

Black Sea (Ukraine/Russia) Investigative Mission

Executive Summary



Introduction

With increasing wheat production and resulting large exports from the Black Sea region, Cigi initiated an investigative mission to understand the goals in Ukraine and Russia for: wheat quality development, improving farming practices and handling system improvement. This mission enabled meetings with leading organizations across the wheat value chain in Ukraine (Kiev (and surrounding area) and Odessa) and Russia (Moscow, Rostov on Don, Krasnodar), including discussions with breeding institutes, life science companies, Agro Holding Companies (AHCs), grain handling companies and market consultants. The mission team was represented by staff from Cigi, Cereals Canada and the Alberta Wheat Commission and took place in September 2018.

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Wheat Quality Development

- The largest markets for wheat from both Ukraine and Russia are countries (Turkey, Egypt, Indonesia, Bangladesh) that aren't looking for high quality wheat, but rather medium protein, medium gluten strength and ultimately lower cost wheat.
- Development of wheat varieties in both countries is currently focused on increased yield with maintenance of current quality standards to meet demand for medium protein and medium strength.
- In Ukraine, winter wheat is the most desirable wheat crop to grow and work on spring wheat or durum wheat for export is not a current focus. It is expected that winter wheat will continue to be the main exported wheat crop for the foreseeable future.
- In Russia, winter wheat makes up the majority of exports and there is potential for further growth. There is also potential for growth in spring wheat production in the large areas of uncultivated land in the north. Growth in production of both spring wheat and durum wheat will be dependent on demand.
- Increased Russian or Ukrainian winter wheat production erodes opportunities for Canadian medium protein wheat (CPSR, CWRW) especially where Black Sea wheat is priced more competitively or benefits from intrinsic geographic/logistical advantages. Given this reality, Canada's position as an efficient supplier of high-quality wheat should continue to be expanded. Further development of medium protein wheat must focus on competitiveness with Black Sea wheat if it is to be successful.

Farming Practices

- Agricultural practices and availability of fallow land will result in greater production from both Ukraine and Russia in the short and medium term.
- AHCs are using both economies of size and economies of scale to minimize costs, and vertical integration to capture additional value from their production.
- Access to technology and capital for AHCs does not appear to be limited in any way. Access to skilled labour able to efficiently use modern technology and capital does appear to be limited. AHCs are investing in their labour force to address this concern.
- Significant investment was observed in storage facilities on AHC farms, in-country, and at port. Greater access to storage can protect grain quality, allowing for wheat to be supplied throughout the year, rather than sold quickly at harvest.
- Access to modern agricultural equipment and agronomic practices, combined with access to fallow, arable land, ensures that both Ukraine and Russia have potential for increased productive growth.

Handling System

- The Black Sea benefits from significant logistical advantages supported by the growing region's close proximity to ports.
- There is potential for improvement in the grain handling system, such as improved movement by rail in Russia, that would unlock greater efficiencies and competitiveness.
- From an export perspective, the region's freight advantage is further supported by relative geographic proximity to significant and growing demand in African and South Asian markets.
- Canada must continue to monitor developments in the Black Sea grain handling system.

Positioning Canadian wheat to benefit from emergence of Black Sea supply

- CWRS is widely referred to as a blending or improver wheat having high protein and high gluten strength that is able to carry or improve the protein content of lower protein wheat or wheat with weaker gluten strength.
- As international customers attempt to incorporate Ukrainian and Russian wheat into their wheat grists for the production of flour for various end-products, opportunities for optimization using high-quality Canadian wheat must be pursued. This recommendation is consistent with the LMC market analysis report commissioned by Cereals Canada and Cigi in 2015, indicating that Canada can solidify its competitive position by competing on Canada's strengths as a high-quality/efficient supplier rather than on price.
- The relationships between Cigi with its technical expertise and international milling customers provide a unique advantage that strengthens Canada's position as a quality supplier. Milling companies are accustomed to working with Cigi when functional issues with Canadian wheat arise. Cigi should lead messaging to continue promotion and use of CWRS as an improver wheat.
- In addition, analysis of various Ukraine/Russian wheats with Canadian wheat (e.g. CWRS) in blends for producing various end-products should be conducted by Cigi to better respond to requests with a blend ratio that maximizes use of Canadian wheat. This mission confirmed the highly competitive position and continued advancement of Black Sea producers and exporters, particularly in lower-medium protein winter wheats. The economic realities surrounding this shift in the marketplace should continue to be monitored/evaluated and communicated to the Canadian wheat value chain. This will support strategic decision-making for research priority setting, ensuring that Canada positions itself to make the most of changing market dynamics.
- One implication of increased Russian or Ukrainian wheat production is that it erodes opportunities for medium protein wheats from Western Canada (e.g. CPSR, CWRW) especially where Black Sea wheat is priced more competitively or benefits from intrinsic geographic/logistical advantages. Canada's position as an efficient supplier of high-quality wheat should continue to be expanded and prioritized. This recommendation is consistent with the market analysis conducted by LMC on behalf of Cigi and Cereals Canada in 2015. Further development of medium protein wheats must be relative to their competitiveness with black sea wheat.