companies of the port Temryuk invited to consider the feasibility of establishing a management company, which will deal with maintenance and development of rail and road approaches to the West cargo area of the port. Such a proposal was announced at the meeting, which was held December 10, 2010 by Head of the Department of Transport and Communications of the Krasnodar Territory Dmitry Pugachev.

Port Temryuk located on the Taman shore of the Sea of Azov. The port is equipped with 1,200 meters of quays. The main type of recycled goods through the port are general cargo: timber, round timber, metal, bulk goods and food products. Throughput of the port Temryuk in 2009 totaled 2.1 MMT.

- **Russian Government adopts strategy of development of maritime activities through 2030**

The Russian Government has adopted a strategy of development of marine-related activities until 2030. The corresponding order (December 8, 2010 N2205-p) was signed by Prime Minister Vladimir Putin.

According to the document, the Strategy identifies the key challenges and risks in the development of maritime activities. Among them – insufficient involvement of Russian-flagged merchant ships in transportation of Russian cargos and in the international traffic, week

transport infrastructure development lagging behind the pace of development of hydrocarbon reserves of the continental shelf of Russia, etc. The strategy defines the main objectives for their solutions, as well as indicators on which the work will be assessed.

To implement the strategy it is urgent to focus organizational efforts and resources of public authorities, local self-government, business, academia and civil society organizations on major issues of development of maritime activities of the country. The Strategy will be implemented through public programs, which include federal target programs (FTPs) and sub-programs that include departmental target programs and particular activities of public authorities.

- **Kazakhstan. Aktau port will be expanded**

The Government of the Republic of Kazakhstan took up the plans for the further development of the expansion project of territorial affiliation port of Aktau on the north.

The capacity of new terminals will reach 2 MMT of cargoes per year. Construction will occur under the concession procedure. Construction of the terminal begins in 3<sup>rd</sup> quarter of 2011 and the cost of this project is estimated at more than USD300 mln.

## 7. COMPANY NEWS

- **AGROLIGA completed the first Ukrainian small cap agricultural IPO on Warsaw's alternate exchange, NEW CONNECT. The advisors were AVANTAZ CAPITAL (Ukraine) and WDM Autoryzowany Doradca (Poland).** The company raised 1 million Euro by floating 17% of its shares. The company plans to use the proceeds to increase its sunflower oil production by 100% from 20,000 tons to 40,000 tons; to increase milk production by 4 to 4,5 tt, increase its herd to 1500 milking cows by 2014. The company plans to increase its turnover to 15 million euro by 2014. Company turnover in 2009 was was 2,7 million Euro.

- **AVANTAZ CAPITAL**, investment advisors to Agro Liga, from Kharkiv, said following the successful listing that it's actively working with another three Ukrainian agriculture and food companies to prepare them for a listing on the New Connect. The advisor said the listings will be between 15 to 25 percent of the company's shares and the companies are all approximately valued at 10 million Euros each.

- **INDUSTRIAL MILK COMPANY** said it plans to increase its land bank from 40000 hectares to 100000 by 2013. Regardless of its name the company plans to focus cereal and oilseed production according to its chairman of the board, Mr. Aleksander Petrov.

- **NIBULON** announced plans to build grain transfer stations in Beryslav and Novovoronchovsk raions of Kherson Oblast, and is looking at acquiring docks in Kherson. Also according to the Kherson Oblast administration Nibulon is looking at ordering ocean going vessels.

- **UKRPRODUCT**, the Ukrainian producer of cheese spreads and other milk products, announced that in its second half 2010 that sales have improved. In the second half the company said that sales almost doubled in comparison to the first half, and that 2010 revenue will likely equal 2009. However the company also said that profits are likely to be less than in 09 because taxes increased in 2010. In its statement the company said that Ukrainian consumer purchasing power has fallen as the average purchase in supermarkets is 20% less in 2010 than in 09. Another negative facing the company was the import ban on milk products it had faced in its major export market, Russia. The key highlight for the company this year has been its ability to retain a dominant position in packaged butter sales and use of its distribution network to market third company products.

Also Ukrproduct bought back 0.6% of its shares at 23 pence a share last week.

