



The FAO UN Commodity Exchange Conference

Istanbul, Turkey

May 15 – 16, 2007

Prepared by

Dr. Alexander A. Belozertsev

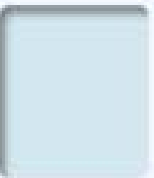
CanEd International Inc.

Cereal Markets in the Former Soviet Union – Why Commodity And Derivative Markets are Needed

(Kazakhstan, Russia and Ukraine)

The Key Criteria a Successful Ag Futures Market to be Launched

- Sufficiently large supply and demand of the ag commodities;
- Sufficiently free price determination;
- Sufficiently large price fluctuations and uncertainty; the necessity for hedging practices;
- Reasonably well-functioning spot market;



The Key Criteria a Successful Ag Futures Market to be Launched

- Enough support of the ag market participants;
- Sufficiently large group of speculators;
- Sufficiently well-developed infrastructure (grading, storage, etc.)
- A supportive legal and regulatory framework.



The Supply / Demand Factor: Grain Production, Consumption and Trade

- Kazakhstan, Russia and Ukraine are still playing the major role in the regional grain production, trade and consumption.
- The grain production and consumption have not been changed much in these countries for the last 10-15 years.
- These three countries have become stable grain exporters in the region.



The Fundamental Changes in the National Grain Sectors

- The role of the state has changed significantly in the domestic production and trade, including export / import operations in the last 15 years; the private sector is playing more important roles in these spheres now.
- As a result, a big number of independent market players appeared on the national and regional grain markets.



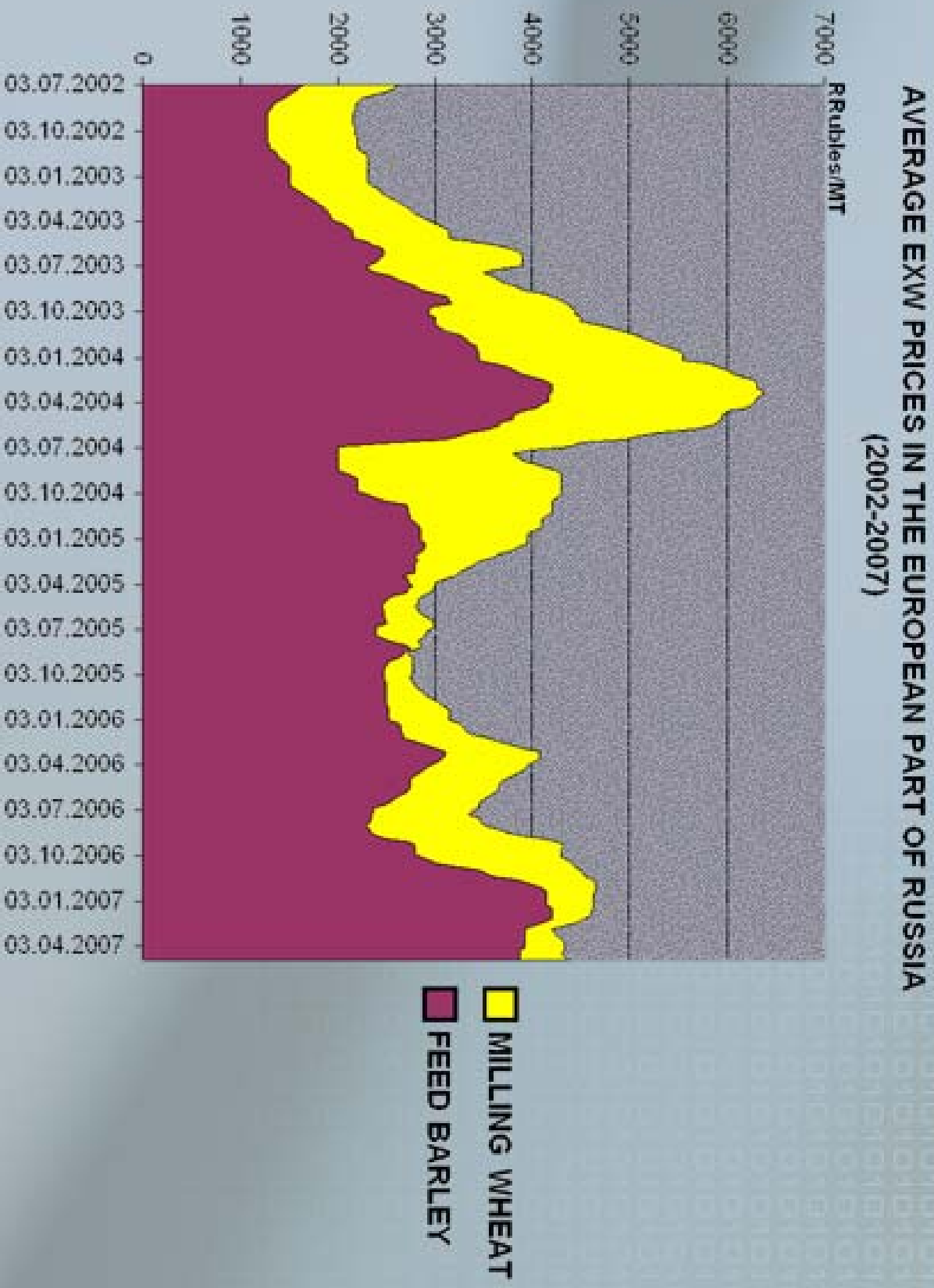
The Fundamental Changes in the National Grain Sectors