- **UKRAINE'S RICHEST AGRO BOYS.** The Kyiv Post published a list of the fifty riches Ukrainians. In that list were a number of agro boys. In the 9<sup>th</sup> position was Oleksiy

Vadatursky, owner of grain giant Nibulon, parachuted into 9th and the exclusive billionaires club with more than \$1 billion in net worth. Andriy Verevsky, principal shareholder of Kernel came in at 11. Ivan Huta, owner of agribusiness giant Mriya, broke into the top 15, at number 15. Egg king Oleh Bakhmatyuk, principal shareholder of AVANGARD and owner of Ukrland farming came in at 16<sup>th</sup>. In number 20 was Mr. Volodymyr Boiko owner of Illich Agro and still director, but no longer owner of ILLICH Steel Mill in Mariyupol. At position 21 was Mr. Anatoli Yurkevich principal shareholder in Milkiland the recently floated Ukrainian milk processor and soon to be large scale milk producer. In 34<sup>th</sup> position came Mr. Petro Poroshenko owner of Roshen as well as a bus manufacturer. In position 45 was Mr. Viktor Ivanchyk principal shareholder of ASTARTA. Last on the list in position 48 was Mr. Yevhen Chernyak, owner of Vodka brand Khortytsia. In total 9 out of the top 50 richest Ukrainians are in the agriculture and food business.

Ukrainian farm equipment production has picked up in 2010 following significant falls in 09. For example in 2009 tractor production fell by 77% in comparison to 08 to 1443 units while in 2010 it increased to 4121 units. We have seen less significant increase in farm equipment production world wide.

- **CARGILL** plans to invest \$7 million into the construction of an animal feed plant in Kirovograd region with a capacity of 50,000 tonnes of produce per year. As the company said in a press release on Friday, the construction is to start in January 2011, it is to launch by the end of the same year. "We've seen a considerable increase in meat consumption in Eastern Europe lately," said Dan Burke, the head of Cargill's European division for the production and sale of animal feed. "Such investment in production will let us use our knowledge, generated experience and innovation technologies to revive cattle breeding in Ukraine. Feedstuff to be produced at the plant will be marketed under the PURINA brand through a dealers' network to local cattle breeders.
- **FARM DEBT** The total amount of bad bank debt of the Ukrainian agricultural sector is UAH 7 Bl. Ukrainian agricultural producers have not repaid UAH 7 Bl to banks. Leonid Kozachenko, President of the Ukrainian Agrarian Conference, made this sectoral assessment. "We have over UAH 26 Bl – this is the indebtedness of agricultural enterprises to banks. Over half of these loans have been prolonged or restructured...", said Leonid Kozachenko – "UAH 7 Bl out of this UAH 26 Bl is accounted for by troubled loans, which are no longer being serviced." According to him, the banks have no possibility to compensate their losses through sale of collateralized property. "The pledged property is unmarketable," Kozachenko explains.

The common occurrence of bad debts explains why many financial institutions have lost confidence in the agricultural sector. This spring, on the eve of the planting campaign, i.e. at the peak farmers' need for money, banks were reluctant to extend agricultural credit. Simultaneously, the banks toughened collateral requirements: agricultural companies that managed to receive a loan had to offer real estate, agricultural machinery, or equipment to the bank as collateral. The bankers did not actually provide credit secured against the future crop.

Agricultural companies took a disastrously small total amount of loans last year. Ukraine's agricultural sector credit fell 3.14 times in 2009 against the previous period, down to UAH 4.3 Bl. At the same time, the number of borrower companies decreased from 15,000 to 1,700. Regardless of the apparent improvement in borrower quality the majority of loans banks were short-term loans. Interest rates on loans taken by farmers in 2009 ranged from 16.5% to 39%. Dielo

- **AGROTON** is planning to issue \$50 Ml worth of three-year notes by the end of 2010, as was previously announced, said the company's financial director Andrey Anpilov. "The process of issuing notes has been launched and we hope it will be completed by the year's end," he said. In late October 2010, Agroton placed 5.67 Ml shares through an IPO (26.2% of the authorized stock), including 90% placed among institutional investors and 10% among private

ones. The placement price was set at PLN 27 per share with a declared price range of PLN 25-30. *Companion*

- **Valars Agro** The press service of the Antimonopoly Committee reported that the Committee had permitted Valars Agro Limited Company to purchase over 50% in Kamennomostovoy grain collecting enterprise and Podgornyansky elevator (Mykolaiv region)...According to the report, Valars Agro Limited will have majority control of the targeted corporations. The targeted enterprises are primary cereal processing and storage businesses.

Valars Group is an international agricultural trading company consisting of agricultural and trading units. In Russia and Ukraine, the agricultural units of Valars Group have a total farm area exceeding 300 Th ha. *Companion*

- **MRIYA**, a major agroholding of Ukraine, has decided to produce milk. “We shall build a mini-farm with modern raw material production and processing,” said Ivan Huta, the company’s board chairman. The agroholding intends to supply dairy products to kindergartens and schools. Founded in 1992, the company grows beet, rapeseed, wheat, potatoes, corn, barley and buckwheat on 180 Th ha. Mriya owns six sugar refineries as well as spaces for simultaneous storage of 260 KMT of grain. Roughly 80% of the holding shares belong to its founders – Ivan and Klavdia Huts – and the remainder is listed on the Frankfurt Stock Exchange. *Uryadovy Kuryer*

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