- The massive privatization of the grain market infrastructure, including the big number of grain elevators / warehouses and processing enterprises.
- Due to the price risk environment, the psychology of grain producers and grain traders has changed significantly.



Price Risk and Uncertainty

- Domestic grain price fluctuations.

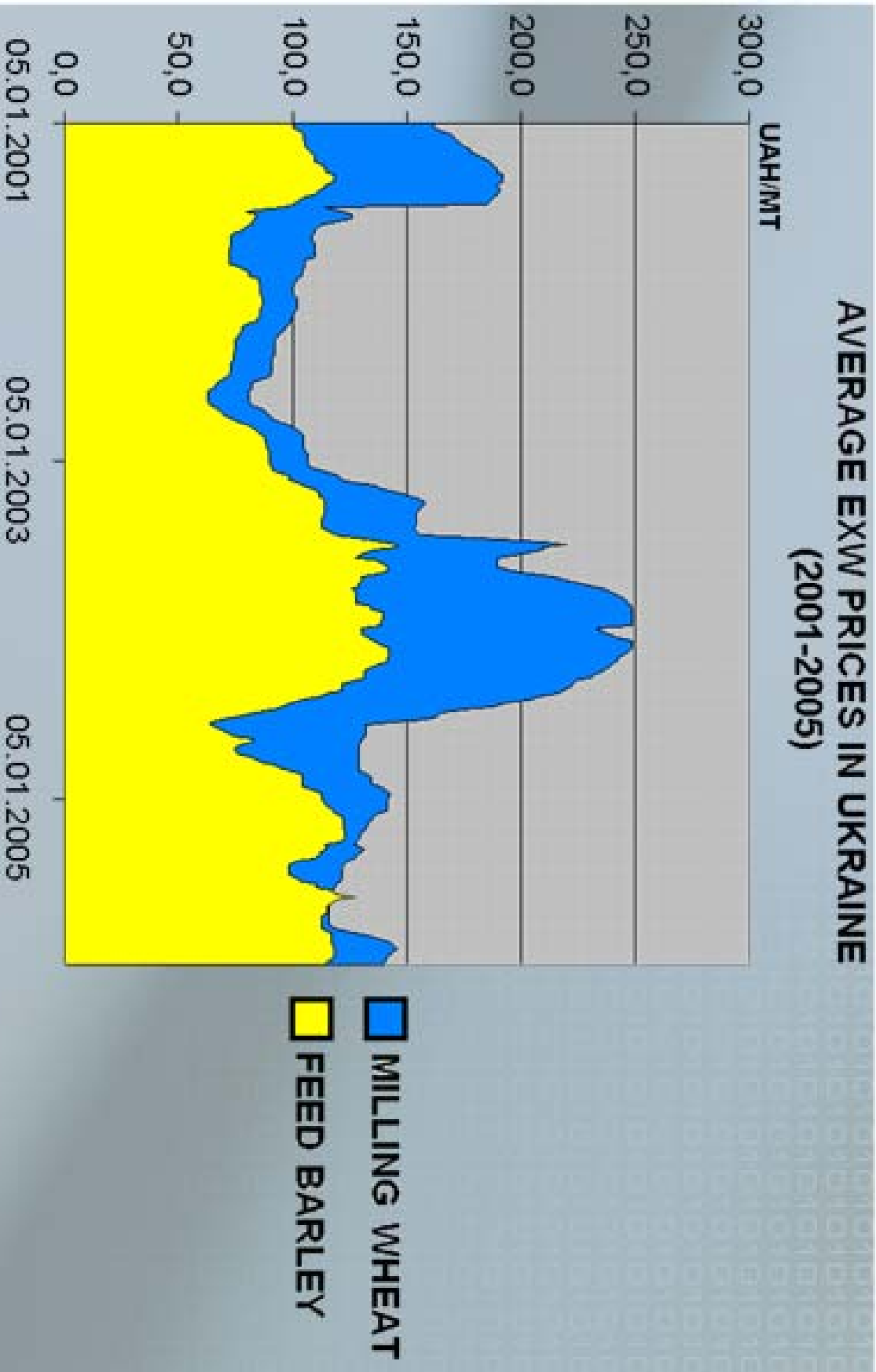


Source: SovEcon Ltd.



Price Risk and Uncertainty

- Domestic grain price fluctuations.

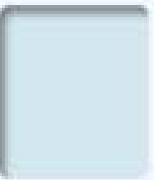


Source: The Canada-Ukraine Grain Project



Price Risk and Uncertainty

- High correlation with the world grain prices, - especially on wheat and barley.
- The ag input prices fluctuations.
- The cost of production risks and uncertainty.



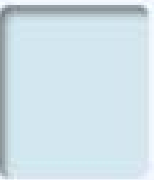
The Current Grain Price Discovery System and Risk Management Practices

- The national price discovery systems.
- The current grain price risk management practices are rather limited:
 - The deficit of risk management tools;
 - The concept of 'basis' is not widely spread in the national grain sectors.
- The grain warehouse receipt system.



The Role of the State

- The creation of the legal and regulatory framework.
- The taxation policy.
- The government grain procurements.



Legal and Regulatory Framework

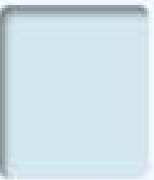
- The consistency and uniformity of regulation.
- The modern state legislation to regulate the commodity exchange operations is only under development now.
- The absence of contract sanctity.



The Gaps and Constraints

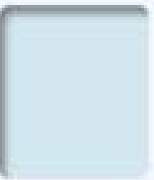
Market structure issues

- The lack of support on behalf of the key market players;
- The role of speculators diminished;
- Marketing costs remain relatively high;
- Low integrity between the commodity and financial sectors.



The Gaps and Constraints

- Legislation and regulation
- Technology issues
- Financial issues
- Human Resources
- Integration with the world derivatives industry

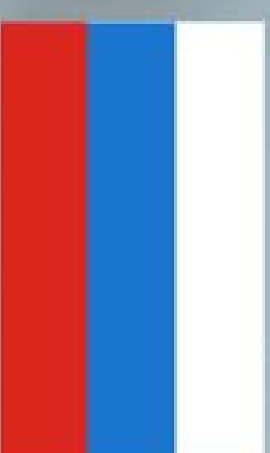


The Current Commodity Exchange Projects

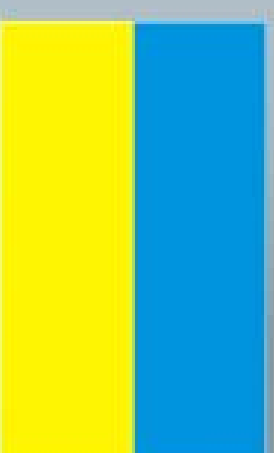
- Kazakhstan
 - the World Bank project



- Russia
 - MICEX
 - RTS

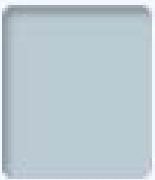


- Ukraine
 - UFEX



Ladies and Gentlemen,

**Thank you for your
attention.**



© Dr. Alexander A. Belozertsev, 2007